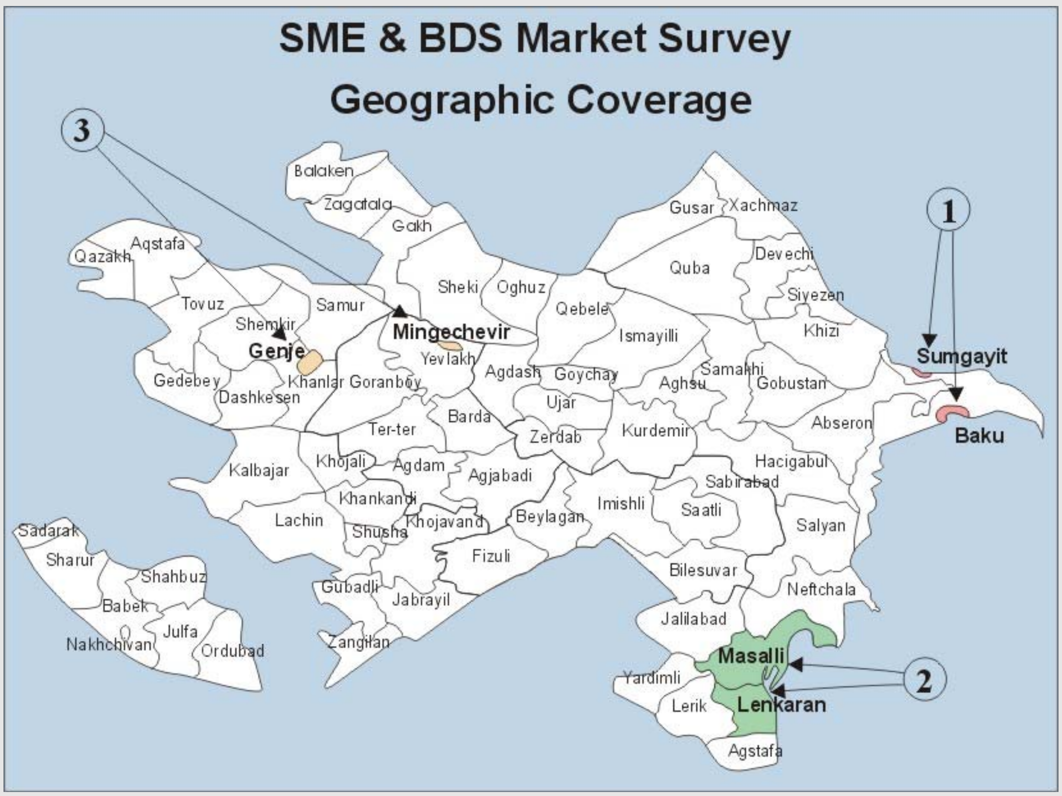
Small and Medium Enterprise and Business Development Service Market Survey



Baku, Azerbaijan
June 2001

Introduction

Mercy Corps Worldwide

Mercy Corps (MC) exists to alleviate suffering, poverty and oppression by helping people build secure, productive and just communities. Since 1979, MC has provided over $500 million in assistance to 72 nations. The agency's programs currently reach 4 million people in more than 25 countries. MC is a nonprofit organization with headquarters offices in Portland, Seattle, Washington, DC, and Edinburgh. Known for its quick-response, high-impact programs, over 94 percent of the agency's resources are allocated directly to programs that help those in need.

Azerbaijan Humanitarian Assistance Program

In Azerbaijan, MC is the umbrella grant manager for the six-year $45 million Azerbaijan Humanitarian Assistance Program (AHAP). The current & future programs represent a transitional strategy moving towards to longer-term sustainable development. MC's role as umbrella grant manager is to facilitate excellence in programming via four value added services; strategy direction, oversight, coordination and information, and technical assistance. Programs are supported in the fields of health care, community development, economic opportunities, and social investment initiatives.

The original AHAP strategy was updated in 2000 to shift the program focus from relief to long-term development in May 2000. Community development was introduced as a new program sector and shelter was eliminated. Under the current strategy, MC supports 13 projects at value of $16.8 million to support a shift from individual beneficiaries towards "conflict affected" communities with the introduction of a community development and social investment initiative to help organize and strengthen communities and to facilitate the rehabilitation of economic & social infrastructure. The current strategy includes the formation of regional coordination mechanisms to ensure meaningful interaction among implementing partners

In February 2001 MC introduced another phase of programs with the $5 million Integrated Community Development program. This phase of the AHAP strategy represents the next step in the transitional phase from relief to development through the targeting of resources via increased community mobilization. It incorporates the lessons learned from the first two phases of AHAP along with the changing attitudes in both government and donors concerning the conflict-affected population. The main goals of the Integrated Community Development program are to: expand the range of basic community development intervention through the formation of clusters, increase the coverage of multi sectoral activities through cluster targeting, and establish the foundations for a regional development process in selected clusters of communities.

Economic Opportunities

Mercy Corps' strategy to achieve economic integration of the IDP and refugee populations is to create employment opportunities by providing sustainable access to both financial and business development services (BDS) to stimulate the development of agricultural, micro and small businesses. Financial services funded under AHAP are utilized group and individual lending methodologies. Group loans range from $100 to $1000 and individual loans from $1,000 - $5,000. The success of these efforts is based on targeting both IDPs and refugees and the conflict-affected population as well. At the end of the current subgrants two MFIs will be created with operational sustainability of 50% and 100%.

Under the BDS component, a new trend is taking hold in Azerbaijan as the three AHAP funded programs have begun charging fees for their services to micro and small entrepreneurs. In a sea of subsidized programs, a few examples of BDS "best practice" have emerged. One of the reasons for this success is the strategic direction provided under AHAP developed as a result of the market survey. The three key principals that guide these programs are: to perform market research to identify MSE demand, to design program in a business-like manner, & to incorporate profitability goals & performance measurements for market sustainability.

Executive Summary

I. Survey Design

To better understand the current state of BDS in Azerbaijan, two surveys were undertaken in six regions in in Azerbaijan in November 2000. The goal of these surveys was to assess the current rate of BDS utilization by MSEs, and their self-identified needs for future BDS.

1. *MSE Assessment*: The first survey gathered baseline data regarding current MSE BDS utilization, needs, and interest in accessing and paying for these services. Over 330 MSE surveys were executed with a cross-section of MSEs, including traders, agricultural producers, service providers and goods manufactures were surveyed.

2. *BDS Provider Profiles*: The second survey targeted 121 existing private sector BDS providers. This survey assessed the clientele, sustainability and profitability, and previous access to NGO and other donor funds and assistance.

II. Survey Results

MSE Profile:
Both business owners and the businesses themselves surveyed in target area were older than the survey average. These business owners support between three and five family members and more than 50 percent employ one or two family members and/or paid employees which is slightly higher than the national average. Over 40 percent of the businesses were engaged in agricultural production and/or retail activities.

Services Demanded by MSEs:
The survey confirmed that MSEs are willing to pay for services rendered that strengthen the economic viability of their businesses. The BDS services most demanded in the target area include:

- Business Planning: Detailed plan for three to five years, including a step-by-step guide to goal achievement.
- Credit Sources & Management: Information regarding sources of credit, need assessment, assistance preparing credit applications and managing credit inflows.
- New Product Development: Creation, potentially through new technology, of a product that diversifies MSE product portfolio.
- Quality Improvement: Action that increases the quality of the goods. For non-producers, this may be a value-added change in packaging, design, layout, etc.

Delivery Preference:

Two potential methods of delivery identified in the survey include trainings and technical assistance or membership-driven business associations. Nearly 65 percent of MSEs were willing to pay for a technical assistance or training or were willing to pay a monthly fee to participate in a business association. On average, MSEs in the target area were willing to pay 10,000 manats (US$2) monthly for membership in a business association. This willingness to pay for membership in groups to access services is noteworthy, given the relative lack of exposure to business trainings and assistance.

BDS Profile:

BDS providers interviewed in the target area are also older and had been running their businesses for longer than five years. In addition, BDS providers were better educated than MSE owners with 70 percent completing higher education. Many of these BDS providers operate on an informal level and nearly 40 percent of BDS providers augment their income with a second job. This indicates that BDS is often a sideline business. The majority of BDS providers in these two regions have fewer than 10 clients, most of whom are repeat clients.

BDS Services Provided:
Of the BDS service providers identified and interviewed in the target area, the most commonly identified services offered included bookkeeping and accounting, production technology (primarily agronomists and factory technologists), quality improvement, packaging, legal and tax services and financial analysis.

III. Key Conclusions

The key conclusion is that the market failure potentially lies in the supply side. The survey revealed that there is demand for services by MSEs and identified what services were in highest demand. It appears that BDS providers are underperforming, an outcome of failure to market themselves as nearly all BDS providers relied solely on word of mouth to advertise their businesses. This conclusion is reinforced by the fact that BDS providers, who given the regional demand ought to be sustainable, are forced to augment their income with outside employment. BDS providers, therefore, appear to be unaware of the product and solution they have to offer MSEs. Although MSE have identified under performance of their businesses and, in most cases, the problems and constraints, they are unaware that solutions exist and can be accessed via BDS providers. This again reflects a market failure to connect BDS providers with MSEs that demand their services.

III. Survey Impact

These results were used to guide the design of three MC funded BDS programs which included utilizing market research to identify demand, to implement the program in a business-like manner, and to incorporate profitability goals and performance measurements for market sustainability. The survey revealed that contrary to what was assumed, micro-entrepreneurs are willing to pay for financial and business development services that deliver quality results and strengthen the business financial viability.

The second step was to organize a seminar to share the results of the survey and "best practices" experiences for developing transactional and business-like approaches in providing services. Participants came to the conclusion that changes were needed, as many of the projects were closer to the old supplier-led model. The participants decided to rethink their approach to BDS. One month after the workshop several programs began to transition into the BDS market approach and sold their first services in December 2000. Due to these successes there is now a growing cadre of "believers" who pay, value and actively recommend BDS services to others throughout rural Azerbaijan. MC is now using the survey results as a tool to encourage other donor in the country to implement BDS "good practices".

SURVEY METHODOLOGY

I. PRELIMINARY RESEARCH, BAKU, AUGUST 22 – SEPTEMBER 15, 2000

1. Identifying and Interviewing BDS Providers

The initial investigative scheme consisted of identifying and interviewing BDS providers in Baku. This search revealed several public sector BDS providers (e.g. UNDP Business Center), most of which provide a variety of business consulting services on either a reduced fee scale or without fee. Due to the reliance of these firms on donor funds and the fact that they do not adhere to the concepts identified as best practices (i.e. profitability, a structure similar to the SMEs, etc.) additional interviews were not pursued with these groups. Instead, actions were taken to identify private and profitable BDS providers. Clients for the majority of the BDS providers (consultancies) in Baku (e.g. VineshPro) were international businesses or large businesses, rather than the target small and medium enterprises (SMEs). Appendix A contains a grid of public sector BDS providers identified in Baku and the four non-urban regions in which the survey ultimately was conducted.

2. Identifying and Interviewing BDS Utilizers

A second interview process was conducted simultaneously with SMEs in the Baku area. This was intended to gather anecdotal information from SMEs regarding their use of BDS, as well as what services they would like to access so that future programs may be designed to meet the self-articulated needs of SMEs rather than donor hypotheses about needs of SMEs. A variety of types of businesses were approached for interviews, including service providers, retailers and wholesalers. From discussions with business owners, we discovered that very few used outside BDS providers for either concrete services (e.g. translation, photocopying, computer services) or consultancies. There was, however, broad interest in a variety of services that could be accessed either directly from BDS providers or through leveraged business associations.

Corruption

Worth noting is the pervasive belief that corruption is one of the greatest, if not the primary, barriers to successful business. When discussing the use of advertising, several business owners explained the perceived adverse effect of advertising. Rather than attracting clients, advertisements tend to attract the attention of officials demanding graft. Similarly, businesses that would like to expand fear that the outward signs of expansion will signal to officials that the business is economically healthy and, therefore, the bribes demanded from that business ought to be larger. Several SMEs expressed a desire to join an association or membership-based group that would work together to fight corruption, or to purchase on retainer legal services that would protect them against bribery and corruption.

Business Networks

Business owners often expressed their desire to be members of networks that would connect them with fellow businessmen and women in the same sector. As envisioned by the selected SMEs, this network would operate as a club, providing informal contact as well as occasional business trainings. Another function of a business network would be to provide vertical linkages to producers, retailers, etc., through trade fairs. By facilitating, for example, retailers' connection

with producers, the business associations would reduce the time spent by retailers in seeking out producers and vice versa, as well as raise the quality of goods available to retailers.
Although few businesses we spoke with maintained informal business networks, those that did clearly valued the information gathered through these networks. There were two different structures evident: networks of dissimilar businesses located in the same geographic area and networks of similar businesses from disparate regions of Azerbaijan.

II. Pre-Survey Site Visits, September 17 – 28, 2000

To gather background information on the business economy in the two identified areas for survey execution (Masalli and Lenkeran; Central area : Mingechevir and Genje), weeklong assessment trips were made to each area. Public sector BDS providers were identified and interviewed in Lenkeran, Mingechevir and Genje (Appendix A).

Lenkeran
The majority of concrete BDS service providers were clustered around the ExCom and other government buildings in Lenkeran, as the government is unable to purchase in-house photocopiers, fax machines, computers, etc., but are the primary users of these services. (One firm has put a battery-powered photocopier on a cart that was pushed through the central square and government buildings.) Discussions with owners of the competing service shops revealed a desire expressed to them by producers in the Lenkeran area for Internet access (currently unavailable in Lenkeran) to gain information regarding input prices, market opportunities, new product development, etc.

Masalli
In Masalli there is one computer center that has equipped a limited number of local businesses with computers for inventory tracking, but as yet there is no Internet access available in Masalli. The other BDS provider located on this initial trip was a photocopy/fax center.

Genje
As a large trading crossroads, the business sector in Genje was significantly more expansive than in other regions. The initial trip to Genje identified several computer service and use centers, as well as an Internet club run by a private Internet provider (GanjaNet). Advertising groups were also identified and interviewed during the pre-survey visit.

Mingechevir
Despite Mingechevir's status as a market hub for the central region, in comparison to Genje, there was little market development. The two bazaars (food and clothing) were busy with trading, but outside of the bazaars there was limited business presence. The only BDS providers identified in this initial trip were a couple of photocopy/fax centers and one computer service center.

The difficulty in identifying BDS providers in these regions on the initial investigative trips is not testimony to the absence of BDS providers. Rather this is evidence of the relatively hidden and informal nature of this sector. Photocopy, fax and phone centers were easily located because they had physical storefronts. As BDS consultants are often individuals operating on an unofficial level and are in engaged in BDS as a secondary or tertiary pursuit, to reach them required local knowledge and contacts.

III. Writing and Piloting the Survey, October 2 – 13, 2000

During a two-week period, two surveys were written and tested in Baku. The first survey, a SME needs assessment, was designed to determine use and awareness of, as well as interest in and willingness to pay for, BDS services. According to the survey proposal, 300 SME surveys would be conducted, 100 in each area (Urban; Central; Lenkeran and Masalli).

The second survey was to be conducted with BDS providers themselves. Several different types of BDS – including both the concrete (secretarial services, photocopying, transportation) and consultancies (production technology, quality improvement) – were identified as target BDS providers. As BDS providers are harder to locate in the regions, the total target number for BDS surveys in the three areas was 100.

Both surveys, in English and Azeri, are in Appendix B. Appendix C consists of support documentation, including letters of introduction left with each interviewee and the script for surveyors to use when introducing themselves and their work. Appendix D is the survey coding form, which explains the individual numbers assigned each surveyor. Appendix E is a list of surveyors (with contact information) and their assigned individual code numbers.

IV. Training and Surveying, October 16 – November 14, 2000

Survey teams in each of the three areas were identified through local business leaders, local and international NGOs and other contacts. Each team consisted of four members (two men, two women), one established as team leader. A two-day training module was presented to each of the teams. This training covered: information on Mercy Corps and the ethics of professionalism; basic tactics of surveying; orientation to economic terminology and concepts covered in the survey; planning for survey execution; practice interviews with each other and in the bazaar. In addition, surveyors were given a manual that addressed how to respond to various questions, problems or awkward situations they may arise during the interview process. Included in the manual were specific instructions regarding number of surveys to be gathered in markets, business centers, suburbs and villages for each region. As a means to safeguard against any problems and lend an air of formality to the process, each surveyor was issued a Mercy Corps identity card to wear. The program for the two-day training is Appendix F (overheads in Azeri, matching handout in English), and the survey manual is Appendix G.

During the survey process, each team had 10 days to collect the required SME and BDS surveys. The first two days were spent practicing how to use alternate resources to locate BDS providers. During the first few days the team leader was also trained on how to monitor and check surveys, make daily plans and run evening debriefing sessions. Throughout the survey execution process, each team leader was in daily contact with Mercy Corps staff.

V. Data Analysis and Reporting, November 13 – 28, 2000

Once completed, the 400+ surveys were compiled in a database designed for each of the surveys. From each of these databases, reports were generated presenting numerical results and percentages for the whole survey and for each geographic area. Listed below is a list of the reports generated from Excel for each of the surveys. Note that each report was generated for all survey results; the Urban areas; the Central areas; Lenkeran; and Masalli.

1. SME survey
   - Questions

- BDS Utilization grid
- Profiles for each of the eight identified sectors

2. BDS Survey
   - Questions
   - Profiles for each of the 27 BDS providers

Appendix H contains hard copies of the general reports (SME responses and utilization grid; BDS responses) for the survey total and each region. Profiles are contained on the included disc, and on the E drive at Mercy Corps (EO: BDS Survey: Data Results: SME & BDS).

SME SURVEY REPORT

SURVEY PROFILE	
Urban Area (Baku & Sumgayit)	110
Central Area (Genje & Mingechevir)	105
Lenkeran	66
Masalli	54
Total	335

SME Information

More than 97 percent of the 335 SMEs surveyed are full-time business owners. When asked their current occupation, respondents were given the option of either full-time business owner, or business owner and employed elsewhere. That such a high number of the respondents (327) derive their sole income from their business may indicate one of two things: these SMEs are profitable enough that their owners need not hold an external, wage-paying job, or that the economy is so depressed that there is an absence of wage-paying jobs and people are forced to open their own small businesses to find any income.

☞ DISCUSSION POINT: What is indicated about the larger economy by the fact that 97 percent of SMEs derive all their income from their business?

When asked how the businesses had been started, 80 percent nationwide had started their own businesses. This figure was significantly higher (87 percent) in the Urban areas than in the regions (averaging around 76 percent). The second most prevalent type of business surveyed was privatized businesses (slightly over eight percent of all surveys, ranging from 16 percent in the Central area to less than two percent of businesses in Masalli). This dominance of businesses that were started by their current owners indicates a large culture of entrepreneurs, particularly among the more mobile urban population. The age of businesses revealed a greater regional split. Table I, below, details the age of businesses surveyed.

TABLE I: SME AGE OF BUSINESS, ALL REGIONS

	All Surveys	Baku & Sumgayit	Genje & Mingechevir	Lenkeran	Masalli
Less than 1 year	4 %	7 %	4 %	0 %	0 %
1 – 3 years	30 %	35 %	38 %	18 %	20 %
3 – 5 years	25 %	22 %	28 %	27 %	24 %
5 – 10 years	26 %	23 %	22 %	35 %	31 %

More than 10 years	15 %	13 %	9 %	20 %	24 %

Whereas the Urban and Central areas have a fair number of new business (less than three years), there were no less than one year businesses surveyed in the Lenkeran and Masalli areas, and the between one and three year old businesses represented the smallest segment.

The reason for the more established nature of the businesses in the Lenkeran and Masalli area may be linked to the population. Nearly 21 percent of the surveyed population in the Urban areas is IDPs and more than 12 percent in Central areas is IDPs, yet there were no IDPs surveyed in the Lenkeran and Masalli regions. Therefore the more permanent and settled nature of the population in the Lenkeran and Masalli regions may result in fewer new businesses as there is not such an influx of new inhabitants to those regions opening businesses. Note that surveyors were instructed neither to seek out nor to omit surveys with IDPs.

☞ DISCUSSION POINT: Is the comparatively older business age in the Lenkeran and Masalli regions an indication of greater economic and business stability? If so, does this business segment then qualify for poverty alleviation? Or is the economy so depressed that the younger generation of potential entrepreneurs sees no incentive to open a business?

Along with older businesses, business owners in the Lenkeran and Masalli regions are were on average older than their counterparts in the Urban and Central areas. In the Urban areas, 16 percent of business owners were between 21 and 30 years and 24 percent in the Central areas; in Lenkeran, however, only three percent were in that age bracket and just four percent in Masalli. More than half of the business owners surveyed in Lenkeran and Masalli were between 41 and 50 years (versus 36 percent in Urban areas and 30 percent in Central areas for the same age bracket).

In the education statistics there is evidence of an Urban – Regional split. The largest segment of respondents (nearly 42 percent) in the Urban area is those who have completed university. In the Central and Lenkeran and Masalli areas, the largest segment is those who have completed secondary schools (41 percent in the Central area; 47 percent in Lenkeran and 52 percent in Masalli). Within the Lenkeran and Masalli area, however, there is an interesting split the next several levels of education, culminating in 30 percent of Lenkeran SMEs having completed university and only 9 percent of Masalli SMEs having achieved that level of education.

Before the survey was initiated target figures were set for distribution of surveys in bazaars, suburbs, villages (in applicable regions) and certain areas of the city. As a result, 23 percent of surveys were executed in bazaars; nearly 12 percent in villages (all in the Lenkeran and Masalli areas); 13 percent in suburbs of regional cities; 22 percent in regional cities, and 24 percent in urban areas (only Baku and Sumgayit).

No targets for gender representation were set before survey execution. Overall, women were owners of 17 percent of all SMEs interviewed. Female representation was lowest in the Urban areas (10 percent) and highest in Masalli (over 33 percent). Forty seven percent of women were engaged in the agriculture/food/livestock production and retail sectors; the remaining women were split evenly between the goods production and retail sectors and the service sector.

☞ DISCUSSION/INVESTIGATION POINT: The statistics on Masalli are evidence that there are women SMEs that programs can reach in Masalli, but what about Lenkeran? What percent of female participation can an MC intervention reasonably expect to achieve in the Lenkeran and Masalli areas?

In response to the number of dependents each SME owner has, numbers were fairly similar throughout the surveyed areas. The largest section of respondents had between three and four dependents (nationally, nearly 40 percent). The smallest section of respondents had no dependents (nationally, 11 percent). SMEs were not asked the relationship with dependents (i.e. family versus IDPs living with them).

SMEs were classified by nine different sectors. Chart 1 illustrates the overall distribution of SMEs within these categories. Please note that 'Other', a category not selected by any of the surveyed SMEs, is not included in the legend. When examined on a regional level, there are the anticipated variances, including the relative lack of an agriculture/food/livestock sector in the Urban and Central areas, and the relative dominance of goods retail and service provision in both the Urban and Central areas. The regional breakdown for sectors of economic activity is detailed in Charts 2 – 5 (attached page).

Employee Information

SMEs were asked several questions regarding their number of employees as a means of gauging size of business and the SMEs' own estimates of future growth. To avoid confusion regarding definition of employee, SMEs first enumerated how many family members were engaged in the business. Slightly more than 42 percent of the SMEs relied on the labor of one or more family members. This number was highest in Lenkeran, 71 percent, and lowest in the Central area, 31 percent. Of those SMEs that relied on the labor of a family member, the largest group (32 percent of total) had one or two family members working for them. In Lenkeran this skewed to 52 percent of SMEs employing one or two family members.

Employees were defined as non-relatives who worked for the SME on a full or part-time basis (i.e. more than a casual day laborer) who, in exchange for labor, received wages, food, clothing or another form of payment. Nearly 52 percent of the SMEs had no employees. This rate was significantly lower in Lenkeran (35 percent without employees) and, to a lesser degree, Masalli (45 percent without employees). Of those SMEs with employees, more than half (or 28 percent of total SMEs) had one or two employees. In Lenkeran 33 percent and in Masalli 30 percent of total SMES had one or two employees. Five percent of total SMES had more than 10 employees; in Lenkeran, this was eight percent, and in Masalli, four percent.

Less than 35 percent of SMEs plan to hire new employees within the next 24 to 36 months, indicating that less than half of SMEs anticipate growth in the next two years. In the Central areas only 14 percent of SMEs anticipated expanding number of employees; in Lenkeran nearly 60 percent of SMEs anticipated hiring new employees. Those SMEs that anticipate hiring employees were asked to identify what skills would be required of these employees. Technical skills for product creation were most in demand (46 percent), followed by customer service (24 percent) and no special skills (18 percent). In Lenkeran and Masalli technical skills were particularly prized (52 and 53 percent respectively), whereas customer service was not terribly valued (13 and 11 percent respectively).

☞ DISCUSSION POINT: Does the anticipated demand for technical skills create space/demand for intervention in the pre-employment training market?

BDS Utilization

Each SME interviewed was asked to complete, with the assistance of the surveyor, a chart intended to gauge utilization of and interest in 17 different types of BDS. SMEs were also asked to note whether they would be willing to pay for information, technical assistance or training for each of the BDS types, using willingness to pay as proxy for demand. Listed below are the utilization columns included in the assessment chart, as well as a brief description if necessitated.

- *Provided In-house*: BDS provided by a full-time employee of the SME
- *Obtained Outside*
    - *Informal*: Obtained on a non-fee basis, either through informal networks of friends, colleagues, family members, etc.; obtained through resources such as trade journals; obtained through casual (potentially for fee, in-kind donation, etc.) relationship with providers.
    - *Private*: Services purchased from an outside source (regardless of legality of provider entity).
    - *Public*: Services purchased or provided, legally or illegally, from a public source or official.
- *Repeated Use*: Were services accessed outside purchased/used more than once (satisfaction measure).
- *Aware of in Community*: Does the SME know where, if so desired, they could access this service (penetration measure).
- *Like More Information*: Would the SME be interested in learning more, attending a training or receiving a technical assistance in this BDS area.
- *Willingness to Pay*: Is the SME willing to pay for information, training or technical assistance in this BDS area (demand measure).
- *Not Used, Not Interested*

SMEs were permitted to select more than one means of BDS delivery (e.g. provided in-house and obtained outside from a private provider). For each type of service, SMEs were required to select at least one column, hence the inclusion of 'Not Used, Not Interested', which was either the sole answer or could be selected with 'Aware of in Community'. Note that data from the 'Aware of in Community' column is not included in this report, as the data results are highly irregular due to the variance among surveyors in recording this column.

As mentioned above, 17 different types of BDS were included in the SME survey. These are detailed below, with the standard definition provided to survey staff in training where necessitated.

- *Production Technology*: Any technology, tangible or intangible, that improves the technology of the SME by either reducing production costs and/or increasing quality of goods.
- *Quality Improvement*: Often in tandem with production technology, an action that increases the quality of the goods. For non-producers, this may be a value-added change in packaging, design, layout, etc.
- *Transportation & Distribution*: The transport either of inputs to the manufacturer or of finished goods to market. Distribution of finished goods from producer to retail points.
- *Business Planning*: Detailed plan/roadmap for the finite future, approximately between three and five years, including a step-by-step guide to goal achievement (e.g. marketing, staff requirements, competitor assessment).[1]

[1] Despite efforts made in training to distinguish between business plans and daily work plans or vague notions of the business' future (often SMEs defined their business plan as to make money, without definite

- *New Product Development*: Creation, potentially through new technology, of a product that diversifies SME product portfolio.
- *Marketing Strategy, Information & New Opportunities*: Inputs that may lead to market expansion (increased number of clients, increased number of sales), for example through creation of strategy to position business, innovations or substitutes to propel business or assessment of competitors.
- *Advertising*
- *Bookkeeping & Accounting*
- *Financial Analysis*: In-depth analysis to determine economic return of future investments or to understand unforeseen changes in business (increasing or decreasing profits, etc.).
- *Legal/Tax Services*: Assistance with formal legal and tax issues, such as business registration.
- *Credit Sources & Management*: Information regarding sources of credit, assessment as to SME need for credit, assistance preparing credit applications and managing credit inflows.
- *Employee Recruiting & Training*
- *Secretarial & Translation Services*
- *Language Training*
- *Telephone & Fax*: Provision of telephone and fax services for those without in-house access to telephone and fax, rather than sale of telephones and fax machines.
- *Computer*: Either computer training or service to businesses (e.g. troubleshooting and private assistance, rather than repair of physically broken machines).
- *Internet*: Internet providers, training or proxy services for those without access.

Data indicates that the 335 SMEs interviewed provided 2,789 units of BDS in-house (approximately eight units per SME) and accessed 502 units of BDS from outside (approximately two units per SME). Average met demand, therefore, is for ten units of BDS per business. Further examination of the results from the BDS utilization grid is presented in Charts 6 – 15e in the following pages. As noted in the Survey Methodology section, full details of each survey and its results are available in Appendix G.

Surveyors in Lenkeran and Masalli noted that a large number of interviews with SMEs were aborted during the BDS utilization section. According to surveyors, several SMEs in that area did not understand the terminology, and, even once explained, were unable to conceptualize of the services and what, if any, needs their businesses had. This high level of SMEs not understanding their own businesses was not discovered in other regions.

☞ DISCUSSION POINT: In light of evidence that SMEs in the Lenkeran and Masalli area are unfamiliar with their own businesses, how does this lack of understanding impact their potential to utilize BDS, if they cannot even articulate their own failures and needs?

Business Associations & Marketing or Production Groups

The survey ascertained SMEs previous participation in and openness toward business associations and production or marketing cooperatives. Of all SMEs interviewed, 93 percent had never been a member of a group designed to expand marketing or production capabilities. This

actions on how to achieve that goal), I believe that the surveyors may not have sufficiently distinguished between these two notions. The only exception to this is the Genje & Mingechevir team, which, due to the previous work of one team member with a business plan group, was more cognizant of the difference and vigilant in their interviews regarding this issue.

number was relatively similar in all geographic areas of the survey; the Central area had the greatest rate of penetration, with five percent of SMEs currently members of such groups and eight percent previously participating in cooperatives. In Lenkeran and Masalli there were no current members of such groups identified in the survey, although there were past members among the survey group.

The rate of interest in joining a membership-based marketing or production group nationwide was 37 percent. Lenkeran and Masalli, however, displayed the highest rates of interest, 55 percent and 50 percent respectively, while the Central area had the lowest rate of interest, at 28 percent.

☞ DISCUSSION POINT: If interest is so high in the Lenkeran and Masalli region, why is membership penetration so low? Is there an absence of associations to join? Is this perhaps a terminology issue – when asked from where they gathered information regarding their business sector, 12 SMEs in Lenkeran and two in Masalli marked "professional associations", despite the fact that in the two regions combined only six SMEs claimed to have belonged to a such a group.

SMEs were also asked about their interest in joining business associations, through which they could access BDS services on a cost-sharing bases. Nationwide the interest level was 31 percent. Again, Lenkeran and Masalli had the highest levels of interest, at 50 and 33 percent, while the Central area had the lowest level of interest, at 14 percent.

☞ DISCUSSION POINT: Might the indicators, discussed in previous sections, regarding comparatively high business stability, impact the interest in business associations? If a community is stable and tight-knit, with presumed relationships and trust already built between members, is there potential for interventions that rely on group cooperation, associations, etc., to be more successful in the Lenkeran and Masalli communities than in other areas? If this is the case, what size groups would be appropriate in such a community, presuming that the small size of many micro-credit borrowing groups (necessitated by suspicion, lack of community trust) would not be required in Lenkeran and Masalli?

Following the question on business associations, SMEs were asked to quantify how much they would be willing to pay, per month, to be a member of such a group.[2] Table II details the monthly sum SMEs were willing to pay, by region.

TABLE II: AMOUNT SMES WOULD PAY FOR BUSINESS ASSOCIATION PER MONTH, BY PERCENT

	All Surveys	Baku & Sumgayit	Genje & Mingechevir	Lenkeran	Masalli
Not Willing to Pay	60 %	67 %	76 %	32 %	46 %
Willing to Pay	40 %	33 %	24 %	68 %	54 %
1 – 10,000 manats ($2)	24 %	16 %	11 %	52 %	35 %
10,001 – 30,000 manats ($2 - $6.50)	10 %	11 %	8 %	12 %	7 %
30,001 – 50,000 manats ($6 -	3 %	3 %	3 %	2 %	7 %

[2] Note that all respondents, even those who did not indicate interest in joining a business association in the previous question, are included in the data for this answer. This is due to the fact that numerous businesses that denied interest in joining a business association identified an amount they would be willing to pay per month to be a member of such a group.

$11)					
More than 50,000 manats ($11)	3 %	4 %	2 %	3 %	4 %

☞ DISCUSSION POINT: Although Lenkeran and Masalli are more willing to pay for participation in business associations than other regions, is the likely sum to be collected (less than 10,000 manats per person) sufficient enough to be categorized as more than a token or symbolic fee? If group size is 10, the monthly income would be, at most, 100,000 manats (US$110) per business association – is there chance of cost-recovery with this fee rate?

Trainings & Technical Assistance

Within the past two years, less than five percent of all SMEs participated in a business training or technical assistance. 15 business trainings or technical assistances were reported by ten different SMEs, including six trainings on business planning. The greatest rate of participation in such trainings and technical assistances was in Lenkeran, where seven of the trainings and technical assistances were reported by five SMEs.[3]

Businesses were asked to quantify the amount they would be willing to pay to participate in a training or technical assistance tailored to their business needs. The percent of SMEs in each region that selected the price quantities is delineated in Table III.

TABLE III: AMOUNT SMES WOULD PAY FOR BUSINESS TRAINING OR TECHNICAL ASSISTANCE, BY PERCENT

	All Surveys	Baku & Sumgayit	Genje & Mingechevir	Lenkeran	Masalli
Not Willing to Pay	38 %	39 %	44 %	26 %	41 %
Willing to Pay	62 %	61 %	56 %	74 %	59 %
1 – 10,000 manats ($2)	27 %	25 %	34 %	27 %	20 %
10,001 – 30,000 manats ($2 - $6.50)	20 %	18 %	14 %	28 %	22 %
30,001 – 50,000 manats ($6.50 - $11)	8 %	8 %	4 %	14 %	11 %
50,001 – 100,000 manats ($11 - $22)	3 %	5 %	3 %	0 %	4 %
More than 100,000 manats ($22)	3 %	5 %	1 %	5 %	2 %

☞ DISCUSSION POINT: Again same issues as above – although SMEs in Lenkeran, and to a lesser extent Masalli, have higher willingness to pay and higher thresholds of what they will pay, is one shirvan adequate for a technical assistance or training?

[3] SMEs were not asked to identify the source of their technical training or assistance. In another question segment, however, SMEs were asked if they were a branch office, distributor or affiliate of a larger office and, if so, whether they had ever received technical assistance or provision of services from that relationship. Of the 11 SMEs engaged in such a relationship with a larger firm, five SMEs had received technical assistance of provision of services. None of these five were part of the ten SMEs that indicated they had received training or technical assistance within the past two years, implying that those SMEs that have received recent trainings or technical assistance accessed them from outside, rather than within their larger businesses.

Technical assistance and business trainings, therefore, are the preferable mode of accessing many forms of BDS according to the SMEs, particularly those in the Urban and Central areas, where less than one-third of SMEs expressed interest in the business associations. This may be due, in part, to the perception that a technical assistance is tailored to meet a specific business' needs, rather than a business association where members would leverage their combined resources to jointly access BDS.

As SMEs that are branch offices, distributors or affiliated with larger businesses may receive additional technical support or trainings through this relationship, SMEs were asked to clarify whether they were associated with a larger firm. Only three percent nationwide were involved in such a relationship, and less than half of them had received any technical assistance or provision of services from their main office.

☞ DISCUSSION POINT: Is there potential to exploit the affiliations of businesses in these relationships for BDS provision (e.g. facilitate local BDS providers contact with main offices and position them as local technical advisors for the branch offices)?

Current Sources of Information

All SMEs identified their current sources of information regarding their business sector. Nine options were listed, and SMEs were permitted to select as many as applicable. The 335 SMEs selected a combined total of 772 sources of information, or approximately 2.3 sources per SME. The results indicate that many SMEs rely heavily on their customers for feedback (30 percent). The second most common source of information (24 percent) was businessmen and women in the same economic sector, indicating that many SMES have created de facto business information networks. SMEs were also offered 'business men and women in the same town' as an option, but less than three percent nationwide selected this as an answer, indicating that geographic proximity is not a primary concern for SMEs in establishing links with one another; rather economic sectoral similarity drives the relationships. The third most used source of information was friends and relatives, on whom 22 percent of SMEs relied for information.

These figures were fairly standard across the surveyed regions. In both Lenkeran and Masalli there was greater reliance on similar businesses for information (27 and 31 percent respectively), while in Genje and Mingechevir only 18 percent of SMEs had created such informal networks. This evidence may further support the hypothesis that communities, due to stability, are closer-knit in the Lenkeran and Masalli areas than in the IDP-heavy Central regions and may be more receptive to group-oriented interventions and already have a base level of cooperation.

Agriculture Retail & Production Sector

The agriculture retail and production sector, as the largest single sector in both Lenkeran (53 percent) and Masalli (35 percent), is a likely targets for interventions. Therefore the BDS utilization and demand among this sector must be examined more closely for clues regarding current use and demand for BDS products. Charts 16a – 23b illustrate the specific needs and agriculture producers and retailers in the Lenkeran and Masalli area.

BDS SURVEY REPORT

SURVEY PROFILE	
Urban Area (Baku & Sumgayit)	39
Central Area (Genje & Mingechevir)	39
Lenkeran	23
Masalli	20
Total	121

BDS Business Information

Whereas only three percent of SME owners held outside employment, more than 37 percent of BDS providers augmented their profits from their BDS business with a second source of income. This figure was lowest in the Urban area, with only 15 percent of BDS owners employed outside of their own business, and highest in the Central area, with 59 percent of BDS owners working outside of their business. In Lenkeran the figure was 22 percent with outside employment, and in Masalli 55 percent. The large percent of BDS owners who are engaged in external employment indicates that BDS, by itself, is not sufficiently profitable to support the owners.

☞ DISCUSSION POINT: Is the high rate of outside employment a result of:

- BDS providers not identifying or reaching a sufficient number of clients to support their businesses,
- fees charged by BDS providers not large enough to support them,
- many of those supplying core BDS products – production technology, quality improvement, etc. – are engaged in the very business about which they give advice? (For example, factory owners hiring themselves out as production technology consultants to other factory owners.)

The entrepreneurial trend is evident in the BDS sector, with 89 percent of current owners starting their own businesses. All regions reported fairly similar results. Privatization was the second most common, with five percent of BDS businesses, a lower figure than the SMEs. Tying with privatization was purchasing of the business. Indeed in Lenkeran nearly nine percent of businesses were purchased by their current owners.

Again the age of business varied between regions. In all areas the largest segment of businesses had been open between five and ten years or more than ten years, implying that current players in the BDS sector are fairly established. Table IV delineates the age of businesses by region.

TABLE IV: BDS AGE OF BUSINESS, ALL REGIONS					
	All Surveys	Baku & Sumgayit	Genje & Mingechevir	Lenkeran	Masalli
Less than 1 year	6 %	0 %	15 %	9 %	0 %
1 – 3 years	25 %	33 %	23 %	17 %	20 %
3 – 5 years	19 %	28 %	18 %	13 %	10 %
5 – 10 years	37 %	33 %	41 %	48 %	25 %
More than 10	12 %	5 %	3 %	13 %	45 %

years					

Whereas the Urban and Central areas have a fair number of new businesses (under five years), the Lenkeran and Masalli area definitely tends toward the more established businesses. This again may be due to the relative stability of the population. That said, although no IDPs were interviewed in the Lenkeran and Masalli area, the rate of IDP representation in the BDS sector is dramatically deflated from overall SME rates, to less than three percent IDP in Urban area, and five percent in Central area.

BDS Providers: Education, Gender & Location

The largest block of BDS owners are aged between 41 and 50 years – 41 percent nationwide, and higher than that in the Lenkeran and Masalli areas. It is worth noting that only one BDS owner in the Lenkeran and Masalli area is less than 30 years old (a computer service and course provider in Lenkeran who is under 20 years old). Similarly, only one BDS provider older than 60 was identified.

BDS owners are, by and large, a more educated population than found in the general SME survey. Nearly 70 percent of BDS owners completed university (as opposed to 28 percent of SME owners). Another 15 percent finished college. The nationwide statistics are skewed somewhat by the highly educated BDS providers of Baku (95 percent completed university), but the trend – of higher education than the SME survey – holds true in all regions. In Lenkeran, 74 percent of BDS providers finished university or college (v. 42 percent of SMEs) and in Masalli, 85 percent of BDS providers finished university or college (v. 30 percent of SMEs).

No gender targets were set for the BDS survey. Just under 12 percent of BDS providers interviewed were women, the majority in the Central region. (The SME survey had a 17 percent female participate rate.) Only two women BDS providers from the Lenkeran and Masalli region participated in the survey, both engaged in bookkeeping and accounting.

☞ DISCUSSION POINT: Is there a way to foster the BDS sector through work with existing private sector providers and still meet the strategic objective to target women?

Unlike the SME survey, there were no geographic targets (e.g. bazaar, city center, etc.) for surveys. The survey results indicate that the majority of BDS providers are located in more urban settings – 32 percent in Baku and Sumgayit, 37 percent in regional cities and 18 percent in suburbs. Less than 10 percent were located in villages and only one in a bazaar. These statistics, however, represent the survey bias towards urban areas, as both the Urban and Central regions only have large and regional cities and suburb. In the Lenkeran and Masalli area there was a significant portion (25 percent in Masalli and 30 percent in Lenkeran) of BDS providers located in rural areas. Those BDS providers in rural areas were typically engaged in production technology (agronomists) or packaging.

The largest segment of BDS providers surveyed, like the SMEs, had three or four dependents (51 percent). This was the same in all the regions except Masalli, where only 30 percent of BDS providers have between three and four dependents but 35 percent of BDS providers have between five and six dependents.

Employee Information

BDS providers were asked several questions regarding their number of employees as a means of gauging business size and their own estimates of future growth. To avoid confusion regarding definition of employee, BDS providers, like SMEs, first were asked to enumerate the number of family members working for them. Nationwide, 73 percent of BDS providers had no family members engaged in the business, a higher percent than for the SME population. In Lenkeran, this figure was 61 percent, and in Masalli, 70 percent. Twenty four percent of BDS providers had one or two family members, and three percent had between three and five family members, involved in the business. No BDS providers had more than five family members participating in the business.

The number of employees (non-relatives working on a full or part-time basis in exchange for wages or another form of payment) varied by region. For that reason further information regarding number of employees is presented in Table V.

TABLE V: NUMBER OF EMPLOYEES AT BDS PROVIDERS, BY PERCENT

	All Surveys	Baku & Sumgayit	Genje & Mingechevir	Lenkeran	Masalli
No employees	58 %	8 %	77 %	48 %	70 %
1 – 2 employees	17 %	13 %	13 %	13 %	20 %
3 – 5 employees	21 %	31 %	8 %	22 %	5 %
6 – 10 employees	14 %	28 %	0 %	13 %	0 %
More than ten employees	11 %	21 %	3 %	4 %	5 %

From this it is clear that the majority of BDS providers in the Lenkeran and Masalli region clearly fit the standard definition of less than 10 employees, and furthermore are structurally similar to the SMEs that they serve.

BDS providers were also asked, as an indicator of anticipated growth, how many employees they planned to hire during the next 24 to 36 months. Slightly more than 55 percent of BDS providers did not intend to hire any new employees during that timeframe. This number was highest in Masalli (75 percent expected no growth) and lowest in Lenkeran (39 percent expected no growth). Of those BDS providers who foresaw the need to hire new employees, the clear majority anticipated hiring only one or two new employees.

Those BDS providers who anticipated expansion were asked to identify what skills would be required of new employees. Nearly 30 percent selected computer skills, and 23 percent language skills. (In the SME survey, the most demanded skills for new employees were technical skills and customer service.) This pattern held true in the Urban and Central regions. The Lenkeran and Masalli area, however, does not place a premium on language skills and, too a lesser degree, computer skills. Rather, in Lenkeran, nearly 50 percent of new hires were not expected to require any skills, and 26 percent of BDS providers anticipated hiring employees with customer service skills. In Masalli, 40 percent anticipated hiring workers with computer skills, and another 40 percent anticipated hiring based upon customer service skills.

BDS Product Provision

Interviewed BDS providers were provided with a list of 27 different forms of BDS, from which they noted which services they provide, which services they had sold, which services they had added within the past year and which services were most profitable to their companies. The 27 forms of BDS are listed below.

- *Production Technology*
- *Quality Improvement*
- *Packaging*
- *Transportation: Shipping/Distribution*
- *Business Planning*
- *Marketing Strategy*
- *Market and Price Information*
- *Advertising*
- *Bookkeeping & Accounting*
- *Financial Analysis (audit)*
- *Legal/Tax Services*
- *Cooperative/Organization Management*
- *Employee Recruiting and Training*
- *New Market Opportunities*
- *New Product Development*
- *Secretarial Support*
- *Translation Services*
- *Language Training*
- *Telephone*
- *Fax*
- *Photocopy/Xerox*
- *Computer Support Services*
- *Computer Courses*
- *Internet*
- *Other*

The 121 BDS providers interviewed provided 310 units of BDS, or approximately two and one half units per provider. In the Urban areas this was highest, at over three units of BDS per provider, while in Masalli there was lowest product-to-provider ratio, with 28 products from 20 providers. The most commonly provided services, nationally, were bookkeeping and accounting (32 providers), computer support services (24 providers), legal and tax services (21 providers) and financial analysis (20 providers). Note than none of these are the services most demanded or used by SMEs.

Results from this segment of the survey are presented in Charts 24 a – 26e.

Client Information

BDS providers were asked several questions regarding their relations with clients. As one means on determining size of the BDS providers, and extrapolate how many businesses in each region were using these BDS providers, BDS providers were ask to quantify how many clients they had each month, on a scale ranging from less than ten to more than 150. As results varied by region, a detailed break down of client size is provided in Table VI.

TABLE VI: BDS PROVIDERS' NUMBER OF CLIENTS PER MONTH, BY PERCENT

	All Surveys	Baku & Sumgayit	Genje & Mingechevir	Lenkeran	Masalli
Less than 10 clients	41 %	18 %	49 %	44 %	70 %
10 – 30 clients	32 %	36 %	28 %	39 %	25 %
31 – 60 clients	12 %	23 %	10 %	4 %	0 %
61 – 90 clients	2 %	0 %	3 %	4 %	0 %
91 – 120 clients	3 %	5 %	5 %	0 %	0 %
121 – 150 clients	2 %	5 %	0 %	0 %	0 %

More than 150 clients	7 %	13 %	3 %	4 %	5 %

The businesses in Lenkeran and Masalli that reported more than 150 clients were all transportation and distribution firms; of equitable size businesses in the Urban and Central areas, none were engaged in transportation, but rather a variety of services from computer to translation.

☞ DISCUSSION POINT: Is the small client size, particularly exaggerated in Lenkeran and Masalli, a reflection of market demand? Or, in light of professed SME demand for BDS services, are BDS providers failing to attractively package and market their products?

BDS providers were also asked how many of their clients were repeat clients, as a means of assessing both client satisfaction with services provided and breadth of clientele. Nationwide, 53 percent of BDS providers reported that less than half of their clients were repeat. In the Urban areas repeat customers make up less than half of the clientele for 64 percent of BDS providers, while in Masalli only 35 percent of providers report similar findings.

☞ DISCUSSION POINT: Is the disproportionate number of repeat clients in the Lenkeran and Masalli area indicative of a more stable, potentially more loyal population with fewer choices of BDS providers (as opposed to the larger, more transient population with a relative abundance of choices in Urban area)? Or is this a reflection of BDS providers in Lenkeran and Masalli not successfully outreaching to new clients?

Another client section of the survey asked BDS providers to break down their clients by sector to ascertain what segments of the economy are accessing existing BDS products. The first question in this series required BDS providers to select their primary client group from a list of seven alternatives (private individuals; small businesses; medium businesses; large businesses; Azerbaijan government; local NGOs; and international NGOs). This question proved problematic in each region. Part of this was due to misunderstanding the intent of the question; many BDS providers insisted that they were receptive to clients from all groups. When surveyors explained the question was not designed to assess who was permitted to purchase the service but rather who had done so in the past, BDS providers still had difficultly estimating who their primary clients were. In the end, 64 percent of BDS providers settled on small businesses, 18 percent on medium businesses and eight percent on private individuals as their primary client base. Of the remaining options, large-sized businesses and international NGOs both received three percent, the Azeri government two percent and local NGOs one percent of BDS providers.

These figures, however, are skewed by the Urban statistics. The BDS providers in Central area, Lenkeran and Masalli only identified small and medium businesses as their primary clients. In each area small businesses were the primary clients for between 87 and 90 percent of BDS providers, and medium businesses were the primary clients for the remaining BDS providers.

Although all BDS providers in the regions selected small and medium-size businesses as their primary clients, BDS providers in these regions are also selling their products to the other client groups. In Lenkeran, 48 percent of BDS providers derived at least part of their monthly sales from private individuals, and 60 percent of Masalli BDS providers did so. (Private individuals defined as those not utilizing the BDS product for a business purpose, e.g. individual students who may take computer courses.) Only one BDS provider (advertising) in Lenkeran derived any sales (between 11 and 25 percent of monthly sales) from a large business. Again, only one business in Lenkeran had sales to the Azerbaijan government (less than 10 percent of monthly sales) or to a local NGO (less than 10 percent of monthly sales); in both cases, a legal consultation service. No Lenkeran or Masalli BDS providers had any sales to international NGOs.

BDS providers were also asked whether they made a profit from their sales to local small, medium and large-sized businesses. Nationally, 90 percent reported earning a profit from their dealings with local businesses. This rate was the same in Masalli and Lenkeran, despite the relative dearth of other clients. In Lenkeran two BDS providers (a large factory owner providing consultations to other factories and a computer services center) reported not making a profit from local businesses; both made less than 10 percent of their income from a source other than local businesses. In Masalli, one BDS provider (an agronomist) reported not making a profit from local businesses; again, this BDS provider made less than 10 percent of its income from a source other than local businesses.

Advertising & Client Feedback

Another aspect addressed in the survey was how BDS providers advertised to their clients and in return what were the effective routes through which their clients found out about their services. This was designed to determine how, as many BDS providers are unofficial businesses, the community networks operate. BDS providers were permitted to select more than one method for publicizing themselves, and more than one method for how their clients find out about them. More than 62 percent of businesses rely on word of mouth to inform clients about their services, and more than 64 percent of BDS providers believe that their clients discover them due to word of mouth. The power of recommendations and word of mouth information was lowest in the Urban areas (40 percent of businesses rely on it; 43 percent believe customers use it) and highest in Masalli (100 percent, and indeed the only form used either by BDS providers). The second most common means used by BDS providers to inform potential clients of their services was through signs and banners in town (17 percent).

☞ DISCUSSION POINT: Is the size of the community a factor in the reliance on word of mouth? Is there a way to work with this existing means of business promotion to expand their current reach?

☞ DISCUSSION POINT: Potentially there is a greater need to advertise in traditional methods (banners, newspaper and television advertisements, etc.) in Urban areas, whereas in Lenkeran and Masalli the communities may be small and close enough that businesses can effectively rely only on word of mouth. Or is this further evidence of a failure of BDS providers in Lenkeran and Masalli to reach market their businesses?

BDS providers were asked to select methods they utilized to gather information regarding customer satisfaction with their products, in an attempt to assess how aware of and responsive to customer needs the BDS providers are. Although less than five percent do not gather information about client satisfaction, 76 percent of businesses relies on either word of mouth complaints or whether or not a customer returns as their means of measuring customer satisfaction. Notably Lenkeran had the highest rate of proactive information gathering; one quarter of BDs providers in the region use surveys, and more than one fifth supply customers with complaint forms. Only one Lenkeran-based BDS provider uses on word of mouth or whether a customer returns as a satisfaction measure.

☞ DISCUSSION POINT: In light of the proactive techniques to gather customer satisfaction in Lenkeran, what does this imply for early conjectures about BDS marketing failures?

Financial Information

A series of questions regarding the financial state of their business was posed to BDS providers. Surveyors were instructed that, if interviewees refused to answer some of the questions, to continue with the interview. Interviews with more than three blank answers were not included (four total surveys); there are, however, a certain number of 'no answers' for questions related directly to sales amounts, monthly in-flow, etc.

The first question asked BDS providers to estimate their average monthly sales from their BDS products. Surveyors were requested to emphasize that this question was about sales not income and, if needed, to differentiate between the two concepts for their subjects. Answer options ranged from less than 450,000 manats (US$100) to more than 4,500,000 manats (US$1,000) per month. Results from this segment of the survey are detailed in Table VII.

TABLE VII: MONTHLY SALES OF BDS PROVIDERS					
	All Regions	Baku & Sumgayit	Genje & Mingechevir	Lenkeran	Masalli
Less than 450,000 manats/month	38 %	13 %	59 %	26 %	60 %
451,000 – 1,350,000 manats/month	27 %	26 %	21 %	39 %	30 %
1,350,001 – 2,250,000 manats/month	12 %	13 %	10 %	17 %	5 %
2,250,001 – 3,150,000 manats/month	7 %	15 %	5 %	0 %	0 %
3,150,001 – 4,500,000 manats/month	7 %	13 %	0 %	9 %	5 %
More than 4,500,000 manats/month	7 %	15 %	3 %	9 %	0 %
No Answer	2 %	5 %	3 %	0 %	0 %

☞ DISCUSSION POINT: Does the relatively small amount earned by the BDS providers in the Lenkeran and Masalli region support the theory of market failure? Or is this sum adequate/average wages for the region, and to expect BDS providers to earn any more is unrealistic?

To determine to what extent these BDS providers were involved in previous interventions or credit schemes, each business was asked a series of questions regarding credit, grants, in-kind donations and non-financial support. Four businesses (three percent) previously received credit, all from private companies and all in the Urban areas. Two BDS providers, again both in the Urban areas, received grants, both from international NGOs. Only one business, in the Masalli region, received an in-kind donation from a private company. One business, in the Urban area, received technical assistance or non-financial support, from an international NGO.

BDS providers were asked to monetize the credits, grants and in-kind donations BDS providers had received and estimate what percent of monthly in-flows were covered by these sources. Two businesses, both in the Urban area, noted that part of their in-flow was covered by these sources. One business, a business planning consulting firm, received an INGO grant that covered between

11 and 25 percent of monthly inflow. The second business, a legal aid bureau with computer and translation services, received both a grant and non-financial support from an INGO covering between 76 and 90 percent of monthly inflow.

☞ DISCUSSION POINT: Given that the clear majority of BDS providers have not participated in previous NGO programs or interventions, does this make them a better target group for poverty alleviation?

To better understand the financial structure of the BDS market, BDS providers were asked whether they charged a standardized fee for their services. More than 69 percent replied that their fees varied; BDS providers in the Urban areas were least like to vary their fees (62 percent) whereas in the Lenkeran and Masalli areas fees were most flexible (78 and 80 percent respectively).

Those BDS providers that varied their fees were asked to identify the factors that influenced their fees. BDS providers were permitted to select more than one factor. Nationally the most important factors were volume of work/size of the job (36 percent) and size/wealth of the client (27 percent). In Masalli these two factors were tied in importance (44 percent each) and in Lenkeran wealth of client was more important (40 percent) than volume of work (35 percent). In both regions the third most important factor was cost of inputs (13 percent in Masalli and 25 percent in Lenkeran), and no BDS providers in those regions factored into their prices the number of hours required to complete the task or their relationship with their client.

☞ DISCUSSION POINT: Does this data that shows cost considerations when compared with the reliance of BDS providers on alternative sources of income indicate a need to work with BDS providers on costing their products?