



## **Making Business Development Services Markets Work for the Poor**

elaborated for the OECD-PovNet Task Team on Private Sector Development and Pro-poor Growth



Deutsche Gesellschaft für  
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**Editor:**

Deutsche Gesellschaft für  
Technische Zusammenarbeit (GTZ) GmbH  
Dag-Hammarskjöld-Weg 1-5  
Postfach 5180  
65726 Eschborn  
Internet: <http://www.gtz.de>

Sector Programme "Innovative Tools  
for Private Sector Development"  
Phone: 06196-79-0  
Internet: <http://www.gtz.de/trade>

Contact person:

*Manfred.Horr@gtz.de*

Author:

Alfons Eiligmann, IDC Consultant

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## 1. The BDS approach and the current debate on pro-poor growth

### 1.1 Background

Much research has been done on the market-based approach to Business Development Services (BDS) for private sector development. In parallel, spurred by the urge to comply with the Millennium Development Goals (MDGs), donors and governments are putting more emphasis on economic growth with a pro-poor perspective. However, so far little work has been done on synthesising these approaches, i.e. on analysing to what extent BDS market development can be relevant to pro-poor growth.

**Poverty** is a complex term that embraces different aspects of deprivation, such as income level, food consumption, security, health, education, rights, dignity, voice and decent work. The World Bank Global Poverty Monitoring website estimates use both a US \$1/day and US \$2/day definition of the poverty line. The MDGs agreed upon by the international community in 2000 aim at eradicating poverty by the year 2015, and include: halving the number of extremely poor with incomes of less than US \$1/day; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability; and developing a global partnership for development.<sup>1</sup>

To reach these goals, more in-depth research is currently being undertaken as to when growth can be classified as pro-poor. This question is currently being analysed in 14 country studies by the Inter-Agency Working Group on Operationalising Pro-poor Growth.<sup>2</sup>

There are various definitions of **pro-poor growth**. For some, it can be defined as economic growth which reduces poverty (the absolute concept of pro-poor growth), whereas for others, growth is pro-poor when the poor disproportionately benefit from overall economic growth (the relative concept of pro-poor growth).<sup>3</sup> However, there seems to be an emerging consensus that the most appropriate measure of pro-poor growth is the average income growth of all people living below the poverty line.<sup>4</sup>

To accelerate growth that is particularly pro-poor, productivity needs to increase in sectors in which the poor earn their livelihood, as well as in the sectors that provide new opportunities for them to participate in and benefit from growth. To contribute to pro-poor growth, the poor need to be enabled to benefit from trade and foreign investment by improving their access to markets and helping them to diversify their sources of livelihood. While growth per se already provides opportunities for the poor, benefit to the poor may be increased by improving access to well-functioning markets that matter for their livelihoods. In these markets, the poor should ideally participate on equal terms with the rest of the private sector. Access to and the functioning of markets for productive resources is vital for pro-poor growth.<sup>5</sup>

Private sector development is widely recognised as the main engine for growth and poverty reduction. It consists of enabling the environment, microfinance, non-financial services, vocational training, investment/trade promotion and other components in order to support economic development. In this context, non-financial services have come to be regarded as one of the most important tools in increasing the competitiveness of enterprises and ensuring private sector development.

As the provision of publicly funded and publicly provided non-financial services to micro, small and medium-sized enterprises (MSME) had in the past often resulted in weak performance and low sustainability of donor interventions, in the late 1990s the focus moved towards promoting commercially oriented markets for **Business Development Services**. The traditional approach of direct service delivery by donor-funded programmes was shifted to service provision by private sector actors. Projects

<sup>1</sup> <http://www.un.org/millenniumgoals/>

<sup>2</sup> <http://www.bmz.de/de/themen/armut/arbeitsfelder/wirtschaft/Forschung.html>

<sup>3</sup> McKay, Andrew and Ernest Aryeetey, "Operationalising Pro-poor Growth", Country Case Study on Ghana, Inter-Agency Working Group on Operationalising Pro-poor Growth, October 2004.

<sup>4</sup> Development Assistance Committee (DAC) Network on Poverty Reduction, "Accelerating Pro-poor Growth through Support for the Private Sector", November 2004, Rome.

<sup>5</sup> Ibid.

aim at facilitating market mechanisms between service supply and demand, reducing market barriers, improving service provider capacity and stimulating demand, ensuring that a well-functioning service market is in place when projects are phased out.

This new paradigm sought to achieve improved sustainability of service provision, larger outreach and a greater impact on MSME development. After preliminary guidelines for BDS market development were published by the Donor Committee for Small Enterprise Development in 1998, most international donors have adopted the new guiding principles quickly, effectively making them a state-of-the-art approach for MSME development.

Business Development Services are traditionally defined as the wide array of operational and strategic services such as “training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion”.<sup>6</sup> There is still a debate as to whether a more narrow (in terms of knowledge, skills or information services) or a broader interpretation of the term is preferable. Both the BDS Primer 2003 of the International Labour Organization (ILO) and the Small Enterprise Education and Promotion (SEEP) Network distinguish between seven categories of Business Development Services, namely:

- **Market access** (e.g. marketing linkages, advertising, packaging)
- **Infrastructure** (e.g. storage and warehousing, telecommunications, couriers)
- **Policy/Advocacy** (e.g. training in policy advocacy)
- **Input supply** (e.g. linking firms to input suppliers)
- **Training and Technical Assistance** (e.g. management training)
- **Technology and product development** (e.g. design services)
- **Alternative financing mechanisms** (e.g. supplier credit).<sup>7</sup>

Many practitioners adhere to the broader definition of BDS because, according to their understanding, it relates more to the demand of MSMEs, and additionally permits them the flexibility to respond to the many constraints facing small businesses. This paper concurs with this assessment, and is accordingly based on the broader definition of BDS.

## 1.2 BDS and reaching the poor

Since the BDS approach first emerged, the extent to which a commercial approach can reach the poor has been much discussed. Particular attention has been paid to whether BDS can reach the poorest of the poor, who may lack the ability to pay for services. The possibility that some of the poor could be excluded from BDS delivery prompted donors and governments to look into this issue at an early stage.

The poor are indeed a heterogeneous group. Many of the extremely poor are destitute, struggling to survive without basic education, particular skills or assets, and will only be able to benefit from permanent or occasional employment. Others can be classified as micro-entrepreneurs, such as small farmers, craftsmen, petty traders, rickshaw pullers, etc. And some of these small entrepreneurs, such as farmers who own larger areas of land or livestock and traders who own small shops or houses, may already be considered to belong more to the middle class than to the poor.<sup>8</sup>

### **There are three ways whereby the poor can benefit from BDS programmes:**

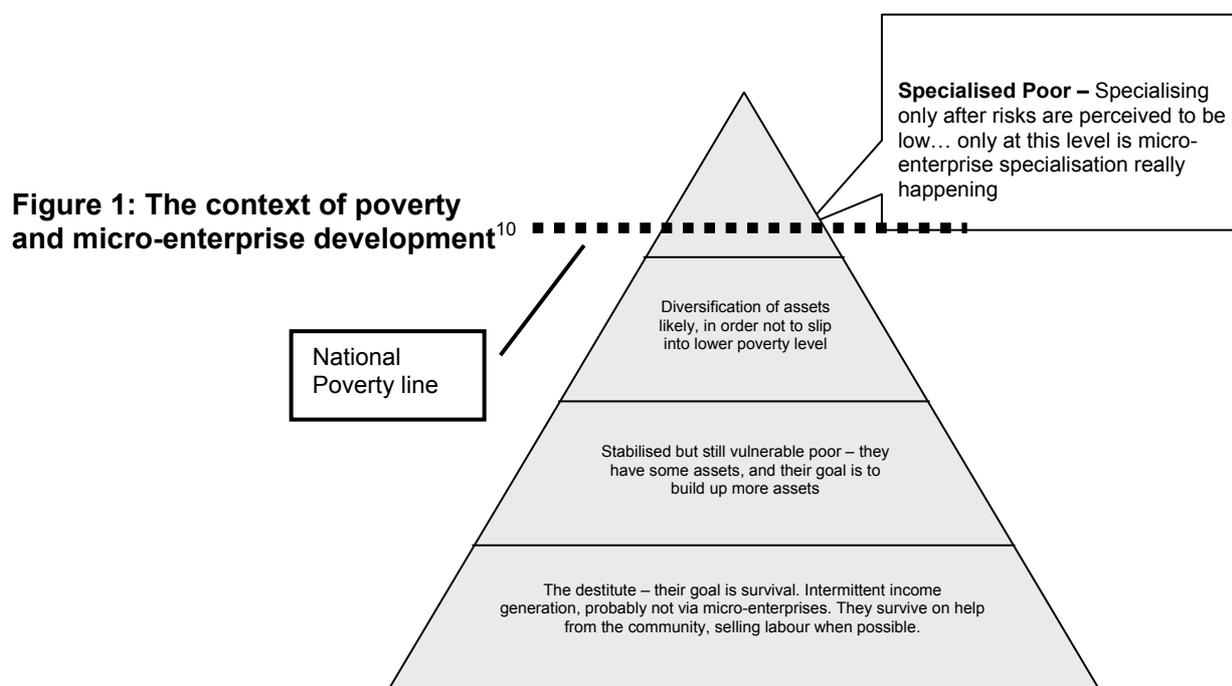
- As micro-entrepreneurs, directly from BDS or by providing services to other firms
- Directly from MSME development by gaining more or less continuous employment or through higher wages
- Indirectly from improved MSME competitiveness, in the form of overall economic growth and improved framework conditions.

<sup>6</sup> Committee of Donor Agencies for Small Enterprise Development, “Business Development Services for Small Enterprises, Guiding Principles for Donor Intervention”, 2001 Edition.

<sup>7</sup> Miehlebradt, Alexandra Overy and Mary McVay, “Developing Commercial Markets for Business Development Services”, ILO, BDS Primer 2003.

<sup>8</sup> Lempelius, Christian, “Micro and Small Enterprise Development in Rural Bangladesh: Potential for Poverty Alleviation?”, GTZ seminar paper, October 2002.

When talking about reaching the poor, BDS practitioners in most cases have poor micro-entrepreneurs in mind as the beneficiaries of services. Based on evidence obtained from the field of microfinance, the NGO Freedom from Hunger concludes that, by way of micro-enterprise development in general, one “cannot reach the very poor, only those just above and just below the poverty line”<sup>9</sup>.



As poverty alleviation is now a focal point of development assistance, BDS projects need to define their poor target groups more carefully. The USAID Microenterprise Development team, for instance, is held accountable by the US Congress, and 50% of its spending must be directed to people that live below the poverty line of US \$1/day. Therefore, focusing on small farmers per se as the target group for a BDS project does not necessarily imply that an impact on the extremely poor living below the poverty line will be achieved.

Discussion in the field of BDS is increasingly revolving around the question of how BDS can address poorer target groups. Studies suggest that, in various forms, poor micro-enterprises make extensive use of private provision of services:

- An ILO survey among micro and small enterprises in Viet Nam and Thailand revealed that a large number of micro-enterprises avail themselves of private services in many ways that are often hidden: in the form of fee-based services, commission-based services, services provided by buyers or suppliers embedded in commercial transactions, or informal services provided by the business environment.<sup>11</sup>
- A recent Department for International Development (DFID) review on business service markets in poor rural areas observes that such services do exist and are used in rural areas, even if they are often invisible to donors intervening in the area. The study concludes that services in rural areas are usually very basic and tend to be embedded within other transactions. They are usually related to a

<sup>9</sup> <http://www.ffhtechnical.org/publications/html/tresholdsapr02.html>

<sup>10</sup> SEEP network, minutes of the 8 November 2004 meeting.

<sup>11</sup> Anderson, Gavin, “The Hidden MSE Service Sector”, in ILO InFocus Programme, “Boosting Employment through SED”, Geneva, 2000.

few sub-sectors which are relevant to the poor, and tend to be delivered and consumed on a collective basis.<sup>12</sup>

- A number of recent research initiatives have discussed the potential and limits of the BDS approach with regard to reaching the extremely poor, such as the SEEP Network Practitioner Learning Programme on BDS Market Assessment, the SEEP Network online discussion series on poor and vulnerable populations with BDS, or the United States Agency for International Development (USAID) Accelerated Microenterprise Advancement Project (AMAP) Research Project. The results of these initiatives are discussed in more detail below.

Some practitioners argue that pro-poor growth can best be accomplished when BDS projects reach out directly to poor micro-entrepreneurs as the service beneficiaries, whereas others feel that pro-poor growth is best served when addressing sub-sector or value chain development where there is a high percentage of poor people involved.

The field of BDS has indeed seen a significant shift towards addressing poorer target groups, starting from a focus on small and medium-sized enterprise (SME) development in the 1998 edition of the *Guiding Principles for Donor Intervention* to an emphasis on “Making Markets Work for the Poor (MMW4P)”<sup>13</sup> or “Making Market Systems Work Better for the Poor (M4P)”<sup>14</sup> as promoted by the Springfield Centre for Business in Development and others. Based on a broader definition of the poor and the assumption that small-scale farmers and urban or rural micro-entrepreneurs are regarded as poor, about 50% of the BDS project examples presented in the Seminar Readers of the 2003 and 2004 ILO BDS conferences in Italy and Thailand respectively explicitly focused on poor target groups (based on indications given in the project examples presented in the Seminar Reader).

According to the ILO BDS Seminar Reader 2004, the most important trend in the field of BDS during the past year was that BDS projects are increasingly becoming part of broad development initiatives that aim to improve sector competitiveness, to strengthen the agricultural sector, to help micro-enterprises compete on global markets, to reduce poverty and to create jobs.

**Table 1: Assessment of BDS project examples in the ILO BDS Seminar Reader 2004**

	ILO BDS Conference 2003	ILO BDS Conference 2004
Total number of project examples in the Seminar Reader	39	45
Poor population, small-scale farmers or micro-enterprises mentioned as a main target group	20	25
Projects explicitly active in the agriculture or agro-industrial sectors	14	19
Projects explicitly working with embedded services	4	10
Projects with a focus on women as the main target group mentioned	2	4

Whereas in 2003 one of the main debates was still whether it was preferable to have a sub-sector or cross-cutting approach, at the 2004 ILO BDS conference it was observed that “the majority of programs with BDS components in 2004 either have a sub-sector focus or include a component focused on a specific sector”.<sup>15</sup> Moreover, the number of BDS projects which work along value chains, initiate public-private partnerships (PPPs) or use cluster approaches is steadily increasing.

Furthermore, non-governmental organisations (NGOs) are increasingly looking at perspectives that shift the focus of the poor from being aid recipients towards becoming entrepreneurs, active or potential micro-enterprises. Agencies focused on reaching the poor have been experimenting with BDS market development for micro-enterprises and are coming up with their own programmes using their structures, networks and outreach to the poorest of the poor.

<sup>12</sup> Hitchins, Rob, David Elliott and Alan Gibson, “Making Business Service Markets Work for the Poor in Rural Areas: A Review of Experience”, Springfield Centre – UK DFID, London, June 2004.

<sup>13</sup> Ferrand, David, Alan Gibson and Hugh Scott, “Making Markets Work for the Poor”, ComMark Trust, July 2004.

<sup>14</sup> Johnson, Alan, “Making Market Systems Work Better for the Poor (M4P): An Introduction to the Concept”, DFID discussion paper, February 2005.

<sup>15</sup> Miehlbradt, Alexandra Overy and Mary McVay, “Developing Commercial Markets for Business Development Services”, ILO, BDS Update 2004, Seminar Reader 2004.

NGOs are changing their policies and looking for sustainable ways to make markets work for the poor. This trend is reflected in the fact that more than 50% of the registrations for BDS training courses organised by the American NGO Action for Enterprise in 2004 in Bangladesh and the US came from NGOs such as CARE, Mercy Corps, Save the Children and others which have a focus on humanitarian aid.

There are more common interests than trade-offs between the BDS approach and the need to target specific markets, regions and sub-sectors with a pro-poor perspective.

The BDS field is increasingly moving towards concepts of making markets work for poor micro-entrepreneurs.

## 2 Lessons from the enlargement, diversification and deepening of markets

### 2.1 Demand for services of poor target groups

Poor micro-entrepreneurs demand different services to enterprises with more sophisticated company structures. Service delivery models and modes of payment also differ. Services have to be more tangible, and benefits have to become visible quickly.

A number of BDS projects with a particular focus on poor target groups and – if already assessable, with lessons learnt too – have been and are being presented in a number of conferences, workshops and research papers. A few selected examples from different fields are presented in the following Box:

#### **Input supply/agricultural sector**<sup>16</sup>

- Supply of affordable drip irrigation equipment, quality inputs (seeds, saplings, improved varieties) and embedded training services for smallholder farmers in India (*IDE India*).
- Business services to small-scale horticulture growers in Honduras, such as greenhouse seedling production, freight aggregation, broker services for market access, disease control services, land preparation services, etc. (*Fintrac*).
- Embedded services to increase productivity and competitiveness in the pond fisheries sub-sector in Bangladesh, such as diagnosis of pond quality and training on fingerling care under different conditions (*Katalyst*).
- Group-based delivery of training services in the poultry sub-sector to accompany the delivery of physical inputs (*BRAC*).
- Provision of veterinary and livestock production services to farmers in remote areas in Azerbaijan, where 68% of the population live below the poverty line (*Mercy Corps*).
- Delivery of livestock services (veterinarians, community-based animal health workers and dairy technologists) through paraprofessionals in Tanzania (*FAIDA*).
- A network of village level kiosks with internet connection, providing information on agricultural auction rates, copies of land records, online registration of applications, etc. in public-private form in India.

#### **Market access and related services**

- Embedded services for developing handicraft production (product design, training, input supply) provided by exporters to small-scale farmers and household producers in northern Vietnam.
- Promotion of embedded services (quality training, product design, product promotion) to handicraft producers in Ghana (*AFE*).

<sup>16</sup> Project examples are in general taken from the ILO BDS Conference Readers, the DFID study on “Making Business Service Markets Work for the Poor in Rural Areas”, or from the 2004 SDC workshop on the Opportunities and Limits of BDS in Rural Areas (<http://www.intercooperation.ch/sed/products/>).

- This project aims to create business linkages to important partners in a certain industry and between differently sized companies to improve the capacities of small firms. “Programm to Develop a Market for Business Development Services”, South Africa (GTZ).
- Facilitation of embedded services regarding new product designs provided by urban-based women traders to rural home-bound embroidered garment producers in Pakistan (MEDA).
- Provision of quality training and design services to carpet weavers in the framework of a value chain approach to poverty reduction.<sup>17</sup> “Private Sector Promotion Project”, Nepal (GTZ).
- Provision of fee-based and embedded services (training, servicing of tools, market linkages, design advice) for leather artisans living at the bottom of the Indian social caste structure, with the aim of producing simple slip-on shoes (EDA).

### **Business skills training and other services**

- Providing technical trainings and BDS for SME in Brazil in order to strengthen their competitiveness. “Modernization of the SENAI”, Brazil (GTZ).
- A regional BDS product providing management knowledge, instruments such as business plans, cash flow projections, and basic marketing skills over the internet. “Network: Management toolboxes for MSMEs” El Salvador, Guatemala, Honduras, Nicaragua, Dominican Republic (GTZ).
- Delivery of management training (SIYB – Start and Improve Your Business modules) to micro-entrepreneurs in remote villages through a mobile business centre or in cooperation with a community-based organisation (ILO).<sup>18</sup>
- Provision of management skills training courses to micro-entrepreneurs in Malawi based on the CEFE approach (Competency-based Economies through Formation of Enterprise).<sup>19</sup> “Micro small and medium sized enterprise Promotion”, Malawi (GTZ).
- Delivery of management training for women micro-entrepreneurs in Senegal (*Making Cents*).<sup>20</sup>
- Basic business skills training to the vulnerable poor and micro-entrepreneurs with an income of less than 50 cents a day in Mali (*Trickle Up*).<sup>21</sup>
- Franchising of accounting, finance and taxation services to providers in peripheral areas in Nepal. “Rural Finance Nepal (RUFIN)”, Nepal (GTZ).
- Training of women entrepreneurs in “barefoot” accounting services provision in India (ILO).
- Focussing on SMEs in the textile and clothing sector providing relevant trainings, information and qualification for this sector using the CEFE-training method through the local partner is the aim of this project. “Promotion of private sector SMEs in the post Multifiber agreement era”, Bangladesh (GTZ).

As an overall trend, experts have observed that among micro-entrepreneurs in general, and the poor in particular, demand for basic services such as information and communication, market linkages, input supply, infrastructure and technology is stronger than it is for strategic and generic business management training.<sup>22</sup> In more detail, this implies that:

- Poorer target groups usually have a greater need for basic operational services (such as pest control, e-mail or mobile phone service points, equipment leasing or the maintenance of water or irrigation systems) which, as these affect their business success directly, are often far more relevant than strategic services that other MSMEs would tend to prefer.

<sup>17</sup> Shah, Bhushan, “Value Chains for Poverty Reduction: Opportunities and Challenges in Nepal”, presentation at the GTZ SME Sector Network Meeting in Manila, October 2004.

<sup>18</sup> Olming, Karl-Oskar, “Commercially Sustainable BDS to Poor Customers – The Case of Sri Lanka”, ILO SIYB, August 2004.

<sup>19</sup> Rösch, Norbert and Eberhard Bärenz, “Commercialising BDS in Survival Economies”, GTZ seminar presentation 2004.

<sup>20</sup> Hecker, Shoshana, “Effective Microenterprise Education”, 7<sup>th</sup> Annual Microenterprise Conference, Brigham Young University, Marriott School, March 2004.

<sup>21</sup> SEEP Network, minutes of the 8 November 2004 meeting.

<sup>22</sup> Hitchins, Rob, David Elliott and Alan Gibson, “Making Business Service Markets Work for the Poor in Rural Areas: A Review of Experience”, Springfield Centre – UK DFID, London, June 2004.

- Low-income target groups prefer services and delivery mechanisms which are highly informal and micro-scale. They favour service providers which are closer to their clientele in terms of location and culture, especially if they agree on attractive payment options (such as deferred instalment or commission payment).
- Due to the inability of many low-income entrepreneurs to pay for services upfront, service delivery tends to be embedded within other transactions and relationships.
- Furthermore, to reduce transaction costs, low-income groups in rural areas also resort to collective delivery and consumption of services (for instance through commercial media, groups or collective organisations, and focused delivery points).
- In many cases, successful projects deploy a mixed portfolio of services, combining for instance the promotion of market linkages with quality management or training services.

Micro entrepreneurs demand different services to larger companies, with a focus on basic operational services with quick and tangible results.

## 2.2 Payment mechanisms of BDS provision to poor target groups

Payment for services provided to poor target groups is mostly made via:

- A direct fee or on a commission basis
- Embedded services
- Informal service delivery.

If services are delivered on a **fee basis**, service costs must be very low for poor entrepreneurs to afford them. To ensure that small farmers can afford services, IDE India focuses on technologies that allow for a 100% return on investment within the first crop season.<sup>23</sup> In the case of the Madhya Pradesh government's pilot e-governance project, copies of land records are, for instance, provided by privately owned and internet-connected village level kiosks for a fee of 15 rupees (€ 0.27).

Various programmes aim at reducing costs for fee-based service provision as much as possible by modifying the supply channel of existing products. With regard to basic business skills training, the ILO SIYB programme is able to offer group training modules on management issues for the price of US \$3.5 for one afternoon training session, which still enables the local NGO to achieve 100% cost recovery for the direct costs involved (material and trainer fees).<sup>24</sup>

However, the sustainability of fee-based business skills training remains open to question. The ILO study argues that a sustainable mechanism is reached if the customer is satisfied, if the service is replicated by the SIYB partner organisation, and if it is delivered on a full cost-recovery basis. However, while a full cost-recovery payment mechanism for rural management training is already an achievement, more indicators need to be achieved to speak of real sustainability. The service provider must be able to make a profit on the service delivery, which puts the provider in a position to replicate the service more or less automatically. Since the indirect costs for organising training sessions are not covered and since there is not a significant profit, the motivation for replication is low. Further on, a customer retention rate of 30% with regard to a series of training modules seems to be too low to be profitable.

Another interesting approach providing fee-based management training to poor target groups is the Making Cents programme in Senegal, which offers training modules in different local languages. Training sessions are organised in cooperation with the National Network of Associations for Women's Development and 54 savings and credit groups. Entrepreneurship training courses are offered for a training fee of US \$8. The Making Cents approach includes, from the outset, a 40% contribution to the cooperative's capital, thus providing an incentive for the organiser to continue training courses after capacity building has been completed.<sup>25</sup> This approach, however, also leaves open the question of whether and, if so, to what extent, private service providers have continued to provide fee-based management training after the end of the project.

<sup>23</sup> Manaktala, Shivani, "Developing the Horticulture Sector in India", seminar presentation at the ILO BDS seminar in Thailand, 2004.

<sup>24</sup> Olming, Karl-Oskar, Commercially Sustainable BDS to Poor Customers – The Case of Sri Lanka, ILO SIYB, August 2004.

<sup>25</sup> Hecker, Shoshana, "Effective Microenterprise Education", 7<sup>th</sup> Annual Microenterprise Conference, Brigham Young University, Marriott School, March 2004.

**Commission-based services** allow clients to pay for services after they have sold their products, thus enabling poor entrepreneurs to access services without having to pay for them upfront. Deduction from check is a common form of payment, and is, for instance, being applied by Latin American coffee farmers.<sup>26</sup>

**Embedded services** are provided within a buying or selling transaction, whereby the costs of the service provision form part of the overall cost calculation of the supplier, while the service user does not have to pay for service delivery. Embedded services are an added feature to the main business transaction. To take a typical example: an agricultural input supplier provides his clients, in addition to delivering fertilizer, free-of-charge training on how to apply it correctly. In this case, the farmer obtains access to training, while the input supplier benefits from repeat or increased sales.

Embedded services are also commonly provided by buyers. A garments exporter may need to offer a standard quality according to international demand, and thus trains his suppliers at no extra charge in order to develop his own business. Or a local wholesaler may need new designs to serve urban retailers, and thus is prepared to offer design advice to manufacturers.

Embedded services are of particular importance in all cases where:

- Value chains or sub-sectors are characterised by a small number of buyers and a production basis consisting of a large number of micro-enterprise producers
- A small number of input suppliers deliver products to a large number of micro-enterprises.

Embedded services exist in many different forms, but the quality of provision is typically very poor. BDS projects take this as a starting point for developing and improving service provision. The success and sustainability of projects with an embedded services component greatly depends on the motivation of the service provider and the commercial need and benefits that intensified service provision offers. The ILO project on embedded services in the Viet Nameese handicraft sector, for example, concluded that there is a huge potential for handicraft exporters to extend BDS to farmers in a sustainable and highly market-oriented way.<sup>27</sup> Similar findings are underlined by other project examples.

Whereas the affordability of service provision in general is a minor concern, projects still have to prove the long-term motivation of service providers to deliver better services. The time and effort needed to make improved service provision profitable for the lead firm are often underestimated. Another constraint to the embedded services approach is the danger that beneficiaries might become more dependent on lead firms, potentially reinforcing hierarchical value chain governance structures.

The DFID study on BDS in weaker markets and the SEEP Practitioner Learning Program (PLP) in BDS market assessment concluded that most BDS services addressing poor target groups are provided in an embedded or informal manner.

**Informal service delivery** is also common, such as information obtained through business networks or local communities, and farmer-to-farmer or village-to-village knowledge transfer.

In addition to fee-based, informal or embedded service provision, other programmes use commercially sponsored mechanisms. Within the ILO radio programme, rural radio stations broadcast programmes focusing on MSME business development issues. Whereas the magazine-style programmes include business tips to cover the issues of most interest to their listeners, the radio stations derive their revenue from companies that aim at using the target audience for advertising purposes.

<sup>26</sup> Perez, Carlos, “Converting Farmers from Beneficiaries to Clients”, SDC workshop presentation, January 2004.

<sup>27</sup> Nguyen Thi Thu Huong, “Embedded Services for Developing Handicraft Production by Farmers in Northern Viet Nam”, seminar presentation, SDC workshop on Opportunities and Limits of BDS in Rural Areas, 2004.

### 2.3 BDS and agricultural development programmes

Agricultural development programmes often focus on developing backward and forward linkages for agricultural projects rather than only increasing farmer production. Agricultural extension, infrastructure, communications and other typically public sector services are being privatised, while the applicability of the BDS market approach is being tested.

The Agricultural Research and Extension Network (AgREN) of the Overseas Development Institute (ODI) has held an e-mail discussion on privatised agricultural services, with the following results.<sup>28</sup> Although new private initiatives offer many opportunities for commercial farmers, there is less certainty about the implications for resource-poor farmers whose connections to, and command of, markets is much more tenuous. It is generally recognised that these farmers have been poorly served by conventional public sector extension in the past, but whether or not a call to “privatise” extension implies any greater hope for them remains to be seen.

There are a number of instances of private extension activity that have more or less spontaneously emerged with the development of agricultural markets. These can be summarised as follows:

- Contract farming: for instance, farmers in Kenya who grow horticultural crops on contract to exporting firms can expect to receive some advice and support on crop management from the exporters.
- Delivery of a commodity or the purchase of inputs: examples from India show how commodity firms or input suppliers may be motivated to provide extension services to their clients.
- Producer cooperatives or commodity organisations that organise the provision of extension services on behalf of their members. For instance, cotton farmers in Benin receive extension services paid for in part through a levy on their crop and organised by a national producer association.
- Veterinary services evolve based on deregulated markets and high demand for some basic services which are critical for livestock production but do not need much skill to deliver.

According to a study conducted by the Swiss Centre for Agricultural Extension,<sup>29</sup> experience with developing markets as regards services is still scarce, although approaches that aim at market development are becoming increasingly popular. Several large World Bank-funded programmes (e.g. in Nicaragua and Uganda) plan to employ various demand and supply-side financing mechanisms to facilitate the development of markets for services. Moreover, there are a few established examples in which promoting markets for services is an explicit major goal.

While theory draws a clear picture of how the BDS market development approach can be applied to the field of agriculture, in practice these changes are not yet very common. In the AgREN discussion, for instance, the prevailing opinion is that experience to date on the ability of poor farmers to pay for private extension services seems to indicate that significant public funding will continue to be important for the foreseeable future. The discussion has shown that the field of agricultural extension is still just beginning to implement market-based approaches into the provision of agricultural services. It seems that the emerging principles of good BDS practice are not yet at the forefront of the discussion on the privatisation of agricultural extension services.

The development of markets for services may require major investment and a great deal of patience and time, but the expectation is that once a functioning service market exists, services can be offered by private suppliers. The public funds dedicated to extension can be channelled precisely towards those

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<sup>28</sup> Summary of AgREN Discussion of the Scope and Limitations of Privatised Agricultural Extension, available at [www.bdsknowledge.org](http://www.bdsknowledge.org); a complete discussion can be found on the AgREN website, <http://www.rimisp.cl/agren03/>

<sup>29</sup> Katz, Elisabeth, Innovative Approaches to Financing Extension, Swiss Center for Agricultural Extension, LBL, Lindau. April 2002.

parts of the system where the private markets do not function in the public interest, i.e. to ensure access to services in remote areas. The Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GTZ) has participated in the elaboration of a Guide to Rural Economic and Enterprise Development (REED) which is based on the principles of the BDS approach.<sup>30</sup>

There is much to be said for a successful application of the BDS approach to agricultural sector development, but its implementation is still in a fledgling state.

## 2.4 BDS and gender issues

Women, particularly low-income women, often form a substantial part of micro-entrepreneur target groups. There are numerous examples of BDS projects that include a high rate of women entrepreneurs (GTZ MSME development projects in Laos, Sri Lanka and Thailand, for instance, report that between 30% and 50% of their target groups reached were women).<sup>31</sup> Two-thirds of self-employed entrepreneurs within the informal sector are estimated to be women. However, a particular focus on gender issues is usually the exception in BDS market development programmes.

So-called thinkpieces from the SEEP Network in 2004 on BDS in conflict environments and for low-income women provide some insight into gender-related BDS projects. The SEEP online discussion on BDS and Gender issues, which was conducted in July and August 2004, concluded that if BDS are to reach low-income women, then services and delivery must consider their households, family and business responsibilities, and should be tailor-made to their needs. Many women entrepreneurs are homebound, and often need to balance their household responsibilities with the activities of their businesses. Service providers often have to come to these women entrepreneurs, since they are less mobile than other target groups and since socio-cultural constraints affect women entrepreneurs to a higher extent. In addition, some practitioners feel that advocacy is an important service to prevent harassment by local authorities.

When designing BDS programmes for low-income women, practitioners are thus required to look beyond the simple business aspect and address broader social, personal and gender aspects whenever possible.<sup>32</sup> Practitioners need to be more flexible to avoid marginalising such clients. Programmes tailored to low-income women should therefore entail a social dimension, such as linking women with specialised agencies like literary centres, health clinics or legal advocacy groups.

In addition, the market position of low-income women tends to be weak and they can be vulnerable to exploitation simply due lacking social and economic power. Therefore, improving access to business services may not be enough to help low-income women become more successful.

Throughout the developing world, a high percentage of women micro-entrepreneurs are likely to be found in sub-sectors such as vegetable/commodity trading, food kiosks, catering, beauty salons, tailoring, weaving and various agricultural sub-sectors.<sup>33</sup> BDS projects focusing on such a sub-sector or value chain with a high involvement of women micro-entrepreneurs are very likely to have a particular impact on the promotion of women entrepreneurs.

One project which is reported to demonstrate success in addressing gender-related issues is entitled Access to Contemporary Markets for Homebound Women Embroiderers in Pakistan, which focuses on the traditional sector of embroidered garments. Many of the rural home-bound women who produce the garments sell primarily to low value, traditional rural markets through intermediaries. An analysis found that their products would command higher prices in urban markets if they used modern colours and trends. Thus, the project helped link these rural women to higher value markets through urban-based

<sup>30</sup> GTZ, "Guide to Rural and Economic Enterprise Development (REED)", Eschborn, November 2003.

<sup>31</sup> Reichert, Chris, Christian Lempelius and Jim Tomecko, "The Performance Measurement Framework (PMF) for Business Development Services (BDS) Applied to CEFE Projects in Laos, Thailand and Sri Lanka", paper to the Donor Committee on Small Enterprise Promotion Conference in Hanoi, April 2000.

<sup>32</sup> SEEP, "Online BDS and Gender Discussion Synthesis".

<sup>33</sup> Haight, Alison, "Reaching Low-income Women with Enterprise Development Services: Challenges and Opportunities", SEEP Network, BDS Working Group, August 2004.

women intermediaries with access to market information and the latest designs and inputs, and enabled them to enhance and modernise their designs and colour schemes and to meet higher value markets.<sup>34</sup>

The “Making Cents” Business Skills Development Programme in Senegal has demonstrated how to reach a large number of women entrepreneurs by drawing on the national federation of associations of businesswomen and in cooperation with microfinance institutions. Anecdotal evidence shows that training participants from micro-enterprises reached a higher income level and consequently increased investment activities.<sup>35</sup>

The experience made to date with gender-related BDS programmes is still too new to speak about lessons learnt. Whereas some experts question the applicability of a commercial approach for low-income women owing to the high importance of social aspects in gender-related issues, others argue that BDS programmes addressing low-income women may stand a real chance if their social and personal background is taken into account, given the high importance of women entrepreneurs in the developing world.

The ILO’s InFocus Programme (IFP) on boosting employment through Small Enterprise Development (IFP/SEED) has done much research on service markets for women entrepreneurs through its WEDGE programme (Women’s Entrepreneurship Development and Gender Equality). In general, it found a considerable mismatch between supply and demand, with women entrepreneurs being poorly served. The programme has particular experience in gearing service providers towards targeting women entrepreneurs and in training women to become service providers to other micro-enterprises. Pilot projects included an array of services from entrepreneurship training and accounting service provision by barefoot trainers to agribusiness support.<sup>36</sup>

The Swiss Agency for Development and Cooperation (SDC) has published a manual for gender-oriented entrepreneurship promotion, outlining strategies and tools along the project cycle. This manual, which is available on CD-ROM, is aimed at assisting practitioners in addressing the empowerment of women in the framework of small enterprise development with particular emphasis on the BDS approach.<sup>37</sup>

In the many developing countries, women entrepreneurs constitute a particularly dynamic target group which can be addressed by the BDS approach if their specific social and personal background is taken into account.

## 2.5 BDS and microfinance

There is growing consensus that providing credit to micro-enterprises is not enough to stimulate growth. Poor borrowers from microfinance institutions often do not graduate to higher loans and consequently do not turn into productive enterprises. Surveys show that despite the massive use of microfinance loans, investment remains low. The expected effect on MSME growth is often missing; an integrated approach of improving access to credit and BDS seems to provide better results. An impact assessment carried out by the NGO BRAC (Bangladesh Rural Advancement Committee) found that with regard to increasing income, a better impact was recorded on those MSMEs who had skills training in addition to just receiving credit.<sup>38</sup>

Instead of a compulsory combination, a voluntary provision of BDS in addition to microcredit schemes is suggested by the ILO.<sup>39</sup> Microfinance institutions are looking for ways to expand their client range by growing with existing customers, keeping customer loyalty high and attracting new customers. Their interest in stimulating client growth, reducing borrowing risks and providing better services than their competitors to their clients naturally leads to attempts to link up with the field of BDS.

<sup>34</sup> Jones, Linda and Perveen Shaikh, “From behind the Veil: Access to Contemporary Markets for Homebound Women Embroiderers in Pakistan”, Mennonite Economic Development Associates and Entrepreneurship Career Development Institute, Pakistan, February 2004.

<sup>35</sup> <http://www.usaid.gov/regions/afr/ss02/senegal.html>

<sup>36</sup> Finnegan, Gerry, “Are W.E. Being Served?”, seminar presentation at the ILO BDS conference in Turin, 2003.

<sup>37</sup> Gminder, Claudia U., “Gender-oriented Entrepreneurship Promotion, SDC, January 2003.

<sup>38</sup> [http://www.brac.net/research\\_synthesis.html](http://www.brac.net/research_synthesis.html)

<sup>39</sup> Sievers, Merten and Paul Vandenberg, “Synergies from Linkages: Who Benefits from Linking Finance and Business Development Services”, SEED Working Paper No 64, Geneva, 2004.

Some microfinance institutions such as Jigiyaso Ba, the Federation of Credit Unions in Mali, now offer their clients information about and referral to training providers. They think that this is important for them because higher-skilled borrowers are more likely to repay loans and request additional credit. For BDS providers, the microfinance clients' networks can be used to obtain better market access, and credit meetings offer ways to organise training courses in a cost-efficient way.

BDS provision can be best linked to microfinance in a voluntary form, using client networks of microfinance institutions, and helping them to improve their clients' performance.

Some examples of BDS provision linked to microfinance that the ILO study refers to are:

- Training sessions for mostly illiterate micro-entrepreneurs, based on video material and subsequent discussion offered for US \$1 per participant by the Tkwin Jdid programme in Morocco
- Management training offered by Financiera Solucion in Peru to its most successful clients
- Technical training courses offered by BRAC to borrowers for a fee of between US \$3 and \$10.

## 2.6 BDS and livelihood development

Some donors and practitioners feel that when it comes to targeting the poorest of the poor, in some cases the market-based BDS approach has clear limitations. While promoting market development principles as far as possible, they are reluctant to apply them in a rigorous manner to the most deprived target groups. Depending on the social and economic context and the kind of services to be promoted, it is not always possible to do without subsidies in remote rural areas. In such a situation, practitioners consider Livelihood Development Services (LDS), which use group delivery mechanisms and subsidies from third parties, to be a more appropriate strategy.

SNV Netherlands Development Organisation defines LDS as “services which support participation of poor families towards economic growth, above all in rural areas, through income generation, production of marketable surplus, access to markets, information and know-how.”<sup>40</sup>

While the BDS approach is oriented towards enterprise or micro-enterprise development, the LDS approach stresses the importance of social mobilisation of poor families to undertake or expand economic activities. Many of the rural poor cannot really be considered to be involved in commercially sustainable enterprises. Furthermore, there are situations which for instance require group delivery mechanisms to prepare the ground for further development of economic activities of group members. A multi-actor approach comprising private sector, government and civil society actors is preferred in order to target generally under-served entrepreneurs with different kinds of private and public business services.

Subsidisation is kept to a minimum, and is only used to help low-income, rural poor gradually to make a profit.

Proponents of the LDS approach assess on a case-by-case basis which elements of the market approach can be applied, and try to find a specific balance between the market approach, group delivery mechanisms and subsidies from third parties.

The concept of Livelihood Development Services strives to overcome the limits of the BDS approach when working with populations at the bottom of the poverty pyramid. It is based on a flexible combination of market development principles, social mobilisation and minimum subsidies.

<sup>40</sup> Ribbink, Gerrit, “Reference Guide on Business Development Services, SNV Netherlands Development Organisation (CD), April 2003.

## 2.7 BDS and public services

The fact that governments in many countries fail to provide adequate education, health or infrastructure services in poor communities has led to research into whether the market development approach can be applied to those basic services which are usually provided as public goods – water, sanitation, energy, transport, health and education services.

As the 2004 World Bank Development Report on “Making Services Work for Poor People”<sup>41</sup> observes, these public services often fail poor people. While most governments devote about a third of their budget to health and education, they typically spend very little of it on the services poor people need to improve their health and education and thus to improve their livelihoods. As for basic public services, there is no direct accountability of the provider to the consumer; public providers often neglect their customers, which poses extreme hardship for poor customers if they cannot resort to private service delivery.

To increase the accountability of service providers to their customers, experts have begun to call for a more market-based approach in the delivery of services that are genuinely considered as public goods. They ask for a mix of government and private sector interventions. In some cases, governments can choose to contract out services or sell concessions to the private sector, transferring responsibilities to lower tiers of government or communities or even to households.

The World Bank Development Report identifies three ways in which public service delivery can be made more efficient for the poor:

- By increasing poor clients’ choice and participation in service delivery so that they can monitor and discipline providers. Good examples of this are the school voucher systems in Colombia (the PACES project) or a girls’ scholarship programme in Bangladesh (Bangladesh’s Female Secondary School Assistance Programme), in which schools receive a grant based on the number of girls they enrol. This did increase enrolment rates, as clients were able to choose among the available suppliers.
- By raising poor citizens’ voice in policymaking, through the voting system and making information widely available. Service delivery surveys in Bangalore, India, which showed poor people the quality of water, health, education and transport services they were receiving compared to neighbouring districts, increased demand for public services, and forced politicians to act.
- By providing incentives to service providers, rewarding the effective and penalising the ineffective delivery of services to poor people. For instance, in the aftermath of its long civil war, Cambodia paid primary health providers in two districts based on the health of the households. Health indicators, and use by the poor, have improved.

DFID has commissioned a research initiative to discuss the application of a BDS market development approach with the aim of helping small enterprises profitably deliver infrastructure services to poor communities. Relating the BDS market development approach to infrastructure provision, the study draws a number of parallels between poor past performance in the delivery of infrastructure service delivery, and the past performance record in BDS delivery. From this, the study deduces that a market-led delivery of infrastructure services by small enterprises could lead to higher service outreach to poor communities, increased cost-effectiveness, new jobs and increased income for small enterprises, while consumers in turn benefit from improved quality and better priced services. However, it is stressed that the public provider still has a role to play in the supply chain, including the responsibility for regulating and monitoring the activities or providing technical inputs.

The report gives some examples of small enterprises providing infrastructure services for poor communities, such as management and rental of city market stalls in Uganda; telephone services, street cleaning, ambulances, roadside and railway car parks, and electricity bill collection in India; veterinary services in Kenya, Tanzania and Azerbaijan; or park maintenance services in Peru.<sup>42</sup>

To take one example, the waste-collection service sector in Dar Es Salaam, Tanzania, demonstrates how informal local service providers are supported to deliver better services through formalised

<sup>41</sup> World Bank Development Report 2004, “Making Services Work for Poor People”, Washington.

<sup>42</sup> Wakelin, Oliver, “Poor Infrastructure, Poor Services, Poor Delivery – Can the Poor Help? - The Role of Small Enterprises in Infrastructure Service Delivery”, DFID – Intermediate Technology Consultants, 2004.

partnerships with the municipal authorities. Small local providers are often in a better position to deliver appropriate services to the poor and provide an important employment opportunity to the very poor.<sup>43</sup> There are other encouraging examples of waste collection services provided by the poor to the poor, for instance through street sweepers in Pakistan, who provide an affordable service to poor people along with the public waste disposal authorities. By contracting out service delivery to poor members of society, the poor get the double benefit of being involved as service users and as service providers<sup>44</sup>.

A DFID-funded project is currently exploring the possibility of enabling small water-providing enterprises to deliver an acceptable water service to poor urban consumers by building partnerships between them and water utilities. This is based on the fact that in many developing countries, the public water-supply network does not extend to the informal settlements of the poor, who rely on small water-providing enterprises to deliver water to them.<sup>45</sup>

Fields of development concerned with the provision of basic public services are increasingly incorporating market development principles into their portfolios that serve the needs of the poor.

## 2.8 BDS in post-conflict affected areas

The SEEP Network has been hosting a number of online discussions on the effects of BDS provision in other fields of development assistance which are relevant to the very poor and marginalised populations, such as BDS in post-conflict affected areas, or in relation to HIV/AIDS-affected populations.

These discussions form part of a broader initiative to examine strategies for reaching the poor and vulnerable entrepreneurs with BDS. Although the value of the market development approach is widely also recognised in these areas, practitioners feel it needs to be adapted for these populations who face more significant barriers to micro-enterprise development.

In conflict or post-conflict situations, micro-enterprise development is hampered by very unfavourable circumstances. Partial or complete loss of assets, disrupted market links, widespread unemployment, loss of social networks and security, psychological trauma, low education levels, etc. all affect the population's ability to engage in entrepreneurial activities.

However, projects can consider opportunities and capacities for micro-enterprise development as well as the immediate relief needs they are working on. In post-conflict affected areas, particular chances arise from:

- Technologies, skills, expertise and innovations brought by displaced persons to other regions
- Infrastructure works financed by the international community provide opportunities for micro-enterprises
- Numerous market gaps caused by the conflict create avenues for enterprise development
- The breakdown of traditional social structures can represent a chance for groups such as women entrepreneurs
- Initial capital can be built up based on humanitarian aid projects.<sup>46</sup>

A recent BDS market assessment in Afghanistan financed by the United Nations Development Programme (UNDP) identified a significant gap between supply and demand for various services such as marketing or business planning.<sup>47</sup> Other projects such as those of the American Refugee Committee

<sup>43</sup> *Small Enterprise Development Journal*, Vol. 15, No 2, June 2004.

<sup>44</sup> <http://www.ashoka.org/fellows/viewprofile3.cfm?reid=97171>

<sup>45</sup> [http://wedc.lboro.ac.uk/projects/new\\_projects3.php?id=61](http://wedc.lboro.ac.uk/projects/new_projects3.php?id=61)

<sup>46</sup> Nourse, Tim, "BDS in Conflict Environments – Neglected Potential? A Thinkpiece from the SEEP Network", American Refugee Committee, July 2004.

<sup>47</sup> See ILO's BDS website: <http://www.bdsknowledge.org>

in Sierra Leone and Guinea have worked on developing business skills of refugees based on formal training workshops and small grants. In addition, refugees have been trained in Kenya and Somalia to become independent service providers (Approtec), and market linkages have been developed across ethnicities in Bosnia (CARE).

In post-conflict affected areas, the immediate relief needs of the population need to be considered, as well as particular opportunities for the development of service markets.

### 3 Measurable impact of the BDS approach on markets that are relevant to the poor

Few impact evaluations of BDS have been conducted to date. BDS is a relatively new field that is still undergoing innovation and experimentation, and is thus evolving in terms of its approach and paradigm. As such, up to now the focus of most evaluations has been more on programme design and implementation than on impact. In principle, the donor community strongly agrees that the BDS market development approach holds many advantages over the former approach of direct service delivery. However, there has as yet been little documentation of results in the field.

While poverty alleviation increasingly features in the goal statements of BDS projects, it still lacks due consideration in project assessments. The USAID-funded Accelerated Microenterprise Advancement Project (AMAP) has recently reviewed a total of 50 evaluations of enterprise development projects with a BDS component funded by four donor agencies (USAID, the World Bank/the International Finance Corporation, the Inter-American Development Bank (IDB), the Multilateral Investment Fund (MIF) and DFID.<sup>48</sup> The study observes that:

- The private sector development projects that have a BDS component contributed positively to the growth of MSMEs in terms of increases in sales, revenues and profits of firms.
- No common trend was observed in the employment impact of the programmes. While some projects significantly contributed to employment generation, other projects remained far behind expectations.
- Standards for impact assessment are generally lacking.
- Hardly any reliable information is available to assess the impact on or outreach to the poor.
- Measures of cost-effectiveness are often missing or lack causal evidence.
- The question of sustainability remains open.

The fact that the questions of sustainability and impact on the poor remain open in many projects is a severe area of concern and clearly requires further investigation, even if the market-based BDS approach is still too recent to measure long-term systemic change.

If the field of BDS is to contribute to poverty alleviation, donors have to document more clearly the relevance of their approach with regard to improving the living conditions of the poor. The evaluations as a whole did not address the human and social dimensions of enterprise development programmes or impacts. They almost entirely neglected gender impacts; at most, a few studies provided a breakdown of beneficiaries by gender. Among the many projects evaluated, the AMAP study only cites one project (in Peru) as a positive exception to the rule in that it offers “anecdotal evidence” on poverty impact.

In an evaluation of 100 BDS projects in 2003, the IDB’s MIF identified only three projects which had undertaken an impact assessment, and out of these only two which were actually available. Summary results of these two impact studies presented in the IDB report show that 70% of the MSMEs that had acquired knowledge also put it in practice. One of the impact studies found that 20% of the MSME beneficiaries (small rural producers) also increased their revenues as a result of participating in the BDS projects. However, apart from that there was no mention of job creation, household income, poverty alleviation or any other indicators.<sup>49</sup>

Another research paper recently written for the Committee of Donor Agencies for Small Enterprise Development gives a more theoretical outline on the poverty impact of small enterprise initiatives. It

<sup>48</sup> Zandniapour, L., J Sebstad and D Snodgrass, “Review of Impact Assessments of Selected Enterprise Development Projects”, Development Alternatives Inc., July 2004.

<sup>49</sup> IDB, Office of Evaluation and Oversight, Multilateral Investment Fund (MIF) MIF Evaluation – Business Development Services, Washington, December 2003.

assesses the theoretical links between BDS market development and poverty. According to the paper, links in the causal chain with regard to indirect effects on poverty are theoretically sound and supported by past studies on the effects of SME and private sector growth on poverty. However, they are difficult to prove in individual projects.<sup>50</sup>

There is still a huge gap between the wealth of information that is available on BDS market assessment and project implementation and the very few inputs that so far exist on impact evaluation. Anecdotal evidence is still the most prominent indicator for the impact on poverty alleviation.

An impact study on a World Bank Voucher Programme in Kenya shows that the BDS project improved profits, sales and investment in a significant proportion of trainee businesses. It increased the potential demand for business services, particularly by upgrading micro-businesses and newly started businesses, many of which were women beneficiaries. There is also some evidence of increased employment; however, impact on poverty alleviation or pro-poor growth has not been assessed in detail and, for some practitioners, both the voucher programme and the evaluation are controversial issues.<sup>51</sup>

A study on the effects of a three-day management training course for women entrepreneurs in micro and small businesses in Viet Nam, which was based on findings in a test group of 102 women and a control group of 43 women, concluded that the training showed a statistically significant impact on increase in sales and personal income for the trained women within a time period of four to six months. The training had stimulated innovation, product upgrading and had increased productivity. However, it was impossible to confirm whether the training had had any direct employment creation impact, and the results regarding better quality of life were similarly ambiguous. The study concludes that business training agents should be careful not to take too much credit for expanding business in Viet Nam related to their interventions.<sup>52</sup>

In addition, evidence on poverty alleviation impact is reported from projects such as:

- The Agropyme project in Honduras<sup>53</sup> works in a rural environment with a poverty rate of 73%. It promotes business services in supply chains connecting rural growers with urban markets (provision of irrigation technology, embedded services, market linkages), and reports a significant impact for two poor target groups: rural poor employees benefited from more continuous employment (from one to three production cycles per year) and from increasing daily wages (which rose from US \$2.7 to US \$3.7 due to increased demand). Rural poor farmers increased productivity between 65-110% per cycle and are expected to have increased their household incomes.
- The IDE project in India has developed a combination of commercially provided and affordable drip irrigation equipment for small rural farmers, embedded services and other fee-based services. It reports a net additional income of US \$322 per MSME served out of a total of 21,266 MSMEs.<sup>54</sup>
- The USAID Kenya BDS programme works on embedded services and supply chain efficiencies. The Kandara Avocado Programme chose the East African Growers Association (EAGA) as a lead firm, and reports a guaranteed market and increased incomes for 405 farmers based on a 250-300% price increase for higher quality avocados.
- BRAC, which works with poor target groups in rural areas, found in an impact assessment of their BDS provision that there was a significant impact on incomes at village level. Service recipients' income gains by far exceeded the costs of the service provision, leading BRAC to consider charging higher service fees in order to make their BDS more cost-effective. With regard to their overall activities at village level such as microfinance, input supply, market linkages and training services, poverty declined among BRAC members, whereas it actually increased for non-members during the period 1997-2001. The poverty gap also declined sharply among members.<sup>55</sup>

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<sup>50</sup> Nexus Associates, "Assessing the Poverty Impact of Business Development Services and Other Small Enterprise Initiatives, Committee of Donor Agencies for Small Enterprise Development, 2003.

<sup>51</sup> Phillips, David A., "Development Impact Study of the Training and Business Development Services Voucher Programme", World Bank, Washington, May 2003.

<sup>52</sup> Voeten, Jaap, "Management Training Effects on Women Entrepreneurs Who Own and Manage Micro and Small Enterprises", Maastricht School of Management, Hanoi, October 2002.

<sup>53</sup> Rodriguez, Ivan, "Connecting Rural Growers with Urban Markets in Honduras", seminar presentation at the ILO BDS seminar in Thailand, 2004.

<sup>54</sup> Manaktala, Shivani, "Developing the Horticulture Sector in India", seminar presentation at the ILO BDS seminar in Thailand, 2004.

<sup>55</sup> [http://www.brac.net/research\\_synthesis.html](http://www.brac.net/research_synthesis.html)

Assuming that the available impact assessments and anecdotal evidence provide a satisfactory indication of their contribution to pro-poor growth, the above examples suggest that BDS projects implemented in the agriculture sector are presumed to have the highest outreach and impact on the livelihoods of the poor. As in the more traditional fields of development assistance, agriculture is regarded as the sector which contributes most to poverty alleviation, and many BDS projects have therefore come to target the sector. Further supporting this approach is the fact that the causal chain is shorter (ensuring direct provision to a large number of micro-enterprises) and the impact is already visible after just one or two harvesting seasons.

The clearest evidence of significant poverty alleviation impact and high outreach in a relatively short period of time is drawn from BDS projects related to the agriculture and agro-industrial sectors.

## **4 Conceptual implications of integrating a pro-poor growth orientation in a market-based BDS approach**

### **4.1 General implications**

As outlined earlier, evidence suggests that in order to contribute to pro-poor growth, BDS projects should be designed to include:

- A particular focus on micro-entrepreneurs living around the poverty line
- A higher emphasis on basic operational services rather than sophisticated strategic services
- A focus on services geared towards improving market linkages for micro-enterprises or services which are highly critical with the aim of raising productivity within a short period of time
- Affordable and sustainable service delivery models (such as embedded services or group-based delivery)
- Sub-sector approaches designed to raise productivity in those sectors in which the poor and deprived groups earn their livelihoods (leading to the value chain, PPP and cluster approaches).

The DFID study on BDS in weaker markets calls on practitioners to blur “the distinction between business services and other services (e.g. for agriculture, infrastructure, telecommunications, transport)”. This is not only a question of terminology, but also reflects how the approach has changed over time, with donors adapting market development tenets to their philosophies.

The USAID AMAP BDS project has shifted the focus from business service provision to a more holistic approach that considers the whole range of opportunities and constraints faced by MSMEs in global and national marketplaces, together with their need for business and financial services and an enabling environment.<sup>56</sup> AMAP aims at generating economic growth while at the same time reducing poverty. To ensure that the poor are not left out of economic growth strategies, AMAP BDS focuses on linking micro and small enterprises into global, regional and local markets. AMAP is relevant for all situations affecting the economic activities of the very poor, including HIV/AIDS issues and post-conflict situations. This allows USAID’s foreign offices to apply flexible multi-component approaches. Missions decide on a case-by-case basis which elements are best in order to provide solutions to micro-enterprise growth problems in a given context, based on assessed needs for business services, financial services or a better enabling environment.

The American NGO Action for Enterprise (AFE) is pursuing an approach called the “Promotion of Commercially Viable Solutions to Sub-sector and Value Chain Constraints”, which adheres to most of the above requirements.<sup>57</sup> “Solutions” here denotes the broad range of services including provision of inputs, market access and financial services such as supplier credits. It reflects more accurately what BDS projects with a special focus on the poor are all about.

<sup>56</sup> Miehlsbradt, Alexandra Overy and Mary McVay, “Developing Commercial Markets for Business Development Services”, ILO, BDS Update 2004, Seminar Reader 2004.

<sup>57</sup> <http://www.actionforenterprise.org>

The term “solution” itself puts more emphasis on responding to the basic needs of the poor than on sophisticated strategic services, applying the basic principles of BDS market development to a larger context. It is also better understood by the poor in market assessments, reflecting more the language they are used to. Additionally, it helps leading practitioners in the right direction when conducting market assessments.

International Development Enterprises (IDE) follows a very similar approach in its Poverty Reduction through Irrigation and Smallholder Markets (PRISM) manual, which is based on a “thorough understanding of the sub-sector value chain and an accompanying array of business development services that are needed to catalyse both demand and supply-side market forces”.<sup>58</sup>

From Business Development Services to commercially viable solutions to value chain constraints.

## 4.2 Choice of sectors

Sub-sector and value chain promotion programmes utilise opportunities for forward and backward linkages from corporate strategies to link the formal to the informal sector, offering a high potential for poverty alleviation.

The IDB 2003 evaluation of BDS projects concluded that interventions designed to address specific and critical needs of MSMEs (such as specific administrative constraints or particular bottlenecks faced by a group of exporters in a productive sector) have proven to be more relevant.<sup>59</sup>

In many developing countries, particularly throughout sub-Saharan Africa, poverty is disproportionately rural. In Senegal, for instance, 70% of the rural population are considered to be poor, whereas poverty rates in urban areas are around 30%.<sup>60</sup> Trends in poverty alleviation will follow those in the agricultural and agro-industrial sectors, also providing the basis for non-agricultural MSMEs in rural areas.

In urban areas, BDS projects are likely to have the highest impact on poor people if they address sectors in which a particularly high percentage of micro-entrepreneurs (such as the construction sector) or women entrepreneurs (such as food processing or garments) are involved. They are likely to have a similar impact in deprived areas (i.e. urban slums).

Higher agricultural productivity and rising non-farm employment in rural areas are important determinants of the rate of pro-poor growth and should be given priority with regard to poverty alleviation.

Targeting a specific sub-sector implies that vertically provided services are more important. A narrow focus allows programmes to tailor their interventions and address the most relevant opportunities and challenges in each value chain.

Even if project interventions are limited to service provision within a sector (and thus limit outreach to other sectors), the impact and relevance for the beneficiaries are considered to be higher. Another concern is that people with higher income within a sub-sector benefit more than the poorest of the poor in the informal sector or remote rural enterprises. This is an area that requires further impact assessment.

A major constraint to the sub-sector approach is that donor support is typically heavily concentrated on a few relevant sectors. Since many donors often increase their official development assistance (ODA) spending in countries with good governance structures, market distortion in suitable sub-sectors with growth potential can be significant, forcing new projects to choose less promising or less important sub-sectors.

<sup>58</sup> IDE, “Poverty Reduction through Irrigation and Smallholder Markets (PRISM)”, manual draft, September 2003.

<sup>59</sup> IDB, Office of Evaluation and Oversight, Multilateral Investment Fund (MIF) MIF Evaluation – Business Development Services, Washington, December 2003.

<sup>60</sup> World Bank, “Senegal – Policies and Strategies for Accelerated Growth and Poverty Reduction”, Washington, April 2003.

### 4.3 BDS as a component in value chain development approaches

So far, most value chain promotion programmes have not focused on pro-poor market outcomes. Pro-poor growth may require multidisciplinary activities in the form of a combination of agricultural development, private sector development, social interventions and infrastructure change. A good example of such a combination is a GTZ-funded project in Nepal, which is described below in more detail.

GTZ selected value chains in Nepal by drawing on the three main selection criteria of market demand: growth potential, competitive advantages, and the potential to increase rural incomes. They found that in the hand-knitted carpets sub-sector, employing more than 160,000 persons and with a male/female proportion of 55/45, it was possible to make an impact in compliance with the national Poverty Reduction Strategy. The project implemented an approach combining trade promotion elements (e.g. support of trade fair participations) and BDS delivery (e.g. quality label, skills training, design services). The project so far has been able to increase market share of the main market for Nepalese carpets (namely Germany) by 15%. However, it remains difficult to assess the impact on poverty with regard to who actually benefits, the lead firm or the poor producer.<sup>61</sup>

Successful value chain projects target markets with high growth potential and take on international companies to create a link to international markets. Another strategy with a high impact potential is to open up regional cross-border markets.

With regard to the more narrow definition of BDS, the most notable shift that has become apparent in the field of BDS is a move away from the development of service markets towards increasing small firms' participation in productive markets. While service markets are important, these markets are more likely to emerge as micro-enterprises gain access to new distribution channels which allow them to earn more income, but require greater skills and knowledge, and more sophisticated products. BDS in this context refers to the range of services required by small firms to participate effectively in productive markets, contribute to efficiencies of scale, reduce transaction costs and benefit from external economies of scale.

There are some key constraints to promoting BDS market development within value chains. Relatively few large firms are willing to build what can be fairly expensive, labour-intensive linkage programmes, and the time and effort needed to develop profitable models for working successfully with a large number of micro-enterprises are often underestimated. Not all value chain promotion approaches in agriculture succeed in linking micro-enterprises to lead firms.<sup>62</sup>

Value chain approaches offer a high potential for linking the formal and informal sectors. They are often accompanied by a growing need for more skills and services and enable informal companies to afford to use services in order to achieve productivity increases.

### 4.4 Public-private partnership models

There are different forms of PPP projects, which aim at providing public services more cost-efficiently and sustainably by using private sector capital to build up the socio-economic infrastructure, or at combining economic interests of commercial companies with public development goals such as technology transfer, environmental protection, the improvement of social standards, and poverty reduction. Corporate partnerships are intended to bring about win-win situations and ensure a more efficient use of funds through cost-sharing mechanisms.

Some PPP projects are very similar to embedded services projects. Both combine private and public interests, and both work with one or more private entities on a cost-sharing basis. As PPP is the broader term, a PPP project could potentially incorporate embedded services.

<sup>61</sup> Shah, Bhushan, "Value Chains for Poverty Reduction: Opportunities and Challenges in Nepal", presentation at the GTZ SME Sector Network Meeting in Manila, October 2004.

<sup>62</sup> Webster, Leila, "SME Department WBG", seminar presentation at the ILO BDS Seminar in Thailand, 2004.

In Ghana, GTZ has been cooperating with Unilever Ghana to build up efficient extension services for tomato growers to supply a tomato-pulp factory. In such cases, the private partner brings in the commercial market and its ability to provide commercial extension services (embedded), on a sustainable basis without long-term subsidies, and ideally with the best possible quality (due to the partner's special know-how). The public partner assists the private partner in overcoming problems in building up a suitable extension service. Training of trainers, development of suitable methodologies and training material, initial awareness-raising campaigns on farmer level, etc. reduce the cost of building up structures and networks and might be crucial in enabling the lead firm to work with a large number of micro-entrepreneurs.

In Viet Nam, GTZ is working with Mars to provide extension services and seed supply for cacao farmers in order to improve the income situation of poor farmers in rural areas and to ensure Mars' supply sources of high quality cacao beans.<sup>63</sup> GTZ is also teaming up with two private companies (Naturland and Binca Seafoods) in Viet Nam to promote aquaculture. Public and private partners are cooperating to change production methods with pilot farmers to comply with organic standards. In cooperation with Metro Cash & Carry Viet Nam Ltd., GTZ Viet Nam is running a training programme for farmers, collectors, wholesalers and retailers with the aim of improving quality, hygiene and efficiency within the distribution and trade network of fruit and vegetables. Together with the engineering company Festo, GTZ Viet Nam is establishing a training and consulting centre for food processing, including packaging.<sup>64</sup>

GTZ is currently expanding its PPP approach to local initiatives. Whereas in the beginning German companies were often taken on as the private partners, the importance of local private companies as the main partner is rising, allowing for more flexible approaches within the region.

PPP models are an efficient instrument for developing and providing high-quality embedded services in a cost-efficient manner to micro-enterprises.

#### 4.5 BDS and regional development

Regional development approaches are often based on strategies related to competitive advantage, particular framework conditions, predominant company clusters, value chains and an enabling environment for small enterprise development. The BDS approach can serve as a tool in regional development programmes.

A number of BDS projects focus on addressing particular regional development constraints that hamper micro-entrepreneurs' access to various kinds of services. Madhya Pradesh's Guandyot programme seeks to provide market information, auction centre rates and official certificates of land records or domicile certificates through a network of privately-run information kiosks. Another example is the provision of veterinary services to smallholder farmers in remote areas in Azerbaijan, which seeks to overcome a particular regional development problem. Whereas in principle the provision of veterinary services does not constitute a problem, it can indeed do so in certain weaker regions, limiting the development potential and competitiveness of agricultural micro-enterprises.

Regional development approaches also allow for better impact assessments on poverty alleviation. While it is difficult to monitor effects on a national level or to attribute the impacts achieved to programme activities, it is easier to assess a well-conceived bundle of interventions designed to develop service delivery in areas crucial for raising the productivity of predominant clusters of micro-enterprises in a certain region, and its effects on regional development as a whole. Since the BDS approach is still a relatively recent one, the effectiveness of different tools and methodologies could easily be tested within the framework of regional development approaches.

Regional development approaches allow for very focused interventions on BDS markets and impact assessments on poverty alleviation.

<sup>63</sup> <http://www.gtz.de/de/unternehmen/2362.htm>

<sup>64</sup> Finkel, Thomas, "PPP within Value Chain Development", presentation at the GTZ SME network meeting in Manila, October 2004.

## 5 Implications on the implementation level of a BDS promotion approach aiming at enhancing the market access of the poor

### 5.1 Market assessment

BDS market assessments analyse supply and demand-side constraints of service provision, assessing the reasons for market failures in detail in order to address them. There is a plethora of literature on market assessments, but what is available does not necessarily address poor target groups. In particular, there is little information on the functioning and failures of existing market segments from the perspective of poor target groups.

In general, BDS market assessments should:

- Include a chapter on reaching the poor, focusing on their viewpoints, and particularly the extremely poor
- Account for different levels of poverty and different types of micro-entrepreneurs
- Analyse poor target groups with regard to their status as micro-entrepreneurs, employees or service providers
- Ensure adequate coverage of the poor in mapping exercises.

Micro-entrepreneurs in developing countries often have limited knowledge about the market segments they are involved in, which makes it more difficult for BDS market assessments to identify needs and opportunities for services. In order to obtain more accurate and useful information on weak markets, BDS market assessments should:<sup>65</sup>

- Interview in particular persons who would normally not participate actively in association meetings, focus group discussions, etc. Leading association members such as “richer” entrepreneurs tend to express their point of view more actively than the poorest micro-entrepreneurs.
- Allow for an adequate timeframe for discussions exploring the real needs and constraints of the poor. It takes time to assess different perceptions and understand the complexity of problems.
- Uncover hidden business relationships and service provision channels, including input suppliers, buyers, NGOs and informal networks.
- Avoid standard terms used in the academic debate, and instead adapt the language used to the local context, ensuring that the questions are understood.
- Use interviewers who are close to the target group both in terms of location and culture and who have local knowledge, good communication skills and the skill to address gender issues appropriately.
- Work with semi-standardised open questionnaires, allowing for exploratory techniques to experiment with different ways of collecting information.

The Triple Trust Organisation in South Africa, for example, found that in order to understand and develop a weak service market for small, informal convenience stores (*Spaza* shops), which are estimated to comprise about 13% of the entire retail industry in Cape Town, it needed to go beyond interviewing micro-entrepreneurs and in addition include 300 final customers of the *Spaza* shops.<sup>66</sup>

Much can be done to sharpen BDS market assessments in order to gain insight into the viewpoints and expectations of the poor.

<sup>65</sup> Nussbaum, Melissa and Miehlebradt, Alexandra Overy, “Assessing BDS Demand and Supply in Weak or Limited Markets”, SEEP Network, December 2003.

<sup>66</sup> Tladi, Seth S. and Eugene Isaacs, “Lessons Learned from Using Nonconventional Research Methods to Understand BDS in a Weak Market”, Triple Trust Organisation, 2004.

## 5.2 Service needs of poor target groups

BDS projects targeting the poor should be based on the recognition that:

- There is a particular need to reach short-term results, as the poor depend on a tangible impact on their livelihoods. Micro-entrepreneurs will not engage in business opportunities unless they see benefits in the short term. There is a particular need to balance long-term and short-term goals.
- The possibilities of the poor to invest in expanding their economic activities are highly limited. Even the lowest amounts charged for services are often too high, which means that only those services that are of the highest importance to their income and livelihoods are paid for.
- The smallest enterprises may not be able to afford BDS in any form that requires direct payment.

With regard to **market access**, successful projects should:

- Build the capacity of intermediate traders to buy, bundle, store, pack, transport or process the production of micro-enterprises.
- Assist intermediate traders in developing marketing channels to urban centres, neighbouring regions, cross-border trade or export to industrialised countries.
- Promote embedded services provided by buyers to micro-entrepreneurs in areas such as training on market requirements, product quality standards or design. Capacity building of buyers to provide embedded services is best done on a cost-sharing basis and should be limited to areas of high interest to both the service provider and service beneficiary.
- Promote crucial low-cost fee-based service provision in combination with emerging market chances such as transport, communication, maintenance, etc. Projects demonstrate the benefits of using the service and the potential market volume that the service provider could reach, and assist in developing appropriate tools and running awareness campaigns.
- Promote market linkages between the informal and formal sectors, such as assisting larger construction firms in building networks and the capacity of informal sub-contractors.
- Promote buyer or supplier credit schemes, link producers to alternative finance mechanisms, or facilitate commission-based service delivery.

With regard to **input supply/technology**, successful projects should:

- Promote the commercial provision of inputs and affordable technologies such as high-quality leather, fertiliser or irrigation technologies or critical fee-based services, such as greenhouse seedlings or veterinary services, with an immediate impact on productivity.
- Work on a cost-sharing basis with input and service suppliers on developing suitable products and technologies.
- Promote accompanying embedded services provided by suppliers to micro-entrepreneurs in areas such as product application standards.
- Facilitate access to suitable supplier credit schemes in order to enable the poor to pay for the service.
- Analyse and demonstrate the market potential and buying power of large groups of poor enterprises, and develop business models for service providers to serve the poor profitably.
- Assist input and service providers in bundling customer demand and creating awareness of the service.

With regard to **generic business skills training**, the following observations apply:

- Projects should develop a stronger focus on more informal service delivery, as was the case for example with the ILO radio programme. Sponsored by business advertisements, radio programmes focusing on business topics entail no service costs for poor listeners.
- If training is delivered on a fee-basis by private service providers, costs have to be very low. Projects for instance charge fees ranging from US \$1 (Al Amana, Tkwin Jdid programme, Morocco)<sup>67</sup> to US \$8 (Making Cents, Senegal). The bundling of service provision, particularly in cooperation with other

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<sup>67</sup> Sievers, Merten and Paul Vandenberg, "Synergies from Linkages: Who Benefits from Linking Finance and Business Development Services", SEED Working Paper No 64, Geneva, 2004.

stakeholders such as microfinance institutions (which often use credit meetings to offer additional training), can make service delivery profitable.

- Training material has to be developed in local languages. Visualisation techniques represent an important way of reaching out to the high number of illiterate persons, and training videos can be an inexpensive training material.
- A number of trade-offs are emerging in the field. Several projects have trained local service providers to offer inexpensive training modules (for instance on enterprise start-ups), with the expectation that these providers in turn will market their services to other programmes on a subsidised cost-sharing basis. By doing so, programmes have already made significant headway towards increasing outreach and cost-efficiency compared with the past. In fact, many service providers make a living by serving a mixture of private clients and development institutions. However, the benefit of the service providers' newly increased capacity and their potential to provide cost-efficient training (for example on enterprise start-ups) is limited because donors are increasingly dispensing with subsidies.
- As for vocational training, there are limits to the BDS approach with regard to generic business skills training, which is often regarded as a public good and less suitable for fee-based service provision. It is difficult to achieve sustainability when working with poor target groups, since the benefits are not easily tangible.

With regard to **other services**, it should be noted that:

- Access to communication services is a high priority even for the poorest of the poor. The use of mobile phones in urban slum areas or the success of private initiatives to promote village phones demonstrate that there is a clear need for this, as this leads to much better access to information. The question for development programmes is, however, where and to what extent the spread of telecommunications technologies has to be supported on the one hand, and where a quick dissemination will take place in any case based on market dynamics on the other.
- Small-scale farmers often need official documentation such as landholder certificates, which are often difficult to obtain with regard to time and money spent on travel. Efficient fee-based service delivery in the form of PPPs has proven feasible.
- The transition from the informal to the formal sector is accompanied by some requirements such as accounting. Training of low-income individuals and bundling of service provision to a larger number of micro-enterprises can make it a profitable market for private service providers.

### 5.3 Profile and type of service providers

Service providers that mainly target SMEs often find that it is not profitable to work with the poor. In some cases, however, this might be a false perception, and service delivery could become profitable by bundling service provision. In other instances, reaching the poor implies a need for an adapted provider profile.

The types of service providers needed to reach the poor are those who are very close to poor target groups, both in terms of location and culture, or belong to the poor. Service providers well-suited to cater for poor target groups include paraveterinarians, barefoot trainers and informal traders. Some projects work on qualifying skilled individuals to become service providers to other micro-entrepreneurs.

For embedded service delivery, the whole range of input suppliers, commercial distribution networks, equipment and technology producers, small-scale buyers and exporters is important. Poor micro-entrepreneurs in many cases are directly served by middlemen, distribution agents or informal traders who bundle the production of micro-enterprises, rather than by international buyers or national exporters.

Associations and business membership organisations have proven to be important types of service providers in a number of BDS projects. This, however, applies less to extremely poor target groups, which are less organised. For the latter, group formation activities represent an instrument that can improve the organisation of these vulnerable groups with regard to expressing demand and developing group-based service delivery schemes.

Whereas the appropriate role of NGOs in the field of BDS is mostly regarded as that of a facilitator, some NGOs play an increasingly important role as commercially oriented service providers to poor target groups. The most prominent example, BRAC, does both by acting as a facilitator (e.g. promoting private veterinarians/veterinarians in the poultry sector, chick-rearing service providers, small-scale hatcheries, feed sellers, etc.) and a service provider (operating its own feed mill, etc.). BRAC is achieving significant poverty reduction results and is oriented towards offering commercial services which can be provided on a sustainable basis. The organisation acts like a private lead firm in a sub-sector, but with a strong grounding and network on the village level.

There is considerable discussion in the field of BDS about NGOs confusing the roles of service provision and service facilitation, which creates concern about fairness and market distortion. The main questions are whether an NGO: 1) facilitates the provision of sustainable services by private actors; 2) provides direct services to MSMEs on a subsidised (and therefore not sustainable) manner; or 3) offers direct services in a commercially oriented manner whereby it recovers costs and has a locally sustainable structure that allows it to provide these services in the long run.

At the other end of the spectrum, examples from the ICT sector show that the accumulated buying power of the poor can even make them a profitable market for multi-national companies as service providers. The use of village phones can generate higher revenues than urban cell phones, for example. Low margins, low capital needs, high outreach and very large volumes can lead to a high return on investment for corporate shareholders.<sup>68</sup>

Service providers should be close to poor target groups, both in terms of location and culture. They can be drawn on either by way of existing networks, through different layers of intermediaries in trade channels, or on a more informal basis.

#### 5.4 Type and design of incentive schemes

Some BDS projects avail themselves of incentive schemes such as voucher programmes to stimulate service demand. In other cases, the necessary income to pay for such services can only be generated by subsidising their initial use.

Current evidence suggests that projects which particularly cater for the needs of poor micro-entrepreneurs living around the poverty line do not deploy more direct subsidies or other types of incentive schemes than “mainstream” BDS projects do. In contrary, best practice models either use other payment modalities (such as embedded services or supplier credit schemes), or concentrate on affordable service delivery models (such as village-based, internet-connected service centres). They ensure from the beginning that the services are delivered to poor target groups in an affordable and appropriate way.

Evidence suggests that a number of BDS projects have not succeeded in a stepwise reduction in subsidies. Beneficiaries tend to get used to subsidised services and are unwilling to pay more than they used to. Hence, in some cases projects did not reach the desired effect of creating sustainable service markets by phasing out subsidies.

In general, projects should wherever possible dispense with subsidies on direct service provision right from the beginning. Rather than subsidising a service, a much stronger incentive to make entrepreneurs use a service can be to demonstrate to them successful pilot cases. Projects should concentrate support on activities before service provision (e.g. capacity building of service providers or awareness creation on the customer level) or after service provision (e.g. monitoring and product adaptation).

However, there is also a vivid debate on whether it is always possible and preferable to do without direct subsidies at all, as the discussion about LDS reflects. If projects work with incentive schemes, subsidies should be kept to a minimum and limited to test and introduction purposes, and projects should have a clear exit strategy.

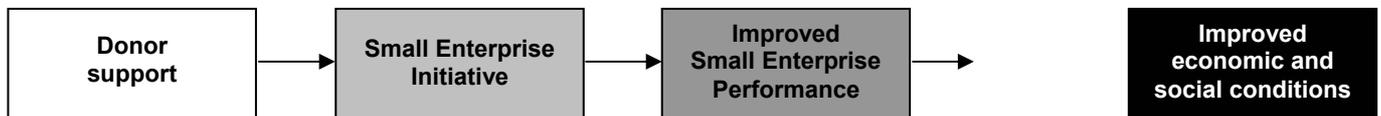
BDS projects focusing on poor target groups do not tend to deploy more subsidy schemes than other BDS projects.

<sup>68</sup> Prahalad, C. K. and Allen Hammond, “What Works: Serving the Poor, Profitably”, *Harvard Business Review*, June 2002.

## 5.5 Impact assessment

Impact assessments of BDS projects have to apply a causal model. There has to be a clear causality chain from interventions via output to the final desired impact on poverty alleviation in a certain region, country or area.

**Figure 2: Causal model for impact assessment<sup>69</sup>**



The BDS Performance Measurement Framework (PMF) focuses on market development in terms of outreach of service delivery, the number of repeat users, willingness to pay for services, the number of service transactions taking place or the number of service providers qualified, etc. With regard to poverty alleviation, the PMF goes as far as assessing impact on the enterprise level (income or profit increase of MSMEs, employment generation) and the access to appropriate services of under-served groups such as women entrepreneurs. However, it does not stretch to looking into income effects, particularly in deprived target groups.

A recent study by Oldsman and Hallberg argues that with regard to the poverty alleviation impact, private sector development projects have to go beyond measuring impact on the MSME level. Job creation in a number of companies might be accompanied by job losses in other companies, and income generated in one company matched by an income reduction in another. Even if BDS projects are able to prove impact with regard to higher MSME income, this does not necessarily mean that the project has contributed to pro-poor growth. In general, private sector development projects are recommended to deploy indicators such as the increase in income per capita in their impact assessments. There is a need for reliable data, as this allows donors to take the right decisions and improves the efficiency of government spending. The problem is that in most cases it is either impossible or far too expensive to obtain the necessary data.

A recent study on impact assessment commissioned by SDC concluded that much would already be achieved if.<sup>70</sup>

- Feasibility studies and baseline surveys are properly carried out
- Monitoring goes beyond measuring input-output analysis and covers performance measurement
- Assessing direct programme impact is part of regular programme reviews.

Measuring impact on poverty alleviation is difficult since the direct impact of most programmes will be limited, given the scale of the problem and the relative size of the intervention, thus leading to problems of causality and attribution. BDS projects with advanced monitoring systems work with clearly defined control groups in order to assess their impact at company level. For example, turnover in 60% of the supported MSMEs has recorded a 30% higher growth rate than in a group of enterprises which received no support (based on a representative selection of 30 enterprises).<sup>71</sup>

Some practical suggestions for impact assessments of BDS projects are to:

- Include at least some indicators that measure the impact of poverty alleviation on household level as proxy indicators for a direct impact on pro-poor growth, such as:
  - An increase in the income of the extremely poor and poor target groups

<sup>69</sup> Oldsman, Eric and Kris Hallberg, "Framework for Evaluating the Impact of Small Enterprise Initiatives", SDC, SED Working Paper No 3, 2002.

<sup>70</sup> Späth, Brigitte, "Current State of the Art in Impact Assessment: With a Special View on Small Enterprise Development", SDC, August 2004.

<sup>71</sup> Richter, Peter, "Value Chain Promotion Approach, Indicators and Impact Measuring", presentation at the GTZ SME Sector Network Meeting in Manila, October 2004.

- The number of the extremely poor and poor reached directly or indirectly by programme interventions
- The number or percentage of women reached by programme interventions
- The number of jobs created in rural areas
- The number of persons benefiting from more continuous employment (e.g. two instead of one harvesting season)
- Hourly salaries for unskilled part-time workers in a certain region
- Improvement of living conditions of the poor (such as the percentage of children in primary education, or job security and health care)
- Improvement of living conditions of women and deprived groups.
- Use baseline surveys (if possible including a control group) in order to monitor progress accurately.
- Work with a combination of quantitative and qualitative findings, as this provides a better understanding of impact processes.
- Use selected indicators from the PMF to measure systemic change and market development.
- Apply clear standards for surveys to ensure that reliable data are collected.

A particular emphasis on poverty alleviation goes hand in hand with a need to measure impact with suitable indicators at household level.

## 6 Conclusions

The major conclusions that this paper draws are as follows:

1. The BDS market development approach has the potential to contribute to pro-poor growth, and the field has developed some good practical models. The usefulness of this approach is shown by the fact that its underlying principles are increasingly being applied to other development fields.
2. There are more common interests than contradictions between the BDS approach and the need to target specific markets, regions and sub-sectors with a pro-poor perspective. BDS projects with a focus on pro-poor growth should target sub-sectors and value chains in which a large number of poor people earn their living.
3. There is still a huge gap between what is known about BDS project implementation on the one hand and impact assessment, cost-efficiency and sustainability on the other.
4. Available impact evaluations and anecdotal evidence suggest that the highest impact on poverty alleviation has so far been observed in the agricultural or agro-industrial sectors. As extreme poverty is a disproportionately rural phenomenon, with smallholder farmers at the global epicentre of poverty, the BDS experience fits in well with the overall target of reaching the UN MDGs.
5. The BDS approach offers considerable potential to address gender issues, since women entrepreneurs constitute a particularly dynamic target group in the social context of many developing countries.
6. BDS market assessments have to analyse more deeply the expectations, potential and constraints of deprived micro-entrepreneurs whose viewpoints are often not accounted for in public discussions.
7. Poor target groups demand basic operational services rather than more sophisticated strategic services. BDS projects should therefore concentrate their efforts on promoting services that improve market linkages for micro-enterprises, or on services that are highly critical for raising productivity within a short period of time.
8. Instead of using more incentive schemes to reach out to poor target groups, successful BDS projects must develop affordable service delivery mechanisms. Service provision to poorer target groups is mostly done in the form of embedded or informal services. BDS projects targeting poor micro-entrepreneurs are increasingly part of broader development initiatives such as local or regional development programmes, value chain promotion projects or PPPs.
9. With regard to poverty alleviation, BDS performance measurement should include some kind of impact assessment on the household level of deprived target groups, using baseline surveys and monitoring changes.
10. The BDS approach for poverty alleviation is expected to become more relevant as its underlying principles are increasingly applied to other fields, and as research on making markets work for the poor continues to be undertaken.

**7 Annexes**

**Annex I: Abbreviations**

**Annex II: Bibliography**

## **Annex I: Abbreviations**

AFE	Action for Enterprise
AgREN	Agricultural Research and Extension Network
AMAP	Accelerated Microenterprise Advancement Project
BDS	Business Development Services
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
BRAC	Bangladesh Rural Advancement Committee
CEFE	Competency-based Economies through Formation of Enterprise
DAC	Development Assistance Committee
DFID	Department for International Development
EAGA	East African Growers Association
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
IDB	Inter-American Development Bank
IDE	International Development Enterprises
IFP	InFocus Programme
ILO	International Labour Organization
LDS	Livelihood Development Services
MDGs	Millennium Development Goals
MIF	Multilateral Investment Fund
MSME	Micro, small and medium-sized enterprises
NGO	Non-governmental organisation
ODA	Official development assistance
ODI	Overseas Development Institute
PLP	Practitioner Learning Program
PMF	Performance Measurement Framework
PovNet	Poverty Network
PPP	Public-private partnership
PRISM	Poverty Reduction through Irrigation and Smallholder Markets
REED	Rural Economic and Enterprise Development
SDC	Swiss Agency for Development and Cooperation

SED	Small Enterprise Development
SEEP	Small Enterprise Education and Promotion
SIYB	Start and Improve Your Business
SME	Small and medium-sized enterprises
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WEDGE	Women's Entrepreneurship Development and Gender Equality

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Deutsche Gesellschaft für  
Technische Zusammenarbeit (GTZ) GmbH

Dag-Hammarskjöld-Weg 1-5  
P.O. Box 51 80  
65726 Eschborn

Telephone: ++49 (0) 61 96 79-0  
Telefax: ++49 (0) 61 96 79-11 15  
Internet: <http://www.gtz.de>



