

**Making business service
markets work for the poor in
rural areas**

DFID, London

**Making business service markets work for the poor in rural areas: a
review of experience**

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Rob Hitchins
David Elliott
Alan Gibson

Springfield Centre

*The views expressed in this report are those of the consultant alone and do not
necessarily reflect those of DFID*

The Springfield Centre for Business in
Development
Mountjoy Research Centre
Durham
DH1 3UZ UK

Tel +44 191 3831212
Fax +44 191 3831616
Email global@springfieldcentre.com
Web www.springfieldcentre.com

EXECUTIVE SUMMARY

Background

A critical dimension of poverty is income, or more specifically the lack of it. Many fields of official development assistance (ODA)—microenterprise, SME and private sector, agriculture, forestry, fisheries and other non-farm economic activities, sustainable livelihoods and urban development—are concerned with enhancing income generation and livelihood opportunities for the poor and the poor's capacity to respond to these opportunities.

One-off external assistance has rarely been sufficient to achieve this: a priority for ODA is to enhance the access of small-scale producers and small businesses to a diversity of appropriate inputs, outputs, goods and services on a sustainable basis. Ultimately this means improving the "system" around the poor; invariably this system is a mixed market economy.

This objective of "making markets work for the poor" so that they can engage in and benefit from local, national and international markets, directly or indirectly, requires a more nuanced understanding of markets than that of conventional economics, be that of neo-classical or market-sceptical persuasions. It requires interventions that go beyond enabling environment and liberalisation policies, to look at existing market structures and operation and roles of different players within the market, identifying how the existing system inadequately serves the poor and hence what ODA intervention can do to improve it.

These market development concerns have emerged independently in a number of ODA fields and—whilst conceptual models, terminology and intervention approaches employed often differ—have been grounded in similar experiences of both public and private sector service promotion. As overlapping market development objectives between fields become evident, so the gap between new market development thinking and conventional intervention practices becomes apparent. In all fields concerned with income generation there is a challenge to innovate: to rethink intervention approaches.

This document

This is the starting point for this document. It recognises important overlaps between different fields and consequently the need for better interaction between them. It is relevant to development agency policy makers, planners and practitioners seeking to promote income generation in a range of weaker economic contexts.

For a number of years the micro and SME development (SED) field has explored how small businesses' access to information, knowledge, skills, technology and markets can be improved by stimulating business service markets, yielding innovation in intervention thinking and practice. An examination of this experience is valid for two reasons:

- On the one hand, the SED field is concerned about the efficacy of "pushing out the frontier" of business service market development into weaker economic situations. This document provides some frameworks for understanding some of the issues involved in this expansion. It considers emerging opportunities and evidence, lessons and challenges, and suggests ways in which the SED field can expand knowledge and achievements in weaker areas.
- On the other hand, other ODA fields which are focused on economic development and income generation in weaker areas, are concerned about how their target groups can get access to information, knowledge, skills, technology and markets on a sustainable basis, but who are not necessarily familiar with business service market development experience. For these readers this document reviews the business service market development experience, identifies important parallels with experiences other ODA fields and seeks to demonstrate how market development approaches are relevant to these fields, with adoption of new intervention thinking and approaches.

Observations and implications

Addressing economic weakness is the basic rationale for any form of economic development intervention. In applying a market development framework to weaker economic situations the complex dimensions of economic weakness need to be recognised. Equally it is clear that there are limits to the feasibility of interventions which seek to promote income generation: evidence suggests that there are some situations where effective intervention is simply unfeasible, irrespective of the level of public subsidy involved. In these situations intensive public intervention to promote income generation are often promulgated as an alternative social safety net strategy. Whilst such strategies may be valid, their objectives must be explicitly understood as more social mitigation rather than economic development.

Business service market development interventions need to be contextualised within the wider economic system, where the presence or absence of specific services is but one of many contributing factors to economic underdevelopment. More specifically the review identifies a number of dimensions of weakness—particularly in rural areas—that are particularly pertinent to service provision in weaker areas. These include:

- Remoteness, isolation and sparse population density.
- Insecurity, weak social capital and absence of effective rule of law.
- Inadequate physical infrastructure and basic services.
- Dysfunctional land and property ownership structures.
- Dependence on a small number of economic activities.

This review sought to understand and identify business service delivery in response to some of these dimensions. Firstly, it found that services for businesses do exist in a wide variety of rural contexts. They are often surprising in their diversity and exist in a form that is unseen or unrecognised by development agencies and outsiders. Their very “invisibility” is their weakness, leaving them prone to displacement and damage by publicly-funded interventions attempting to promote more formal service solutions on the assumption that “there is nothing there”. Secondly, the review made a number of other observations:

- Blurring of the distinction between business services and other services (eg for agriculture, infrastructure, telecommunications, transport).
- The importance of quite basic – rather than sophisticated or strategic – services.
- A high degree of informal, micro-scale services and delivery mechanisms.
- Services tend to be embedded within other transactions and relationships.
- Prevalence of sub-sector-related services.
- Collective delivery and consumption.
- Importance of small urban centres as service delivery nodes to rural areas.
- Service delivery through different forms of public-private partnership.

The lessons and implications for agencies that emerge from this review are clear. Perhaps most importantly is recognition that weaker areas present a far more challenging and complex environment for interventions. It does not necessarily follow however that the solution is conventional intervention approaches with higher levels of subsidy! In addition to longer intervention timeframes, considerable innovation and flexibility is required to mirror and build upon more appropriate local initiative and solutions.

This has considerable implications for the way in which agencies intervene. Whilst for some this may seem challenging, there is encouraging evidence that some agencies—with DFID at the forefront of exploring alternative models of intervention—have been able to adopt more effective intervention practices, based upon:

- Better understanding of the wider economic context for business services.
- More practical information and analysis for interventions.
- A realistic and explicit assessment of sustainability from the outset.
- Developing appropriate and valid roles for the state.
- Developing innovative and flexible intervention structures and approaches.

Increasing levels of resources are being allocated to market development initiatives. As with all new initiatives, experience has been mixed. This review has observed promising signs of innovation and progress, which offer opportunities for improved intervention practices and better prospects for including the poor within the economic mainstream.

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1 INTRODUCTION

1.1 Objectives and commission

In December 2003, the Springfield Centre for Business in Development was commissioned by the UK Department for International Development (DFID) to conduct a review and synthesis of experience about the role of business services in weaker economic situations. It is intended that the study will make a practical contribution to DFID country offices and the wider development community by furthering understanding on: how to approach the economic development of weaker areas; the role that business services might play in those areas; and, consequently, the types of intervention approach that might most effectively stimulate the availability of appropriate business services.

The Terms of Reference for the review had numerous objectives. In conducting this work the authors have interpreted these objectives as follows:

- To understand business services within weak economic situations and establish their relevance.
- To examine different experiences of donor-supported interventions in addressing service weaknesses in weak situations, focusing particularly on business services in rural areas (in relation to this agricultural services and extension), in doing so establishing common characteristics of performance and analysis.
- To set out the key challenges and issues in promoting more appropriate and sustainable services, especially with respect to lessons on how agencies should intervene to develop markets for business services.
- Within this framework to review current evidence and experiences in business services in weak situations, particularly rural areas.
- On the basis of this evidence highlight implications for DFID and other agencies on how to approach the development of services in weak economic situations.

1.1.1 Methodology

In addition to project visits and consulting work by the authors, the review has drawn on a diversity of secondary sources. It has interacted with a group of more than thirty key informants –representing donor, government, NGO and private concerns—with technical expertise in numerous relevant fields, including micro and small enterprise, private sector, agriculture, rural non-farm economy, rural-urban development and infrastructure and utilities fields. This peer group generated much of the case material and has performed a valuable function in validating case material and the review's findings. A presentation of preliminary observations was made in February 2004. Further discussions with DFID and the peer group were conducted during the finalisation of this document.

1.2 Orientation and audience for this document

There is an unhelpful tradition in development of confining different disciplines or fields to neat, separate boxes, each with different lexicons, resources, methodologies and intervention approaches. However this document recognises an emerging overlap between different fields seeking to promote income generation and consequently the need to transfer recent lessons between them. The document should be of interest to development agency policy makers, planners and practitioners seeking to promote income generation in a range of weaker economic contexts.

The document is based on a number of assumptions and definitions:

- It focuses on contexts and development interventions where income generation is a key concern.
- It focuses on contexts and development interventions where income generation is constrained by inadequate access to information, skills, technology and markets.

- It focuses in particular on rural areas with some level of potential agricultural or non-farm production and some level of integration into commercial trading and the cash economy (ie cash-based exchange rather than subsistence).¹ However the focus is not exclusively rural: experiences with respect to rural-urban linkages, small towns and townships have been considered where relevant.
- It assumes the centrality of markets to income generation and the cash-based exchange of goods and services. In doing so it adopts a broader interpretation of markets, beyond that of the basic economic view of private transactions, to look at market “systems”.
- **Business services** (often referred to as **Business Development Services** in the development world or **BDS**) are **defined here as any non-financial service to business, offered on a formal or informal basis.**

More detailed discussions of these assumptions and definitions are contained in the relevant sections of narrative.

1.3 Structure and content of this document

This document attempts to make a contribution to the emerging market development field, making it more relevant to a variety of different ODA fields by integrating service market development thinking and experience into a wider economic development context. Given the diverse complexity of these various fields and the infancy of intervention experiences the document has not sought to be a definitive step-by-step guide to market development. It aims to provide a framework for approaching business services in weaker areas, identify practical innovations and implications for intervening agencies and present key challenges and areas for further investigation.

The document seeks to address and engage a number of audiences within and beyond DFID. However, such audience diversity does have implications for the structure, style and content of the report. Not everyone will be starting from the same point in terms of their knowledge of the subject and prevailing technical issues. In an effort to make the review accessible to a diverse audience all starting from different places, the review has been written in such a way that sections are relatively self-contained, so that readers are able to go straight to the sections that interest them most. (See Fig. 1 for a guide to reading the document.)

Annexes contain a selection of mini-cases illustrating innovative business service solutions in weaker economic situations and a list of references.

¹ Agriculture here is taken to mean the agro-food system: defined as interdependent sets of enterprises, institutions, activities, and relationships which collectively develop and deliver material inputs to the farming sector, produce primary commodities, and subsequently handle, process, transport, market and distribute food and other agro-based products to consumers. It may be further broken down into sub-sectors, generally by commodity or groups of commodities (cereals sub-sector, dairy industry, fruit and vegetables, etc.).

FIGURE 1: GUIDE TO READING THE DOCUMENT

1. Introduction	
2. Overview: BDS market development revisited	Summary of BDS market development: the experience behind its emergence, its distinctive features, key challenges faced.
3. Context: Economic weakness, services and the rationale for development interventions	Discusses dimensions of economic weakness, the feasibility for income generation and the boundaries of economic development interventions. Introduces the idea of wider economic 'systems' and business services within this system.
4. Comparative assessment: Service-related thinking and approaches in other development fields	Focuses on historical performance, driving factors and emerging issues in non-SME development fields. Identifies similarities with the BDS field and the emergence of "making markets work for the poor" objectives in different ODA fields.
5. Observations and evidence: Business services in weaker economic situations	Synthesises observations from the review, addressing the questions: (a) do business services exist in weaker areas?; (b) what do they look like?; (c) what do agencies do to promote them? Accompanying mini-cases can be found in Annex 1
6. Implications: Approaching business service market development in weaker contexts	Considers the implications for development agencies—and DFID specifically—of the evidence offered by current thinking and practice: (a) the role of business services in addressing economic weakness; (b) approaches to intervention by development agencies; (c) actions to take agencies forward.

2. OVERVIEW: BDS MARKET DEVELOPMENT REVISITED

2.1 Introduction

This document is concerned with examining the appropriateness and applicability of the BDS market development approach to weaker market situations. A necessary starting point therefore is to outline the essence of BDS market development. What is meant by it? Why has BDS market development emerged to be a significant influence on (at least some) development thinking in recent years? And what are some of the key issues that confront this still emerging trend?

This section answers these questions and, in doing so, provides a logical foundation for the remainder of the document². It reaffirms the reasons for the emergence of BDS market development (why), provides a brief outline of its distinctive features (what it is), and summarises some key challenges the field faces currently, including –importantly–the specific question of BDS market development in situations of economic weakness.

2.2 Why business services market development?

Market development thinking emerged in the SED field after a detailed process of reflection in the mid-1990s which pushed agencies into an unprecedented reassessment of their work. Spurred on by the (apparent) progress in thinking and practice in the microfinance “revolution”, this review focused on agencies’ considerable experience in supporting “non-financial” services and sought to identify key best practice lessons. Its conclusions were clear:

2.2.1 *The performance of donor-funded interventions has been weak...*³

This generally disappointing performance was manifested in:

- **Outreach:** only a small number of SMEs were being reached with “officially” supported services. The vast majority were untouched. For example, in countries such as Kenya and South Africa (and indeed the UK), despite long term public funding, the proportion of businesses who have received “official” support has been minute, typically less than 5%. The only route to increased outreach was to increase funding massively.
- **Sustainability:** public organisations supported to deliver services consumed resources but, with little or no income from their SME clients, were aid-dependent. The apparatus of BDS required never-ending subsidy.
- **Impact:** there were few signs of major impact, although—in the absence of a price-based transactional relationship and the signals this would send about client satisfaction—this was difficult to judge. Certainly, there seemed to be little perceived value on the part of SME clients and no obvious improvement in the performance of their businesses.
- **Efficiency:** the cost bases of providers and their ways of working seemed more appropriate to the world of donors than those of SMEs.

² Some will already be familiar with the key points in this section and may wish to bypass it and go to section 3.

³ Reviews of past experience can sound dangerously dismissive and arrogant. In fact, learning resulted from bad and good experiences. Indeed, some argue that this was a phase of development that was necessary in order to learn; others that it reflected a period where rigour and assessment were not given appropriate attention.

Overall, the difficult but inescapable conclusion reached was that “delivery systems” of public BDS, supported by donors, had failed.

2.2.2 ... Because of inappropriate intervention approaches

At the heart of this disappointing performance were a number of core factors:

- Services were regarded as “public goods”, to be offered free or heavily subsidised by state organisations—primarily conventional training and consulting—based on the perception that these were good for SMEs and met their needs. This was (and is) an artificial and narrow view of the nature, importance and role of services.
- Yet, agencies’ experience in the real world showed that the best environment for SMEs was one in which providers and SMEs interacted through market (transactional) relationships. The best providers of services therefore were close to SMEs in terms of their people, structures and orientation and were able to respond effectively to SME demands through the provision of private services.
- Intervention approaches were often pale imitations of practices in high-income economies, created within a very different institutional environment, usually underpinned by a weak rationale and with questionable efficacy.⁴
- Far from being confined to a narrow set of formal “education-type” services, the world of business services covered a plethora of different types of service, delivered in a range of ways and were increasingly important in creating an environment conducive to SME competitiveness (see Box 1 below).
- Parallel with agencies’ direct experience was a growing realisation that, while direct provision interventions struggled to make a difference, business services offered within market contexts were growing and diversifying (see Box 2 in Section Three).
- Indeed, when put within this wider context, not only was the direct provision of services generally ineffective but, by displacing private sector provision and distorting the market environment, often undermining the environment for small enterprises.
- Lessons from microfinance supported this change in thinking. These illustrated the importance of regarding small businesses as discerning consumers of a financial product, rather than as beneficiaries of charity. This shift in perception emphasised the need to understand the poor as consumers—what they want, what they will pay for, who should serve them—and led to a transformation to more demand-led and market-based services, payment options and delivery mechanisms.

⁴ Perhaps more importantly, leaving resource considerations to one side, there are concerns about the efficacy and outreach of such public support in advanced economies, casting doubt on their validity as a source of imitation. (See for example Bryson et al (1); Meyer-Stamer et al (2); NAO (3)).

In summary, the cumulative impact of donor experience from this period presented a stark picture:

“In many countries the net effect of years of government and donor-supported interventions has been to undermine the development of market forces. Products delivered at low cost or free to SMEs induce a debilitating dependency and a cynicism over quality and value; providers offered easy and generous terms by donors develop a taste for these inflated fees which often bear little relation to real economy situations; they become motivated to pursue donors rather than, for example, private sector customers or sponsorship. Agencies have budgets that, above all, need to be spent – a predilection that may lead neither to considered actions nor to ‘treading softly’. The result has been hugely distorted and largely dysfunctional markets, especially in low-income countries where institutions (including markets) are often more fragile and less able to resist the compelling pressures of hard donor money. Private sector BDS providers are inexorably ‘crowded out’.”(4)

BOX 1: THE BREADTH AND DIVERSITY OF BDS

A key characteristic of BDS is that as a category of economic activity they don't seem to have the same neat boundaries and comforting physical certainty of, say, agriculture or steel-making (or even financial services). For some, this all-encompassing feature of BDS is a weakness; they remain elusive and diffuse, always difficult to pin down. For others, this is their strength; BDS are a critical lubricant—reducing transaction costs, building capacity and adding value—and so inevitably are present throughout a well-functioning economy, rather than confined to one part only. Moreover, the standard industrial classification (SIC) was created at a time when services were not recognised as important. It is outdated, provides little specificity on service categories and (obviously) includes only fee-based services.

BDS can be thought of under three different headings:

- **Specialised fee-based services:** offered to SMEs as distinct services for which they pay a fee or via commission. This could include accountancy/audit, freight forwarding, advertising, legal advice, veterinary, equipment repair, business consultancy, technical information, conference organising, network brokering and product design.
- **Embedded services:** included within a commercial transaction for another product or service. This could include design advice offered by a retailer to a producer, livestock advice offered by a trader to a farmer and producer advice offered through commodity supply chains, quality control provided by an exporter to a small processor.⁵
- **Informally provided services:** information, knowledge and advice available to SMEs through other business or social relationships. This could include information and advice on price, market and technology trends through social networks or mediation through traditional cultural mechanisms.

⁵ For a discussion of embedded services see Anderson (5).

2.2.3 A new and different approach is therefore required

Uncomfortable learning from the experience of existing approaches and from analysis of the real world necessitated change. Direct service provision by publicly-funded organisations (supported by agencies) was not working; agencies' approach had to change significantly if they were to have more positive and sustainable impact; this change had to *facilitate* the development of the market system for services rather than support direct service provision. The BDS market development approach has therefore emerged from real, practical experience rather than ideological or theoretical shift.

2.3 What is the BDS market development approach?

Given this rationale for change towards a more market-oriented approach, what is the BDS market development approach?⁶ Figure 2 and Table 1 set out the main points of comparison between a market development and conventional approach. A market development approach is essentially guided by a number of core tenets; it:

- **Has a systemic view and objective:** the goal is not directly to help SMEs but rather address the underlying causes of their underdevelopment. Conventional projects ask “what problems do businesses have and how can I help to solve these?”; a market development perspective asks “what problems do businesses have and why isn't the market environment providing solutions to these?” One case is concerned with asking why the business isn't working, the other is with the underlying development problem why the market system isn't working.⁷
- **Is grounded in a careful understanding of local institutional contexts:** the goal is not to impose external solutions but to ensure that interventions understand and are shaped by a thorough understanding of the “rules of the game”; in particular, what are the specific constraints that inhibit the development of markets?
- **Is nuanced in its interpretation of roles of different players in a market environment:** the additional functions required to permit effective and inclusive market development are recognised, including the role for example of the state and membership organisations. Markets are about transactions between provider and consumer but, in order for this to be effective, other functions often have to be performed.
- **Has an explicit view of sustainability from the outset:** operationalising sustainability in terms of market players and functions and payment and delivery—developing a credible picture of how a market can work in the future—is required to guide the purpose and focus of interventions.
- **Focuses on realistic, market-appropriate solutions, consistent with local norms and resources:** while informed by wider experiences, the approach does not attempt to impose solutions that have been developed in higher income/resource environments.

⁶ We return to this in section 6.

⁷ The term “systemic” carries with it negative connotations, for example with respect to widely discredited Integrated Rural Development Programmes which sought to address multi-faceted rural constraints through a single intervention. While market development interventions do seek to ground themselves in the complex realities of local market environments, they differ from IRDPs in terms of their: (a) underpinning analysis; (b) objectives, particularly with respect to sustainability and consistency with the local institutional context; (c) pragmatic, finite focus; and (d) intervention practices.

- Uses innovative and flexible intervention approaches consistent with objectives: active and direct measures in the market may be inconsistent with stimulating local action and ownership. Intervention approaches always have to stand up to a critical but simple test: does this develop or distort the market?

While not a neat, formulaic blueprint—reducible to a step-by-step manual—the above principles provide guidance and discipline to the approach.

FIGURE 2: CONVENTIONAL AND MARKET DEVELOPMENT APPROACHES TO BDS

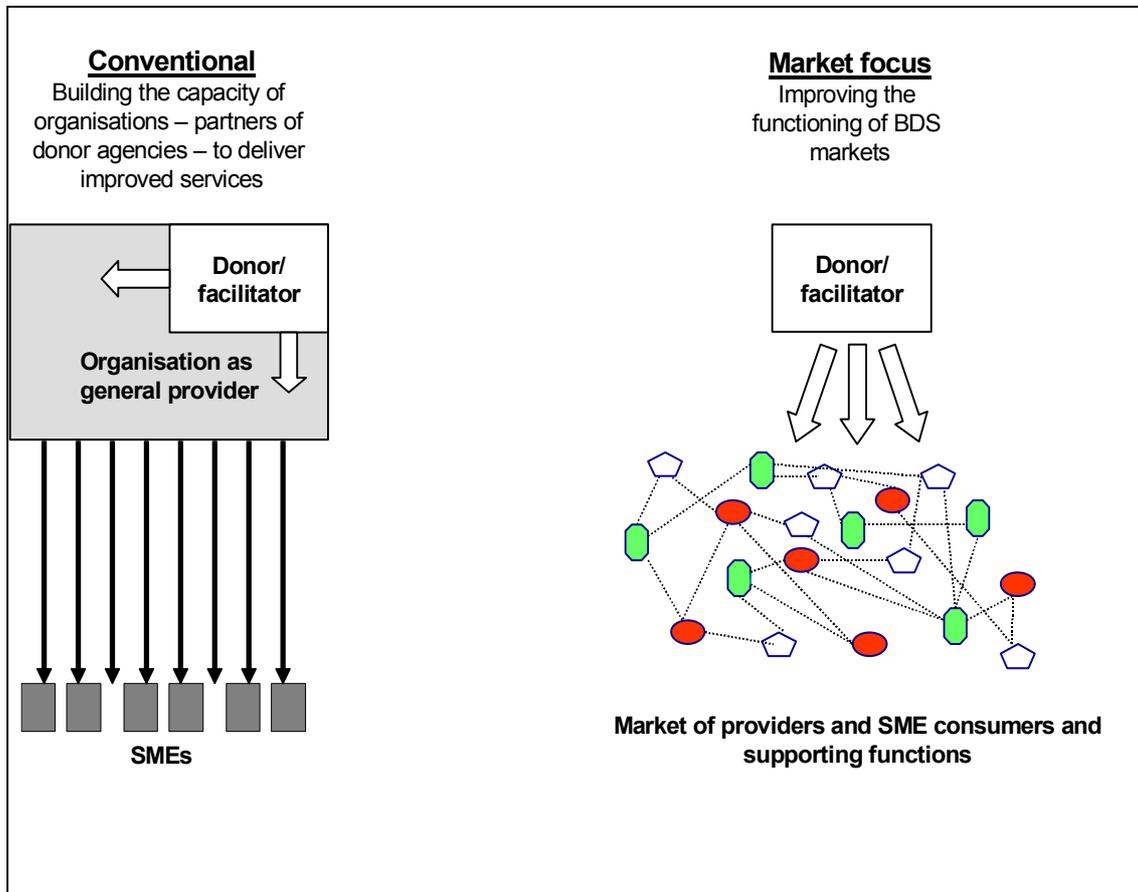


TABLE 1: DISTINCTIONS BETWEEN CONVENTIONAL AND MARKET DEVELOPMENT APPROACHES TO BDS

Conventional development approach	Market development approach
1. Understanding of the “system”	
SMEs as beneficiaries of business support Provision by government organisations and NGOs Services primarily public goods Financed primarily by the state	SMEs as discerning consumers of services Provision by private sector in functioning markets Private services Through provider-consumer transactions Market-supporting functions by a variety of actors
2. What BDS is	
Narrow view: formal/education oriented Non-financial services deemed by agencies or governments to be “good” for SMEs, mainly training and counselling	Broader view: enterprise/pragmatic oriented Any non-financial service to business, offered on a formal or informal basis (See Box 1)

3. How it should be provided	
Organisations: Mainly government-owned or sponsored agencies and not-for-profit agencies	Market system: Mainly the for-profit private sector, including informal networks, business associations and business-to-business relationships
4. How it should be promoted	
General support for design and delivery of BDS with an implicit assumption of continued subsidy and often standardised services	Finite, focused support aimed at addressing BDS market constraints through limited interventions; “facilitation”

Adapted from BDS Training Programme, Springfield Centre

2.4 Emerging challenges in BDS

There has been considerable change in the approach of agencies to BDS over the last few years. Although consensus may not be the appropriate phrase, it is the case that—manifested in donor guidelines, in intervention designs and practice and in debate and thinking—the BDS field has changed significantly. However, as BDS market development has become more accepted and as experience has grown, so different aspects of the approach have (appropriately) become more open to examination, from which a range of challenges has emerged to confront agencies.

2.4.1 Operational and intervention challenges: how to give meaning to market facilitation?

The market facilitation task—acting as a bridge between the objectives and procedures of development agencies and those of business—is not one that lends itself to rigid, formulaic approaches. Critically, it requires getting and developing the right people, developing the right “offers”, understanding and using the right analytical and implementation tools and ensuring that approaches are consistent with analysis. For facilitation to be effective it must be shaped by sound market understanding; intervention designs need sufficient flexibility to permit this to happen.

2.4.2 Getting out of the “BDS box” challenges: how to take BDS into wider economic spheres?

Agencies have usually separated business services interventions from interventions to promote commodity and product markets. Increasingly it is recognised that a practical understanding of these markets requires that the services within them are considered fully. It is perfectly valid to focus on (more conventional) generic business services that have broad application across different industries (accountancy, legal, management consulting, for example). Equally, connecting business services to strategic sectoral trends can offer the opportunity for major impact (see Figure 3), particularly in weaker geographic areas where the range of economic activities is typically linked to a small number of sub-sectors. Often this means focusing on specialised services or services contained (embedded) within other commercial transactions or relationships, which are especially important within sub-sectors.

The implication and challenge here is to ensure that service market development thinking is central to sectoral development programmes, whether those sectors be agricultural commodities, manufacturing industries, financial services or indeed factor markets.

2.4.3 Roles of key players challenges: how to develop new, valid roles for different players?

Seldom do markets operate optimally in the absence of appropriate regulatory frameworks, information, basic skills, research and product development, advocacy and representation mechanisms.

A more nuanced view of service markets understands that, in addition to the core role of delivery and consumption, there are always other market supporting functions. Moreover these need to be delivered and paid for. But what are these functions? Who should be responsible for them? What are the options open to different players – governments, membership organisations, the private sector etc – in developing a more effective and sustainable market? What factors need to be considered in developing these roles?

2.4.4 M & E challenges: how to assess performance in BDS market development?

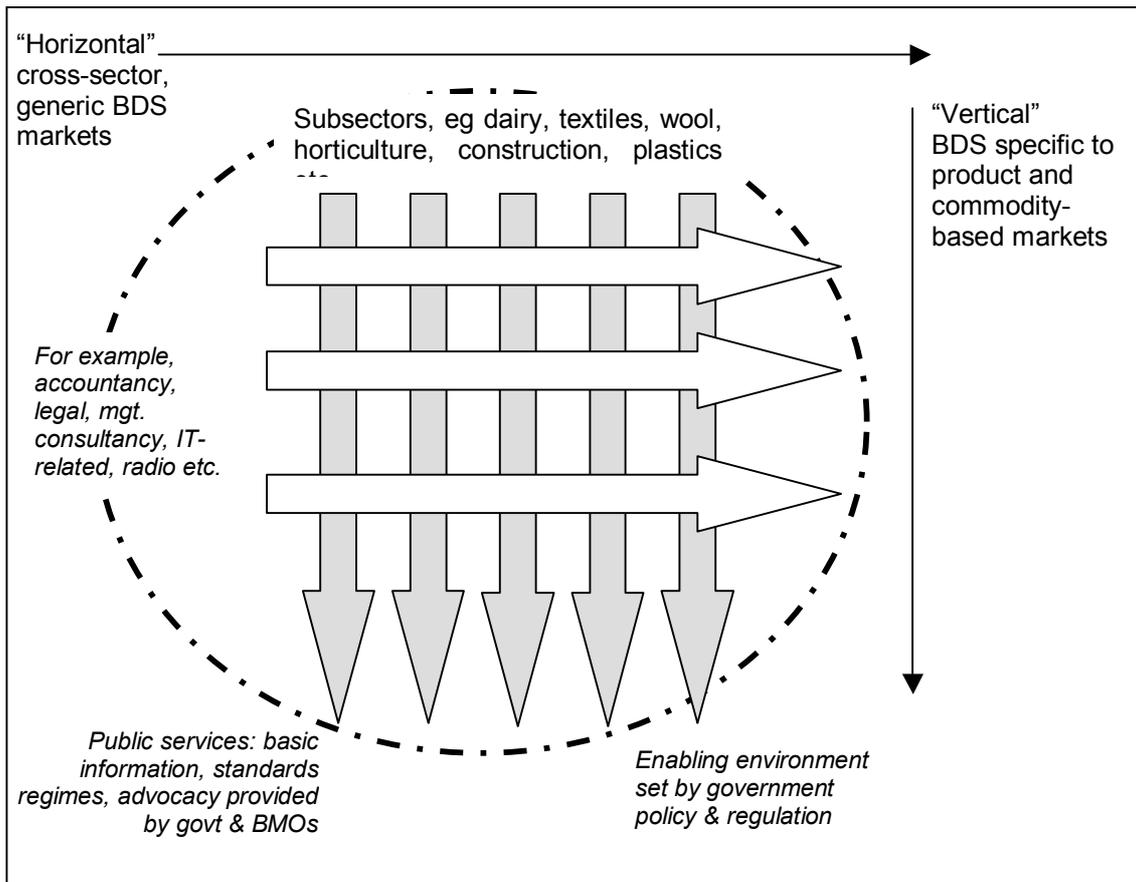
Inherent in moving to a market development perspective—focusing on addressing systemic causes rather than business symptoms—is a more complex chain of causality between intervention and final impact. Agencies intervene to address a market constraint in turn to improve the performance of SMEs in turn to reduce poverty. Although the logic flow here is consistent with how market economies operate, implementing agencies, governments and donors still need to know what effect—at each level—their efforts are having, for operational, accountability and learning purposes. Breaking market development down into recognisable indicators attributable to interventions is a key requirement. Beyond this, how to attribute downstream changes in enterprise performance, let alone in poverty, are fundamental issues for BDS market development as for any development approach that claims to be systemic.

2.4.5 The relevance challenge: how does BDS market development apply to weaker markets?

Finally, and underpinning all of the above issues, is a core challenge facing BDS market development: to what extent is the approach applicable to situations of economic weakness? How can facilitation approaches work in markets that are especially weak and/or where the constraints to development are particularly pervasive and poverty most acute? Is the BDS market development objective and approach relevant for these areas? Furthermore, in assessing its applicability in these areas, how does BDS market development compare with other fields of development assistance such as agriculture, governance and infrastructure provision?

It is this final challenge that is the focus of this document and to which the remaining sections of the document now turn.

FIGURE 3: GENERIC AND SUB-SECTOR SPECIFIC BUSINESS SERVICES



3. CONTEXT: ECONOMIC WEAKNESS, SERVICES AND THE RATIONALE FOR DEVELOPMENT INTERVENTIONS

3.1 Introduction

The purpose of this section is to establish the economic foundations and wider context upon which subsequent discussions in the document can be based. First, it considers the complex dimensions of economic weakness and the feasibility for income generation and building from this, the boundaries of rationale for economic development interventions generally. These arguments introduce the idea and definition of wider economic “systems”. Business services are contextualised and their importance (if not necessarily primacy) within any economic system is established.

3.2 The complexity of economic weakness

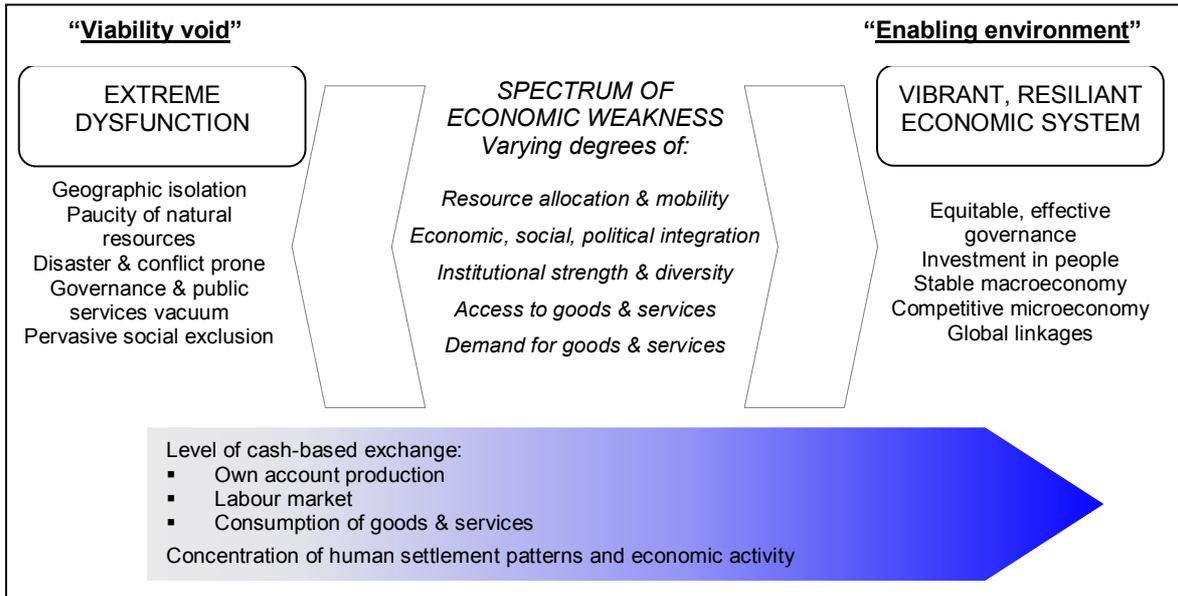
Understanding the causes of economic weakness is the subject of an entire field of intellectual endeavour in its own right, to which a short document of this nature can contribute little fresh insight.

The dimensions of economic weakness are numerous and inter-related; attempts to categorise or disaggregate them run the risk of making heroic oversimplifications or sweeping generalisations. However most observers would agree that critical elements of economic weakness in rural areas include:

- Remoteness and isolation in terms of geography and economic, social or political integration.
- Paucity of natural resources and limited effective natural resource endowments.
- Prevalence of conflict and insecurity, weak social capital and absence of effective rule of law.
- Inadequate physical infrastructure and lack of access to basic services such as water, health, education, electricity and telecommunications; and / or.
- Dysfunctional land and property ownership structures.

In reality, weakness is a relative term, context specific and dynamic. Development agencies are faced with a “spectrum of weakness” (See Figure 4) and the extent to which defined characteristics can be seen as representative of a certain type of weakness requiring a specific type of intervention is questionable, particularly once other cultural and historical factors are included. Moreover structural changes, in technology, demographics, tastes and trends, can positively or negatively shift distributions within this spectrum considerably.

FIGURE 4: A SPECTRUM OF ECONOMIC WEAKNESS



For the purposes of this document weaker areas are considered to be those where at least some prospects for income generation, specialisation and integration and investment and growth exist, but where lack of access to markets for a variety of goods and services are constraining those prospects.

For example in an agrarian area this might mean better access to inputs relating to research, skills development, seeds, fertiliser, post-harvest storage, processing, grading or marketing. It may also mean infrastructure-related services or functions such as irrigation and water provision or telecommunications and transport.

The point is that whilst by any measure these are poor, marginalised areas they do have some potential for economic integration and development. They are not within a “viability void” where the rationale and efficacy of income generation promotion is questionable and of a low priority compared to relief or social protection measures.

3.3 The boundaries of feasibility

A note of realism is required at this juncture. The document acknowledges a context-specific spectrum of weakness and tries to avoid making generalised statements about what is or isn’t weak. However, there are clearly extreme contexts where weakness is so prevalent, multi-dimensional and deleterious that any form of income-generation promotion intervention is likely be unfeasible. Some observers refer to such situations as the “viability void”.

In such highly marginal situations emotive discussions about whether income generation promotion should be state-led or private-sector led, or requires more or less subsidy, are surely irrelevant.

The painful reality is that for areas in a “viability void” the only realistic long run strategy for most people may be to move. For example, the UN recently observed that “most rural Chinese... will never be able to earn a living on the small plots of land they now farm and need to be freed to move from the countryside to the cities”.⁸

⁸ Cited in report on BBC News / Business website, 25 March 2004.

Similarly, Farrington et al (6) conclude that production-focused service delivery directed solely at the poor as producers in isolated areas will yield low and probably diminishing returns and that in the promotion of own-account production by the poorest may need to be abandoned. Any such abandonment is not an argument against relief and welfare-oriented interventions, indeed in such marginal situations they might be the only defensible options. But these need to be recognised as short term, artificial measures or social protection. Development is by definition longer term, sustainable and involves some dimension of progress: there can be little justification for development intervention to continually perpetuate an essentially untenable situation.

Equally there can be little disagreement that the plight of populations in such “viability void” contexts is disturbing and begs action. However, as stated, the type and feasibility of action must be considered carefully. Farrington et al (6) advise “*taking a realistic view of why areas remain marginalised (remoteness, prevalence to natural disaster, chronic insecurity) and focus policy accordingly*”. Deshingkar et al (7) suggests that “*the poor in these areas might be better served by policies relating to job information, identity cards, travel, accommodation, insurance and children’s education which improve the prospects for seasonal or permanent out-migration*”, permitting them to exercise the same choice that almost all societies have made over the centuries, to move away from non-viable areas.

3.4 A basic rationale for economic development intervention

An objective of this review given in the TOR is “to provide greater clarity on the relevance of business services in weaker economic situations”. The rationale for all economic development interventions is (or should be) to address some form of economic weakness. As expressed in the previous section economic weakness is relative and situational and so the terms “weak” or “weaker” are not particularly illuminating.

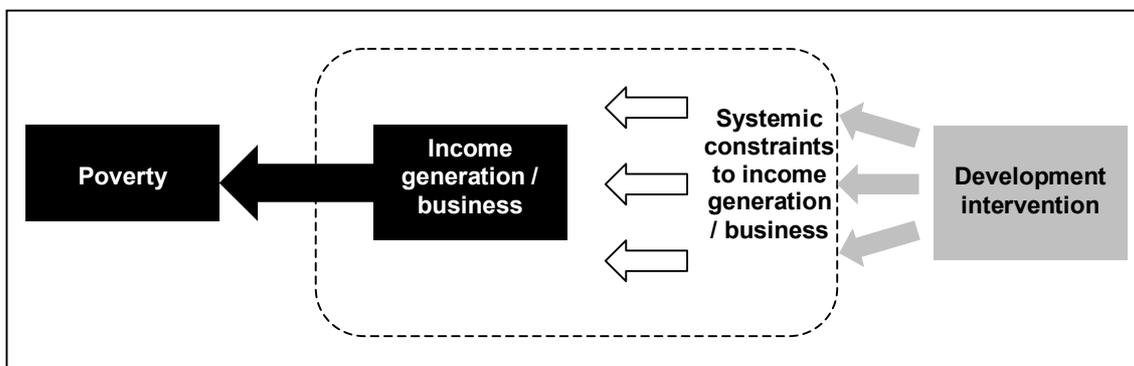
The more salient questions are “what dimensions of weakness?” are we seeking to address and consequently what “kind of intervention is most appropriate?”

Answering these questions requires recognition of the following:

- Poverty is a manifestation of weakness, and specifically income-based poverty is a manifestation of economic weakness; and
- Economic weakness is multi-faceted and multi-dimensional and therefore systemic. Addressing systemic change requires an understanding of the system within which economic development interventions are being considered.
- Low levels of income are a critical dimension of poverty, hence the diversity of donor interventions focusing on income generation promotion, be that to develop micro and small enterprises, the private sector in general, specific sectors or sustainable livelihoods.
- All agencies accept that it is vital to improve the poor’s ability to generate income for themselves—sustainable and accumulating—rather than remaining dependent on handouts. Development is thus distinguished from welfare and relief intervention by seeking to make lasting change rather than providing one-off assistance.
- Implicitly or explicitly therefore a key rationale for intervention is to address systemic constraints to income generation. For example, the fact that a wide

range of interventions seeks to promote an enabling environment or level playing field for businesses, strengthen institutions or improve governance is testament to this focus on systems. (See Figure 5.)

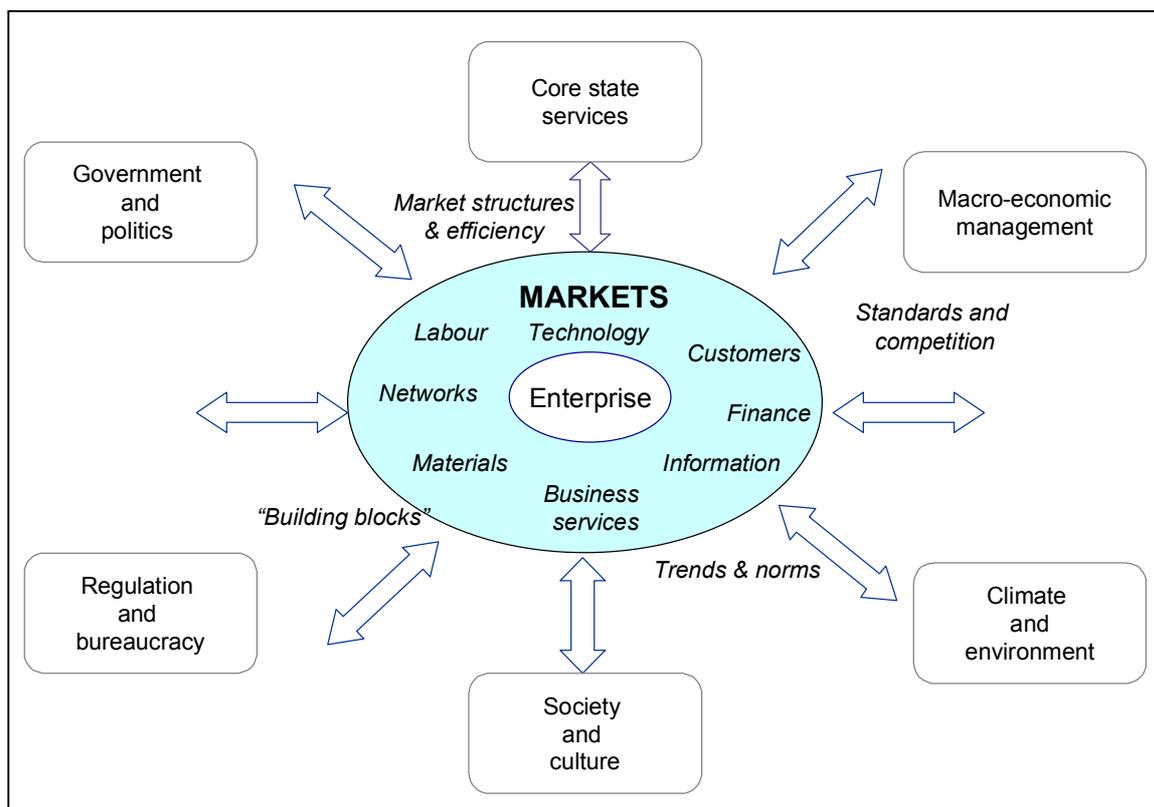
FIGURE 5: A SYSTEMIC RATIONALE FOR INCOME ECONOMIC DEVELOPMENT INTERVENTIONS



3.5 Economic systems and the role of services

Addressing macro-level constraints—particularly policy, regulatory and public institution reform—is seen as an immediate priority for many agencies; the route to widespread impact. However “just getting the policy right” has seldom proved a sufficient condition for creating an enabling environment for business. In many instances the desired supply-side response has not been forthcoming, particularly in Africa. It is clear that in complex economic market systems no single solution is likely to be sufficient; there is a range of sub-macro level constraints that affect the ability to do business (and indeed the efficacy of macro-level reform itself). (See Figure 6.)

FIGURE 6: BUSINESS SERVICES AND THE ENABLING ENVIRONMENT



As the significance of knowledge and information to all areas of the productive economy becomes more apparent, so a variety of public and private services—and particularly business services—are increasingly recognised as important. Although dismissed by economists from Smith to Ricardo to Marx and often ignored by governments and development agencies in favour of more tangible and supposedly productive sectors, services—and within this business services—are significant and growing. (See Box 2.)

Box 2: GROWTH OF BUSINESS SERVICES IN ADVANCED AND DEVELOPING ECONOMIES⁹

- In the EU, average annual growth of business services from 1980-94 was 6.75% against 1.5% for manufacturing and services overall.
- In the US, 85% of businesses now outsource functions once performed in-house.
- In South Africa, while average employment growth was 1.33% over the last 20 years, it has been 6.75% for business services.
- In the Indonesian furniture sector, improved export performance has been linked closely with increased use of BDS, which now constitutes firms' second largest input after timber.

⁹ Sources: Commission of European Communities (8); Corbett (9); Ntsika (10); Asian Development Bank (11); Azad (12); Lusby (13).

- Services account for 25% of production value of the ready-made garments sector in Bangladesh, including production planning, input procurement, technical, sales and distribution, accounting, legal, transport and communication, data processing, photocopying, freight and shipping handling.
- The basket handicraft industry in Ghana grew from \$2.6m to \$11.3m in 9 years through active export marketing, eg trade fair services. In the face of new competition from Asian producers, Ghana's producers (many in rural areas) now require specialist services to address problems related to quality, production, design and customer service.

Business services are (or should be!) an important feature of an environment that is conducive for business of all types and sizes: enabling them to:

- find customers
- design products
- enhance productivity
- reduce fixed costs
- improve administration
- comply with regulations
- operate within realms of the law
- communicate effectively
- access new technology, skills and markets

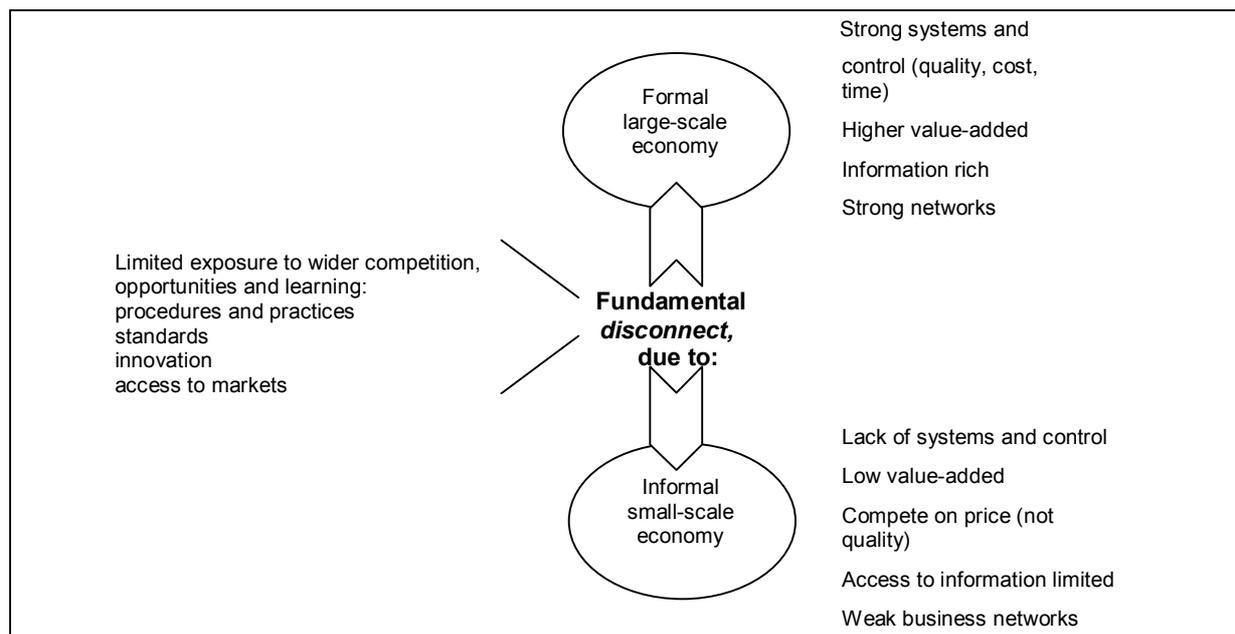
Increasingly development agencies have come to recognise this, as the considerable volume of interventions in service-related areas indicates. This fact alone signifies that the lack of access to appropriate and effective public and private services for business can in itself be seen as a dimension of economic weakness. This is not to give business services singular priority, but like effective institutions, sound policies and regulations and vibrant financial services, business services are part of a well-functioning business environment.

In fact business services play a role at a variety of stages of economic development:

- In a post-reform environment, building on an enabling environment for business growth and competitiveness;
- Within reform processes, at the interface between public sector administration and business, for compliance with a changing regulatory and fiscal framework; and
- In “disabling” business environments, by assisting businesses to cope, often by filling the vacuum left by dysfunctional public services.

Importantly services play a role in overcoming the discontinuity or disconnection that exists between and within countries, between large and small enterprises, urban and rural areas or the economic mainstream and marginalised groups. (See Fig. 7.)

FIGURE 7: DISCONNECTION IN AN ERA OF KNOWLEDGE-BASED ECONOMIES – A ROLE FOR BUSINESS SERVICES



This disconnect is particularly pronounced in rural areas where in more specific commercial terms weaker areas might be characterised by the following ‘typical’ situation:

Low levels of marketable surplus from production (farm or non-farm)

Aggravated further by:

Limited access to commerce related facilities or services – including finance, insurance, storage, processing, transportation and market information

Consequently reinforcing:

Limited integration into the mainstream commercial markets (be they local, national or international markets)

In order to begin to address issues of disconnection from input and output markets a detailed, localised understanding of systemic weakness is required. For example, Emran et al (14) have defined a framework that can begin to be used for understanding systemic weakness related to rural market development. Specifically, they identify three levels of rural market development, or weakness:

- **Most underdeveloped stage:** isolated rural markets where market clearing only occurs at the local level. Marketable surplus is so low that it constrains the emergence and operation of a long-range intermediary class that can connect local markets to urban/central markets.
- **Intermediate stage:** long range market intermediaries operate but need to pool together multiple commodities to cover fixed costs of transportation and storage to reap economies of scale. For example returns to bulking through shared hire of transport or risk sharing.

- **Most developed stage:** marketable surplus is sufficient to permit commodity-based specialisation by marketing intermediaries and hence benefits of specialisation.

Their analysis identifies an underdevelopment trap that arises from the absence of long-range marketing intermediaries (agents/business services) as a result of limited production specialisation in rural areas. This has an implication for approaches that attempt to promote livelihood diversification as a means of reducing vulnerability (ie coping). In the longer term diversification may actually impede development (ie thriving). Farrington et al (6) note that “*successful accumulation out of poverty is often associated not with diversification but with greater specialisation in one or two best bets*”. Whereas Kundu (30) notes that high-levels of non-farm economic activity – a hallmark of diversification – are not necessarily linked to healthy economic development in rural areas, and emphasises the importance of informal labour markets.

The point is that whether a strategy of specialisation or diversification is followed, business services can play a key catalytic role supporting either strategy. As demonstrated in this section a key premise of this review is that lack of access to services is a dimension of economic weakness. In seeking to define “weak” a critical question is therefore “do producers or businesses have access to the services that they need; and, if not, why not?”

Constraints to access may be most pronounced in isolated, rural areas, but for a variety of reasons, many types of business or parts of the population in urban areas often lack access to a specific service that inhibits their ability to generate income. However the review asserts that typically the challenges to business service availability are more pronounced in rural areas, and that if these can be overcome, so can challenges in other less adverse contexts.

Therefore Section Five considers a diverse range of business services in the context of specific elements of rural weakness, summarising evidence from a host of case studies which demonstrates that:

- Business services exist, are valid and are relevant to improved economic performance in a diverse range of defined relatively weak economic situations; and
- Approaches have been successful in stimulating markets for business services in these relatively weak economic situations.

However prior to this, Section Four, reviews the experience of a variety of non-SME development interventions to promote income generation in rural areas.

4. COMPARATIVE ASSESSMENT: SERVICE-RELATED THINKING AND APPROACHES IN OTHER DEVELOPMENT FIELDS – COMMON OBJECTIVE AND EXPERIENCES?

4.1 Introduction

Addressing economic weakness through the promotion of income generation is a common objective across a diverse range of economic development spheres: microenterprise, SME and private sector, agriculture, forestry, fisheries and other non-farm economic activities, sustainable livelihoods and urban development.¹⁰ All these fields recognise constraints to income generation relating to – inter alia – skills, technology, information and market access and which need to be addressed by some form of public or private service provision. Fields focusing on utilities and infrastructure provision increasingly also have strong emphases on services.

Overall therefore, there is increasing recognition of the importance of services in economic systems, and this is shared context with BDS. But what about the experiences of these other fields? While thinking and practice in BDS–driven by experience and analysis–has moved clearly towards market development, what are the comparable trends in other spheres? While the review has considered a diverse range of other ODA fields, this section focuses on one in particular–agriculture extension–because it is seen to be important, has been (and is) an area which has received considerable donor resources and is the subject of intensive research interest. It is therefore a useful prism to view the experiences of a range of non-SME development fields. The section focuses on historical performance, factors underpinning performance and emerging issues and challenges. In doing so, close similarities with the BDS field emerge and the foundations are laid for new and more systemic thinking aimed at “making markets work for the poor” that has relevance across different ODA fields, in agricultural extension, in BDS and beyond.

4.2 Historical performance

4.2.1 Sustainability

Agricultural extension has typically been regarded as a public good, reflecting similar support arrangements in advanced economies. However developing countries do not have the levels of public finance resources and administration of advanced economies. As a consequence many of these relatively high cost, publicly-funded support services have experienced pronounced financial constraints and a “chronic inability” to manage service delivery.¹¹ It is common for service delivery to become dependent on external aid and to collapse when aid is withdrawn. As Katz (15) notes this has increased rather than reduced the dependency of marginalised communities.

4.2.2 Outreach

In spite of the considerable public investment made by donors and governments in such publicly-funded support services a number of observers note that coverage and inclusion objectives have not been achieved: that is to say the very public good objectives that might warrant substantial public funding have proved elusive. As

¹⁰ This section has taken these other ODA fields to be representative of the “alternative approaches” to promoting services for income generation in weaker areas (as per TOR “to review the analysis underpinning, and the efficacy of, alternative approaches to business services in weaker markets”) to better understand their objectives, analysis of constraints and intervention approaches.

¹¹ Presentation to DFID Policy Department Retreat, Brighton (March 2004); Kidd, A; “*Commercialisation of Extension Services*”.

Christoplos (16) observes “[publicly-funded] services are routinely and justifiably criticised for their elite biases and their failures to work with the rural poor” as a result of, for example, unwillingness of government employees to work in rural areas or political patronage.

4.2.3 Impact

Finally and perhaps most importantly publicly-funded support services have lacked responsiveness and relevance to targeted populations. The monolithic nature of public bureaucracy, in terms of structures, staff, working practices and culture, have proved inappropriate for many forms of service delivery. The Neuchâtel Group (17), a multi-donor effort to assess agriculture extension found that centralised and standardised national extension systems do not produce satisfactory results when faced with a diversity of contexts, crop types, activities and service consumers. There are similar experiences in government provided infrastructure services in rural areas¹². In a complex, changing environment service provision must be able to adapt and respond accordingly: one-size-fits all or one-off solutions are rarely adequate.

In fact much public intervention appears to have been deleterious. For example Joffe et al (19) note that the “...presence of the state is still evident in many rural economies, creating an environment in which layers of subsidies may distort and weaken incentives for private investment. Pervasive problems of political and economic instability, lack of transparency, corruption, irrational regulation and bureaucratic load also raise transaction costs and risks to business in developing countries.”

4.3 Factors underpinning historical performance

4.3.1 Narrow analysis

The underlying analysis for a typical intervention is that a target population lacks, for example, knowledge, skills, information, technology or market connections to respond to income-earning opportunities. In response the typical intervention rationale is to address these constraints directly in order that the target population can generate higher, more stable levels of income. Often these measures are regarded as public goods requiring public intervention. This is the classic market failure or public goods justification for intervention.¹³ However there are two key problems with this rationale:

- The underlying analysis is narrow and often self-serving. Joffe et al observe that “A preliminary review of the literature suggests a concern that market failure arguments to justify [public intervention] are often used too loosely and uncritically”.
- Interventions often attempt to solve the manifestation of problem (eg lack of capacity) by direct provision of inputs (training or information provision by a project), rather than attempting to understand and address the source of problems (eg lack of access to capacity-building solutions within the “local” environment).

4.3.2 Failure to deal with local systems and sustainability realistically

Intervention analysis and design often fail to adequately consider local institutional realities and develop a realistic picture of how the economic system around the target population will work in the longer term: a case of short term palliatives rather than

¹² See for example Econ One Research, Inc. (18).

¹³ For an illustration of this justification, see Shepherd (20).

long term development. For example it is common to treat all forms of public funding, be that short term finance by international agencies or finance by national or local government, as similar: tacitly at least development agencies are often seen as part of the local institutional environment.

Consequently the sustainability and appropriateness of services and service delivery vis à vis the local institutional context are given only cursory consideration and the view of how different public and private market functions will be performed and financed after the withdrawal of aid is, at best, hazy (see Box 3).

4.3.3 Unviable services and delivery mechanisms

The practical problems of labelling a service as a “public good” are especially apparent when considering viability and delivery. Doing so tends to lead to a neglect of appropriateness and affordability, since the assumption of on-going public finance and delivery leaves services exposed to bureaucratic tendencies to focus on budgets and outputs rather than what consumers want and might pay for. Moreover service and delivery mechanisms often become overloaded with multiple objectives to address a variety of constraints at the behest of its multiple stakeholders (eg basic education, environmental protection, health), undermining focus, adding costs and complexity, and adversely affecting viability and ownership. For example it is common for broad “public interest” measures such as environmental protection to be bundled into narrow private technical service delivery.

The result is that many services are fated to be unviable from the outset, irrespective of whether they are to be financed and delivered by the public sector or by the private sector.

4.3.4 Inappropriate interventions approaches¹⁴

The (perfectly justifiable) accountability requirements of development agencies often translate into rigid and formulaic project-based programming, which is better suited to delivering planned and predictable tasks (eg building a bridge) or establishing formal organisation structures than responsive and diverse “systems” for service delivery. A continuing orientation towards formal organisations rather than diverse systems has led to inappropriate, unviable services and providers from the outset.

Development interventions tend to be cash-intensive and output-driven and are often inconsistent with fragile local public or private sector norms and limited resource levels. As a consequence, they tend to overload the local system as a consequence, erode ownership and distort incentives. Heavy transactional subsidies hinder real supplier-consumer relationships and undermine demand-responsive service provision.

Furthermore, and perhaps understandably, development agencies place a premium on quality. Quality, however, is a highly subjective and relative concept and there is a tendency for interventions to attempt to establish standards and a level of comprehensiveness that far exceeds those of local norms, rendering services and service providers irrelevant, unaffordable and ultimately unsustainable.

¹⁴ For a powerful consideration of how development agency practices, imperatives and project structures are often unsuited to the complexity of real world economic development contexts, see Dichter (21).

Box 3: MARKET INFORMATION SYSTEMS FOR AGRICULTURE: WHAT'S THE VIEW OF THE FUTURE? ¹⁵

A project in E Africa established a market information service for agriculture, which was seen as a long-term strategic public goods service requiring public subsidy. Larger farmers, traders, other agriculture-related organisations and development agencies were intended users. The investment in terms of set up costs and operational costs amounted to several hundreds of thousands of dollars.

Given the paucity of basic government data on agriculture the project conducted its own research in staple and larger niche crop sub-sectors and drew on information from other projects. The project formatted information and made it available through a variety of sources; FM radio (the project had its own station and worked with the owner of several radio stations, buying long-term packages of airtime) and, increasingly, the internet and mobile phones. The project distributed satellite radio sets to regional stations to enable repeat broadcasts. Information provided was comprehensive, including local, national, regional and international prices, technical information, news updates and trends. In order to ensure quality and consistency the project retained editorial control over content.

Key challenges identified by the project include: poor government basic data on agriculture; limited local capacity for information collection; lack of local ownership over information provision; and the cost of media airtime for dissemination.

As the project draws to a close concerns about the sustainability of this “long-term strategic public goods service” have become acute. Expatriate staff will leave and the only likely replacement source of funding is the government’s agricultural extension service (itself heavily dependent on long-term donor funding). Some have mooted selling the service to a major commercial player; many feel that the service would not be commercially viable, others that this would undermine the public good nature of the service.

Post script

The project has recognised that a more basic information service, utilising individuals and organisations with footholds in local and national markets and sponsored by interested commercial players (eg cell phone providers) may be more feasible. Project staff have piloted a new project in West Africa, working with an internet service provider, mobile phone provider and agriculture specialists to provide basic agricultural information to small producers. It is estimated that annual operational costs will be US\$10-20,000. (See Case A for an alternative example focusing on commercial media-based information services.)

4.4 Emerging issues and challenges

4.4.1 Moving beyond basic privatisation of public service delivery

Unsurprisingly in the face of widespread dissatisfaction with many areas of public service delivery, publicly-funded support services have increasingly been privatised. Whilst the experience is comparatively recent, a number of problems have emerged:

- On the supply side:
 - Private sector service provider response has been limited.
 - Service providers have tended to “follow the money”, drifting towards higher value clientele and—particularly given typically low levels of fee payment by consumers—become funder-oriented rather than demand-oriented.

¹⁵ Development agencies, particularly FAO, have set up market information systems in many developing countries. (See Shepherd (20)), typically providing resources to national governments to establish centralised market information services. Centralised approaches has proved unsuccessful and more diversified, localised approaches are seen to more appropriate. This illustration draws on particularly on one project experience, which project staff have requested be kept anonymous.

- Difficulty in finding alternative private service providers and hence reliance on former public servants and organisations.
- Poor links between private service providers and other important market functions, eg research, undermining service provider credibility and service relevance.
- Agencies have found it difficult to deal with and support private service providers appropriately.
- On the demand-side:
 - Potential service users lack information and awareness about services and service providers.
 - The credibility and quality of private service providers to deliver effective solutions is perceived to be low by potential users.
 - Willingness to pay for services is limited.

As a consequence there has been limited progress in reaching poorer areas. Diverse and competitive delivery mechanisms have not evolved and service delivery has remained dependent on public funding.

However the extent to which many attempts to privatise service delivery can be regarded as genuinely market-oriented is questionable. As Box 4 illustrates this “rush to privatise” has often been ill-conceived, unrealistic and almost bound to fail. Frequently it has translated into little more than (partial) privatisation of existing government or parastatal structures, with little consideration of the appropriateness or commercial viability of cost structures, organisational culture, supplier-consumer incentives or the establishment of supporting functions and appropriate regulation that are essential for effective market based service delivery. In short, such privatisation has simply recreated the monolithic systems of service delivery it was supposed to replace, rather than the envisaged diversity and responsiveness of market-based service delivery.

BOX 4: GRAPPLING WITH PRIVATISATION OF AGRICULTURE EXTENSION¹⁶

Faced with public funding constraints, government withdrawal from many direct market interventions focus and a poor track record, the state system of agricultural extension was privatised, with the objectives of greater demand orientation, diversity of service provision and long term sustainability.

An independent para-statal agency was charged with overall direction, funding and development of the new system. It is planned that the scheme will achieve 60% cost recovery in 25 years; currently it is 85% funded by donor agencies. At the heart of the system are a series of farmers’ groups. These are organised on a regional and local basis, and are the means by which farmer requests for services are pooled and channelled, service providers contracted and funds disbursed. They typically are expected to make a 2% contribution to service costs.

After three years of operation many observers are concerned about the scheme’s rigidity, the extent to which it is genuinely developing a market for agricultural services and how it will continue to operate in the long run:

- The original structures of the scheme reflected geo-political and bureaucratic boundaries rather than the realities of agricultural markets.
- The group-based service procurement system has proving cumbersome: service payments are frequently delayed by funders and allocative bodies.
- Farmers and service providers have expressed dissatisfaction with the inflexibility of the service offer and pricing (eg a ceiling is placed on the proportion of transport costs

¹⁶ This example is from a real project, but its funders have requested that it remains anonymous due to political sensitivities.

permissible within the overall service contract value, inhibiting service providers from delivering services in inaccessible areas).

- Service providers have oriented towards the scheme's funders rather than farmers; officials and politicians have come to dominate procurement committees in farmers' groups.
- Some groups have experienced cohesion problems.
- Service providers, particularly former extension workers, lack farming and business skills; capacity development of service providers has only taken place to a limited extent.
- The scheme's objectives and operations have become increasingly cumbersome and more broadly focused in response to the agendas of its multiple funders.

More positively, there is some evidence of farmers being more willing to exert their consumer rights. The scheme has begun to be more innovative, working across geo-political boundaries with unconventional service providers (eg large input suppliers) and is considering alternative models to the group-based system, such as real-user payment, vouchers and fee-based membership organisations.

These early attempts to privatise service delivery illustrate that standard development intervention approaches can be blunt instruments, particularly when attempting to engage with and stimulate the private sector. Frequently a gap exists between objectives for more market-based service delivery and the intervention practices of many agencies.

4.4.2 Encouraging systemic change: service market development

In Section Three the basic rationale for economic development intervention was affirmed as stimulating systemic change to permit greater for income generation by the poor. Development agencies face four key challenges, in terms of thinking and practice, if they are to move forward and begin to bring about systemic change for more appropriate and sustainable service provision:

- The conventional distinctions between public and private goods are unhelpful in complex and changing economic environments where government capacity is typically weak. *"Experience increasingly suggests that in many rural contexts...the traditional private-public good dichotomy is unlikely to provide an effective or useful guide to policy-makers or a sufficient basis for understanding the appropriate role of government. In particular, a much more dynamic understanding of the interaction between public and private roles is required."*(19)
- Objectives for universality or standardisation of service provision may not be realistic: *"provision of high levels of information, capacity building, risk reduction and new levels of technology is likely to be too costly to apply on a "blanket" basis"* (7). There is an urgent need to re-consider the kinds of services and service delivery that diverse groups require and who can best provide them sustainably. Inevitably this will mean "right-sizing" expectations, services and service delivery to reflect local norms and conditions.
- Intervention designs need to be grounded in more nuanced understanding of a range of market functions and the roles of different players which is consistent with local context—both in the status quo and post-development intervention.
- Intervention approaches need to be far more innovative and flexible, prioritising responsiveness to the dynamism and diversity of local economic contexts, rather than rigid accountability to bureaucratic processes.

There is, therefore, a strong need to rethink and right-size models of service delivery and intervention approaches to stimulate market-based service delivery in

rural areas. This “market development” or “making markets work for the poor” imperative is increasingly recognised in a variety of fields beyond business services:

- In the agriculture field Joffe et al (19) observe that “*The key operational dilemma...relates to the ability of public agencies accurately to identify, target and implement useful interventions in partnership with a range of other actors in ways that are non-distorting, market-oriented and capable of generating net benefits to the poor over the longer term*”.
- In the livelihoods field, where it is acknowledged that “*a more imaginative approach is needed, rooted in a stronger understanding of the importance and nature of institutional development in economic growth, with market development being one part of that institutional development*”.¹⁷

4.4.3 Recognising common ground... moving beyond development’s boxes

Self-evidently—although the fields of agricultural extension (and rural livelihoods) and BDS are regarded as discrete, with separate academic disciplines, conceptual frameworks, vocabularies and approaches—their experiences are remarkably alike (see Table 2). Intriguingly, the agriculture and rural livelihoods fields have reached their conclusions essentially in parallel to the emerging experience in BDS market development. While this is an indictment of the fragmented nature of development discussion, it is significant that, through different routes, a similar destination is being reached. Put simply, all fields face the challenge of intervening in markets. Moreover, if one sees farmers as businesses (and they are!), agriculture extension services are specialised business services and therefore it should not be surprising that great similarities exist in their shared experience.

The challenge however is to move beyond market development as a slogan and put it into practice. It is in relation to this challenge that the business services field, which was an early adopter of market development approaches, may offer some useful insights. The focus of the remainder of this document is therefore on this experience and how it should influence thinking about economic development interventions in weaker and rural areas.

¹⁷ Dorward et al (22).

TABLE 2: THE EXPERIENCE OF PUBLICLY-FUNDED BDS AND AGRICULTURAL EXTENSION COMPARED

	Agricultural extension	BDS
Performance		
Outreach	<ul style="list-style-type: none"> Limited Marginal areas and poorer farmers neglected 	<ul style="list-style-type: none"> Low coverage – typically less than 5% of SMEs Increased outreach dependent on more funds
Sustainability	<ul style="list-style-type: none"> “Chronic inability” to manage service delivery Increased dependence Service collapse following funding withdrawal 	<ul style="list-style-type: none"> Only for as long as subsidies last. Inflated provider cost bases have limited practicality in the “real” economy
Impact	<ul style="list-style-type: none"> Centralised and standardised services produce unsatisfactory results. One size-fits-all approach not adequate Disincentive to private sector activity 	<ul style="list-style-type: none"> No correlation between official BDS use and business performance Distorted and dysfunctional markets, especially in low-income countries. “The delivery system has failed”
Reasons for performance	<ul style="list-style-type: none"> Failure to challenge traditional (and invalid) public: private good distinctions Failure to think and put into practice appropriate role for the state Over-rigid, standardised view of need-based services, to develop “right-sized” services Failure to develop collaborative structures and mechanisms for different actors to work together in a manner that taps into core competence of each 	<ul style="list-style-type: none"> Incorrect and narrow perception of BDS as a public good despite evidence of the better performance of market-based transactions Failure to recognise private sector realities and opportunities for further growth and distortions from interventions Narrow standardised view of needs-based education-type services Support for inappropriate providers SMEs regarded as non-discerning beneficiaries
Challenges	<ul style="list-style-type: none"> Developing effective and valid roles for government agencies “in partnership with a range of other actors in ways that are non-distorting, market-oriented and capable of generating net benefits to the poor over the longer-term” Defining and developing “appropriate roles of government and the private sector”¹⁸ 	<ul style="list-style-type: none"> Operational challenges: giving meaning to market facilitation in terms of approaches, tools, structures and people Roles challenges: developing new and valid roles for different players – government, membership organisations and the private sector M & E challenges: developing useful and valid indicators for market level change Relevance challenges: extent to which weaker areas can be reached.

¹⁸ Orden, D et al (23).

5. OBSERVATIONS AND EVIDENCE: BUSINESS SERVICES IN WEAKER ECONOMIC SITUATIONS

5.1 Introduction

One challenge encountered during the review has been that comprehensive and accessible repositories of market development thinking and experience do not exist. This should not be surprising. Donor commitment (reflected in funding of specific projects) to business services is relatively recent; explicit commitment to market development as the overarching principal for stimulating business services is even more recent.

Experience and innovation is spread thinly and unequally across a range of fields involved in income generation, few of which have market development as an explicit goal or set of intervention approaches.

Given the paucity of easily accessible case material, the review interacted with a group of more than thirty international experts—representing donor, government, NGO and private concerns—with technical expertise in numerous relevant fields. This peer group generated and/or referred much of the case material. They also performed a valuable validation function for the case material.

Accordingly, the review has sought illustrations, evidence and innovation from diverse sources. A collection of these is presented in mini-cases in Annex 1. They reflect a diversity of examples of experience and innovation. The mini-cases attempt to illustrate the kinds of services used by the poor in a host of weaker economic contexts. They provide examples of innovative service provision mechanisms in weaker areas and are intended to provide “food for thought” in contrast to the more conventional services and delivery mechanisms described earlier. Additionally, where possible, mini-cases identify and discuss intervention experiences or options for promoting services in weaker areas (Section Six).

Mini-cases sought to address a combination of the following three questions:

- Are business services relevant in rural areas and do they exist?
- What do they look like and do they have any distinguishing features from those in more vibrant economic contexts?
- What do agencies do to promote them?

These questions are explored in summary below. Readers may not wish to read all mini-cases; references to mini-cases salient to specific observations are provided in the main narrative, to aid selective reading. A “menu” of mini-cases is also presented at the beginning of Annex 1.

5.1.1 *Are business services relevant to weak rural areas?*

Services for businesses do exist in rural contexts. They are often surprising in their diversity and typically exist in a form that is unseen or unrecognised by development agencies and outsiders. Their very “invisibility” is their weakness, leaving them prone to displacement and damage by publicly-funded interventions attempting to promote more formal service solutions on the assumption that “there is nothing there”.

The simple reality is often that as people go about their income-generating activities or business they encounter a variety of things they don’t know or can’t easily do

themselves. Hence they turn to others who are better placed, be they public or private, modern or traditional, formal or informal, paid or unpaid. Such interdependency is the hallmark of doing business in all environments.

5.1.2 Are there characteristics of services for businesses in weaker contexts that distinguish them from those in more vibrant situations?

Notwithstanding the sheer diversity of service types, delivery and financing mechanisms encountered during the conduct of this review, and the inevitably context-dependent nature of specific services and service provision, a number of initial observations can be made. These observations are embodied in the many and various case studies presented. For ease of reference the observations are linked to respective case studies.

Blurred distinction between business services and other services Mini-cases C, L, M

In many rural contexts the dividing line between business services and “other” services, for example agricultural, infrastructure, telecommunications, transport and consumer services, is not distinct. This is perhaps not surprising given that the unit of income generation in such areas is itself informal and blurs the distinction between business or income generation and the individual and household.

In many weak areas such basic functions are critical constraints to doing business, and at the same time often represent a business opportunity for small businesses in their own right, particularly in the face of weak or non-existent public service provision.

The importance of basic services Mini-cases A, B, C, J, K, L, M

Development agencies have typically focused on services they perceive as sophisticated, strategic or developmental (hence the term business *development* services, rather than business services!). However what constitutes “important” is clearly in “the eye of the beholder”. In weak economic situations—where commercial tasks are perhaps less complex and the operating environment presents more challenges—the presence or absence of often quite basic ranges of services make a major difference to doing businesses. For example, pest control, email or mobile phone service points, equipment leasing or the maintenance of water or irrigation systems. Such practical and accessible services are often far more relevant and desirable to businesses on the margins than, for example, comprehensive extension, entrepreneurship or business management services.

A high degree of informal, micro-scale services and delivery mechanisms Mini-cases C, F

Much fee- or commission- based service provision tends to be informal and at a micro-level when compared with more developed urban environments. Examples would include para-veterinarians or “barefoot” trainers. This reflects the ability of the service provider to be closer to its clientele, in terms of location, culture and remuneration. Hence such micro-service providers have greater prospects for viability, particularly when service provision is combined with other income activities, for example village veterinary drug supply or teaching, as is commonly the case. The fact that such service providers are often known to the communities they work in, means that trust is more easily established and may even permit more attractive payment options to be made available— deferred, instalment or commission payment – overcoming affordability issues.

Service delivery tends to be embedded within other transactions and relationships

Mini-cases D, E, F, G, H, J, K, N, O

Barriers to fee-based service provision in rural areas typically include the transaction costs of acquiring knowledge about and reaching remote or sparsely populated areas and consumers' ability to pay, particularly given seasonal income flows. Perhaps not surprising a high proportion of service delivery is embedded in other relationships and transactions rather than delivered and paid for independently. For example, information and knowledge may be transferred by large input suppliers and their retail agents, or perhaps by commodity buyers through contract growing arrangements, even producer upgrading and standards compliance is supported within supply-chains. In further examples, services may be bundled together with veterinary drug supply or even agricultural finance.

Embedded service delivery appears to work partly because it can be financed within the cash flow and margins of existing commercial transactions and take advantage of the sunk cost of established infrastructure and relationships, hence overcoming many of the barriers cited above. Furthermore provider incentives exist, for example in terms of enhanced reputation vis competitors, stronger buyer-seller relationships or quality control.

Sub-sector-related services Mini-cases D, E, F, G, H, N, O

Given the fact that many rural areas are dependent on a small range of economic activities and the significance of embedded service delivery noted above, services often have a strong grounding in specific sub-sectors and the players within those sub-sectors, such as specialist buyers, agents and distributors or grading or auction services. These services often act as the keys to entry into a sub-sector or more typically determine position within the value-addition chain.

Collective delivery and consumption¹⁹ **Mini-cases A, D, H, I, L, M, O**

Another means by which geographical and transaction costs may be defrayed in sparsely populated areas is by collective delivery and consumption of services, as opposed to one-on-one delivery and consumption. This may be through:

- **The commercial media:** particularly as a source of information and advocacy.
- **Groups:** service delivery organised or delivered to relatively homogenous groups.
- **Other collective organisations:** business membership organisations, producer associations for 'public benefit' services usually financed through membership fees or levies. This might include advocacy or some form of common facility or function. Membership organisations may identify and arrange service provision for members from independent service providers.
- **Focused delivery points:** for example through central facilities such as shearing sheds, auctions and markets, which focus for service or information provision. The approach here is to rely on consumer "in-reach" rather than provider outreach, taking advantage of the (relative) time abundance of rural producers.

These collective mechanisms require some form of "glue" of self-interest and motivation to maintain cohesion and organisation.

¹⁹ Group- and membership-based mechanisms have long been seen as the ideal compromise between the extremes of public and private delivery. However the development experience has been plagued by difficulties; groups have been externally founded or co-opted, lacked cohesion or focus and been prone to political or elite capture, frequently collapsing through failure to deliver and retain members. Success appears to rest on self-formation and strong leadership, relatively narrow and tangible range of services to members and significant contribution to membership.

Small urban centres as service delivery nodes **Mini-case I**

Low levels of demand and high transport costs in rural areas mean that small and medium sized towns are vital hubs for service delivery. Whilst not explicitly captured in a mini-case in this review it is increasingly recognised that (see Davis, J and Bezemer, D (31) for example) rural growth prospects are often dependent on links with urban areas. Such links may concern the acquisition of manufactures or of consumption goods, or through commuting incomes, or through the marketing of rural produce in towns. Rural towns are also important as spring boards for the ensuring more effective public service provision, information, credit services, as well as serving as a centre for capturing economies of scale and agglomeration.

Public-private partnerships **Mini-cases A, F, I, J, L, M**

Increasingly, mixed models of service delivery based on different forms of public-private relationship are being adopted. For example:

- **Contracting out** specific service delivery tasks to the private sector, financed by a combination of public funding and private payment, eg partially privatised agriculture extension services.
- **Delegated service** provision to non-government or membership organisation, financed by levies, membership fees or some public funding, eg quality inspection or business registration
- **Joint ventures** between government and the private sector, eg agricultural research facilities.

Public-private partnerships of this type appear to present a number of challenges:

- **Roles:** Determining which roles are best retained solely within the public sector and which will benefit from private delivery. This is a calculation of economics (natural monopoly, public interest), government capacity and finance and, typically, political considerations.
- **Capacity:** Government requires the capacity to engage with, contract, manage and monitor relatively complex arrangements with commercial organisations and the ability to continue to finance these functions in the longer term. Frequently such a role is plagued with many of the difficulties encountered by public organisations when trying to provide services directly.
- **Incentives:** Ensuring the right balance of public and private funds. For example, the experience of using vouchers²⁰ or matching grants to transfer power to poor consumers has been fraught with difficulties. Excessively high levels of public finance (ie voucher value as a proportion of total transaction value) have seen consumer payment expectations remain low or actually reduce whereas provider remuneration expectations remain high or actually increase. This results in the gap between consumers and providers actually getting wider. Experience suggests that it is vital to establish the public-private funding balance appropriately, and ensure that supplier capacity is in place and information is available.

²⁰ See Goldmark et al (24) and (25).

6. IMPLICATIONS: APPROACHING BUSINESS SERVICE MARKET DEVELOPMENT IN WEAKER CONTEXTS

6.1 Introduction

This final section is intended to identify and discuss key implications that agencies need to consider when approaching business services promotion in weaker situations. In doing so, it draws on lessons that emerge from the preceding sections and the range of different sources consulted in the process of this review – reviews of relevant literature in the BDS and wider economic development sphere, discussions with key informants and analysis of detailed cases from project material (see Box 5). The process has been one that has required a broad sweep through different areas of development endeavour, searching for (sometimes) fragmented pieces of relevant experience.

Box 5: SOME BASIC MESSAGES – WHAT HAVE WE LEARNED FROM THIS REVIEW?

- It is unrealistic to make definitive statements about what is or isn't weak and where business services are or are not relevant: there is much to learn from the diversity of indigenous service provision.
- There are clear overlaps between private sector development and other fields, but they are not inter-changeable: the need for specialisation—perhaps managed via multi-disciplinary teams—remains. For example, SIDA has recently stated that private sector development should be viewed as a cross-cutting issue.
- Greater realism is required about the ability of public intervention to promote income generation in some areas.
- Be realistic about the “transferability” of interventions. Market development frameworks and tools have broad application as means of thinking and analysis. However the extent to which there are easily replicable models—based on the formula “more resources = more impact”—is questionable.
- Government is an inevitable part of any market picture, and it seldom has an interest in reforming its role in service delivery. Unfortunately many reform agendas are couched in unpalatable terms, solely focusing on government withdrawal. In practice market development recognises a diverse range of other important roles for government, which can form the basis for more constructive engagement about reform.
- In many instances development agency practices are barriers to more effective market development rather than catalysts to market development. Rigorous scrutiny of what works and why is not widespread.
- Publicly-funded agencies often struggle to cope with the diversity of markets. More effort and better mechanisms for market analysis and engagement are essential for effective policy-making and intervention.

This section stands back from individual cases and arguments to consider the implications for development agencies—and DFID specifically—of the evidence offered by current thinking and practice. Three sets of implications are considered:

- The role of business services in addressing economic weakness (6.2).
- Approaches to intervention by development agencies (6.3).
- Actions to take agencies forward (6.4).

6.2 The role of business services in addressing economic weakness

From a range of different contexts and experiences, this review has strengthened recognition of some emerging realities in economic development. Business services are:

- **Critically important** in determining the competitiveness of business in particular regions and industries. In sectors as diverse as commodity-based sectors like wool, fish, horticulture and poultry, manufacturing-based sectors and in service-based sectors such as media and finance, the importance of business services is self-evident. As economies develop and the competitive challenge grows, business services' significance also grows.
- **Diverse and ubiquitous.** Business services are a diverse activity within economies, both as formal, fee-based services but, especially in weaker markets, as informal, embedded services contained within commercial relationships. This apparent intangible elusiveness is sometimes equated (wrongly) with a lack of importance. Development agencies' traditional neglect of business services can be attributed to our inability to understand and identify them; a function often of the wrong frameworks and tools.
- **Part of (but not everything in)** a conducive market environment. Notwithstanding their growing importance, business services need to be seen within a wider context, in which other, related dimensions—such as the policy and regulatory framework, financial services and infrastructure—are integral parts.

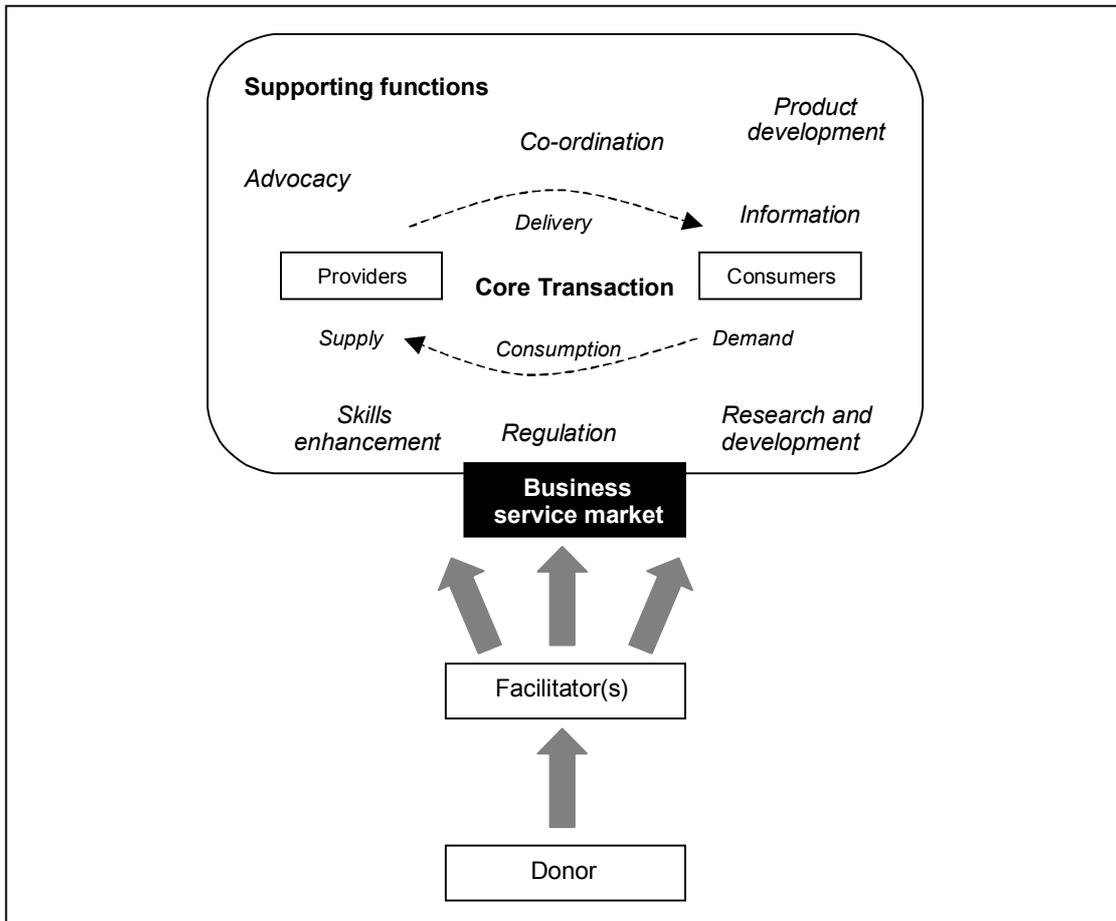
Development agencies' approaches to addressing economic weakness need to take cognisance of the increasing importance of business services in economic development.

6.3 Approaches to intervention by development agencies

The work conducted by this review has pointed generally to a future direction for development policy and interventions. What has not emerged from the review is a precise formula for success. This is not surprising given the relative youth of most interventions and the nature of economic development and of markets; quests to unearth magical elixirs by developmental alchemists are invariably doomed! However, a number of general steps that agencies need to take to engage effectively in the promotion of business services are clear. For each of these, new insights are emerging, around which many issues and questions arise. But while these don't constitute a definitive "how to" manual they do offer a framework for analysis and action, to take business service market development into thinking and practice.

Before outlining these main steps, however, two basic starting points should be re-affirmed. First, the role of external development agencies is to be a temporary facilitator (See Figure 8).

FIGURE 8: THE MARKET FACILITATION ROLE OF DEVELOPMENT AGENCIES



Development funding or activity should not be regarded as part of local markets. External aid should not be regarded as part of the long run operation of local market structures. The dreary refrain “there will always be donors” permits (and perhaps makes inevitable) a more damaging reality of dependence and distortion.

Second, market development principles and approaches are valid for all projects seeking to promote income generation or private sector development in a variety of contexts. The experiences and recent thinking of a variety of different ODA fields are broadly similar, be that in more or less dynamic economic environments. Markets lie at the heart of such interventions and market development – as interpreted in this document – needs to be taken seriously if these interventions are to be successful. Conversely intervention approaches based on intrusive levels of public subsidy for direct service delivery, by widespread acknowledgement, frequently ignore and undermine the development of markets and rarely achieve their objectives for impact, outreach and sustainability.

Building on these foundations, the key implications arising from this review are the need for:

- Better understanding the wider economic context for business services.
- More practical information and analysis for intervention design and implementation.
- A realistic and explicit assessment of sustainability from the outset.
- Developing valid and appropriate roles for government.
- Innovative and flexible intervention structures and approaches.

6.3.1 Better understanding of the wider economic context for business services

Intervention decisions and design need to be based on a broad perspective of a given economic situation, rather than just assessing the need for business services and the feasibility of promoting business services. This also entails more than conventional “enabling environment” understanding of macroeconomic policy and performance. Developing such an understanding requires that agencies are able to bring together a mixture of expertise from different fields or disciplines – policy and regulatory reform, good governance, sector specialists, financial and business services – to develop a nuanced picture of a given situation. (Encouragingly more thematic thinking is emerging in some agencies; how this translates into learning and intervention design remains a challenge.)

In rural contexts this will often mean developing a sound understanding of the structure and operation of specific sectors, and then being prepared to make a series of targeted interventions over time, some of which may focus on business services. However it is unlikely that stand-alone business service interventions will always be adequate.

In many economically weaker areas the absence of the basic building blocks of economic development – such as education, infrastructure and utilities – heighten the challenge of income generation and private sector development. In such cases short cuts seldom exist; development is likely to be a long term, difficult process. This has implications for the nature and funding of programmes.

So, for example, it has been suggested that in such situations, interventions should not aim to stimulate business service provision per se initially. They may need to focus on a more basic set of business-related constraints, for example enhancing basic levels of awareness, information and education about business. This may entail working with schools, the media, government and non-government organisations, depending on their presence and capacity. Alternatively it may mean looking to support services that improve the local economic and business environment, such as innovative telecommunication or irrigation provision. Starting with conventional business services may be counterproductive.

6.3.2 More practical information and analysis for interventions

A broader understanding of markets and market development means coming to terms with the complexity and variety of economic conditions, institutions and mechanisms. This inevitably requires that agencies need to make greater investment in information gathering and analysis, both prior to and during intervention. This is a direct challenge to rigid and short term programming and projects favoured by many development agencies.

Clearly analysis can sometimes be a substitute for activity. This review has noted the sheer volume of research that has been conducted in some fields, eg agriculture. However, the extent to which this has had practical utility in shaping intervention design is less obvious. Information and analysis need not be scientifically rigorous, indeed large, formal studies often tend to be too expensive, time consuming and infrequently conducted to be of real value. Often the most important information will come from an agency’s presence and engagement in the local context and this takes time and effort to develop. In contracting out research or delegating it to projects, agencies run the risk of becoming insufficiently informed about events on the ground (one of the potential perils of a budget support-only approach). Relevant, timely information is often the prime instrument an agency has at its disposal to achieve

leverage with partners and bringing actors together. In principle, such investment in understanding local environments is not new for agencies (eg PRA, livelihoods and stakeholder analysis); the challenge is whether and how information can be used to make effective interventions.

Information that is typically required includes:

- A picture of local institutions, important players and other economic drivers, together with an understanding of the market functions they perform and how these are financed.
- Understanding the key commercial relationships and dynamics in key subsectors and other important business linkages.²¹
- Understanding the norms and habits of target populations (as consumers): the nature and value of what they normally purchase, who they trade with, where they get information, advice and protection, their awareness and understanding of key business-related resources, trends and constraints.²²

A key challenge in weaker situations is that the prevalence of small scale, informal, traditional and embedded service mechanisms makes observation and information collection difficult. However acquiring such knowledge is essential if interventions are not to damage already fragile market environments. This may call for more informal information gathering techniques, based on local presence and contacts rather than formal studies and analysis. Again this has practical implications for agencies in their approach to designing and contracting interventions; it is unrealistic to expect projects to be able to “deliver” concrete achievement in the early stages of a project’s life without first establishing this local engagement.

It is also vital to recognise that information collection may be part of a healthy business environment. The risk is that interventions displace this by conducting all information gathering and analysis themselves, rather than strengthening local capacity to do so. Where possible agencies might need to work alongside local organisations to transfer good practice for relevant information collection, analysis and dissemination eg specialist government agencies, BMO, local research organisations and academia and the media.

6.3.3 A realistic and explicit assessment of sustainability from the outset

At the heart of market development approaches is a focus on the “system” around businesses or income generation, its current constraints and the role of development interventions in making it work more effectively in the future. Whilst such a picture will vary according to contexts, from the outset interventions need to develop a realistic picture of sustainability to guide intervention direction and practice. There is a good deal of evidence that inappropriate actions taken in the short term actually undermine long term market development.

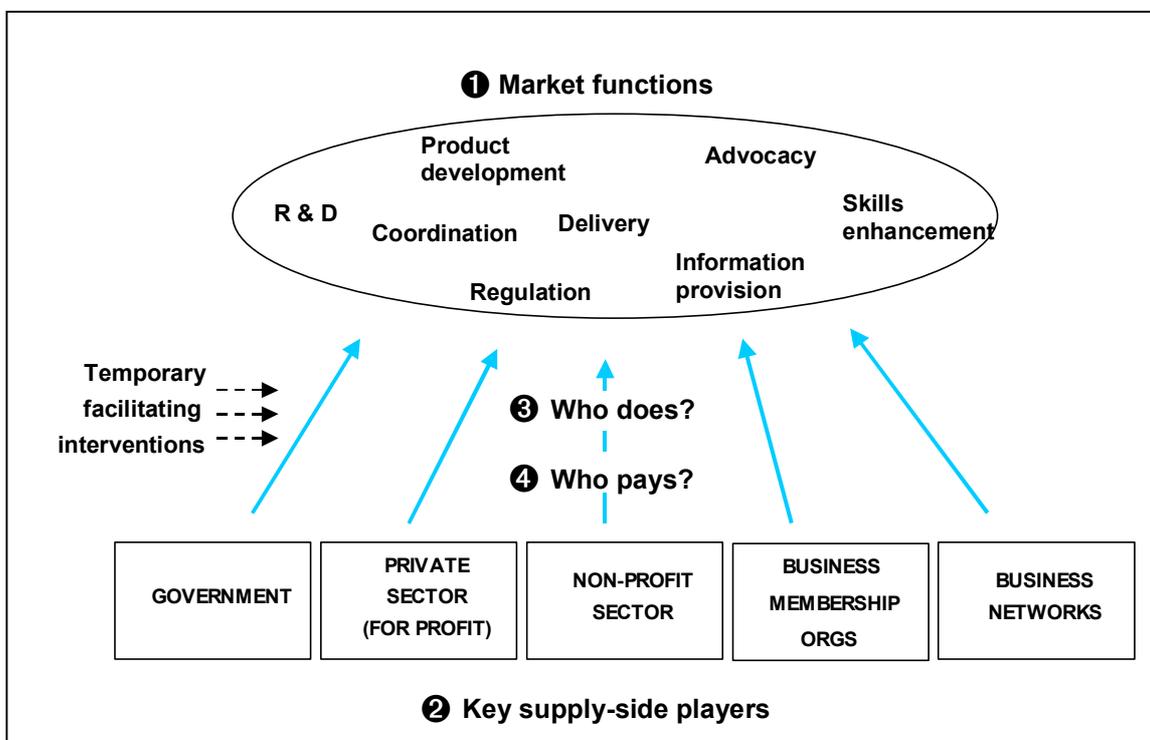
Understanding the local institutional environment—developing a realistic picture of sustainability—means going beyond token attempts at increasing cost recovery or simply privatising service delivery. It requires thinking pragmatically about the diversity of market functions needed to make a specific market work, who performs those functions (*who does?*) and who finances them (*who pays?*): research, information, new skills and product development, standards, regulation and so on (see Figure 9). Seldom do markets operate optimally in the absence of appropriate

²¹ Haggblade, S et al (26).

²² Mielbradt, A (27).

regulatory frameworks, information, basic skills, research and product development, advocacy and representation mechanisms. Ignorance or neglect of the institutional complexity underpinning markets appears to be one reason why market-oriented reforms have failed in some countries (eg former USSR) and arguably has led to accusations of “untrammelled market forces” by critics.

FIGURE 9: SUSTAINABILITY: MARKET FUNCTIONS AND MARKET PLAYERS



Tomecko²³ observes that some of these functions are collective or public in nature, in terms of how they are provided, financed and how they are consumed. Their “public benefit” dimensions—in to contrast private business services—mean that they may be most naturally provided by collective or broad ownership organisations, such as business membership organisations (BMO, eg business associations, producer groups etc) or national and local government. However they can still be construed as providing some kind of service to their members or constituents. For example, BMOs provide advocacy services, perform self-regulation functions or inputs to skills development (eg issuing qualification, enforcing standards and preparing technical guidelines in accounting and auditing services).

A realistic assessment of the capacity of key players is required. Sophisticated functions or services based on advanced economy norms, innovative approaches like public-private partnerships, contracting out service provision or voucher schemes all need to be paid for. If the gap between local resources and financing requirements are too pronounced in the short and medium term, then in all likelihood their feasibility should be questioned. Interventions may need to avoid promoting them in the first place and seek appropriate, more modest alternatives, rather than financing them initially only to see their collapse after project support ends.

A distinction needs to be maintained between the temporary, facilitative subsidy of development interventions and that of long term public funding for core functions by

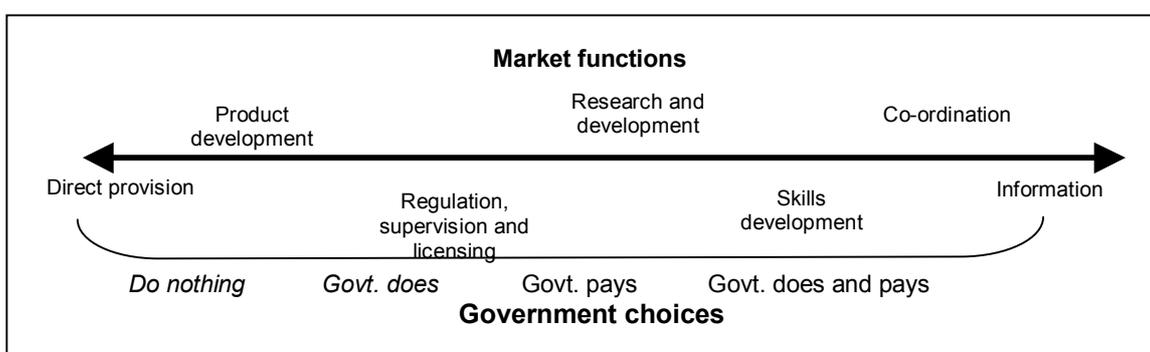
²³ Tomecko, J (28).

national or local governments. The simple fact is that not all subsidy is the same and failure to recognise this can lead to inappropriate and unsustainable institutions and, ultimately, increased dependency.

6.3.4 Developing appropriate and valid roles for the state

Central to any analysis of a market context and to developing a view of how markets should function in the future is consideration of the role of the state. Government is unique both in the power and importance it has and in the range of roles it can assign to itself. In considering the strategic role it should play there is a spectrum of possibilities (see Figure 10). Government obviously provides a broad range of basic functions for its constituents such as policy, regulation and law enforcement. It can also perform functions that generate the raw materials for private sector service providers to use in developing specific services (eg agricultural research, business data collection, economical analysis, some types of certification).

FIGURE 10: POTENTIAL DIFFERENT GOVERNMENT ROLES IN MARKETS²⁴



Choice of role can be influenced by a number of factors – which evolves over time and with level of development – but there is a growing body of practice globally on different government roles. Precise formulae do not emerge from this practical experience; however one key point of learning to emerge is that the direct service delivery role that governments have often assigned themselves is often not the best choice, because it neither utilises the state’s distinctive competence nor stimulates other players (especially the private sector) to best utilise their competencies.

As Table 3 illustrates, there are different roles that government can play in different situations.

²⁴ This excludes government’s role as a consumer or procurer, which can be important.

TABLE 3: ALTERNATIVE ROLES PLAYED BY GOVERNMENT IN BDS MARKET DEVELOPMENT

Country	Issue	Action
Argentina	Low quality standards in export sector	Link public standards agencies with associations
Zimbabwe/ Chile	Poor market orientation in vocational training	Combination of financial stimuli and statutory change and liberalisation to encourage private provision
UK	High compliance costs	Enhanced public information services to SMEs and providers of business services to provide greater clarity and guidance
South Africa	Disconnection between public procurement standards and SMEs	Standards organisation works with BDS providers to enhance broker linkages between firms and public sector buyers
UK	Developing specialist information services	Government provides a public role in gathering and offering basic data on companies, which is then tailored into specialised products by private companies

Source: Hitchens²⁵

6.3.5 Developing innovative and flexible intervention structures and approaches

Market analysis and an agreed picture of the future provide the basis for interventions. How to achieve that future picture is the core challenge of interventions. Effective market facilitation interventions requires a number of characteristics:

- Credibility with market players.
- Understanding of business problems and of potential market solutions to these.
- Discipline and insight to see the connection between analysis and intervention.

Using development resources to facilitate the improved functioning of business services markets and respond effectively to the diversity and dynamism of markets may be a challenge for large, publicly-funded organisations with multiple stakeholders, objectives and accountability requirements:

- Rigid funding and budget processes requiring detailed advance funding allocation, usually with short project timeframes which tend to emphasise output delivery rather than the facilitation of market development.
- Culture and practices which do not necessarily breed innovation, dynamism and an ability to engage with local market players.
- Emphasis on technical qualification rather than commercial or entrepreneurial experience.
- Preference for working with a limited range of formal partners, particularly government (eg general budget support) which are often distant or disconnected from the private sector.

There can be no doubt that, often in spite of good intentions, the practices of development agencies may not immediately lend themselves to a market development approach. Emerging market development experience shows that intervention is seldom straightforward, requiring human resources rather than direct financial inputs. Market development interventions require time, flexibility and an

²⁵ Hitchens, R (29).

ability to engage with and leverage action from a wide range of potential market players. In more marginal, weak areas, interventions are likely to require more of these qualities.

However, spurred on by the blunt realisation that change can only be addressed by facing up to these challenges, some agencies, including DFID, are already developing new ways of working:

- Some donors have established more autonomous and flexible vehicles, such as trusts, apex organisations or umbrella projects that can operate with less of the strictures affecting the primary funding agency. The vehicle typically has a small number of broad strategic objectives against which its performance is measured, but below that strategic level the flexibility to undertake or fund diverse, changing market development activities that will contribute to the overall strategic objectives of the primary funding agency. (For example, DFID's Commark and Propcom projects in S Africa and Nigeria.)
- In other cases, donors have revised their planning and reporting frameworks to place greater emphasis on direct impact measurement and less on specific activities and outputs of the project (eg GTZ AURA), recognising the fact that projects need to behave responsively and sometimes opportunistically in response to dynamism and complexity.
- Other donors use rolling or multi-phase programme approaches that can combine multiple intervention foci and work with multiple partners over long time periods, giving sufficient time to develop presence and credibility and recycle learning.
- Specific funding for action research, learning and knowledge transfer, both within larger projects and as discrete activities.
- In recognition of the emphasis that market development places on human resources, some agencies are going to considerable lengths to establish new networks outside development and recruit industry and sector specialists with (local) commercial experience and contacts, on short term and longer term basis. One challenge may be to align development remuneration and practices more closely with that of the private sector.

6.4 Actions to take agencies forward

The BDS, agricultural extension, rural livelihood and other disciplines have all arrived at a similar juncture and reached similar conclusions; that in order to address economic weakness more effectively actions need to be shaped by a market development framework. This confluence of experience and analysis represents a real (and rare) opportunity for development agencies to forge a new and coherent framework to guide interventions and to overcome the damage and waste that can result when related disciplines don't learn from each other.

For DFID in particular, the opportunity highlighted by this review is to develop a consistent approach to economic development in weak situations with a stronger potential for success. How can this opportunity be acted on? In particular, what actions can Policy Division take to build on the potential offered by this emerging theme? The following represent some initial ideas:

- **Develop a joint research agenda:** the points raised in this document constitute the outline of a shared market development agenda in weak economic situations. However, in order to take this forward, it is necessary that this agenda is seen to be developed and owned by people from each

field. Commissioning some form of a (brief) inter-field study to identify and develop a joint research agenda, directly building on this document, would offer this potential for shared ownership.

- **Organise inter-field workshops to further discuss service-related issues in weaker markets:** these would serve an exchange and learning purpose, perhaps organised around a number of specific cases. The outcome would be both formal and informal lesson learning and enhance interaction between related fields. It is important that this interaction occurs outside DFID as well as internally; during the course of this review it was noticeable that many of the external resources drawn upon by DFID seldom interact beyond their own intermediate fields (agriculture with agriculture, small enterprise with small enterprise).
- **Engage with DFID Country Offices to review and learn from initial experience as a donor in operationalising market development oriented interventions:** such a review would firstly acknowledge that DFID is indeed working with market development in many and various forms. Secondly, the fact that such a diversity of approaches (eg in design logic, performance measurement frameworks, implementation vehicles, monitoring and impact assessment indicators) is being utilised demonstrates that in the absence of clear operational guidelines (understandable given the infancy of the approach) DFID country offices have had take their respective leads. A review of this initial – almost experimental - experience is valid, firstly to capture emerging lessons in operationalising market development concepts. Secondly to synthesise and disseminate this experience as an informative guide to DFID country offices seeking to reorient existing, or design new, intervention programmes focused on income generation (irrespective of the particular ODA field).
- **Initiate an action-research fund to further learning:** given an emerging consensus and market development framework, further substantive learning can only emerge from changed practice and rigorous and transparent assessment of this practice. Market development is difficult and new. This does not mean carte blanche for failure and incompetence, but funding mechanisms for pilot and action research activities. Action-research is precisely the route through which such practical and necessary learning can take place.
- **Intervention guidelines:** ultimately, guidelines to assist in intervention design and implementation should be developed. These may emerge from the above actions. However, care needs to be taken that—as has happened in other development spheres— discussion moves seamlessly from initial practice to “best practice” with little interruption by rigorous analysis! Premature and unsubstantiated talk of best practice runs the risk of undermining the potential apparently of a market development framework to enhance positive impact. Again it is essential that any such guidelines are based on consensus and commitment across a variety of fields with objectives for income generation and business development.

ANNEXES

ANNEX 1: MINI-CASES

Mini-case	Country / Region	Focus on
A: Information services for rural businesses via commercial radio	Uganda	Provision of business services to large numbers of small farmers and rural businesses via commercial radio stations.
B: Business education via commercial audio-visual distributors	Cambodia	Provision of business education programmes via commercial distribution companies.
C: Micro-scale services for business	Uganda, Nepal, South Africa	Informal and traditional business services; private service solutions in response to public service vacuum
D: Market Access Services for Small-Scale Wool Farmers	South Africa	Embedded services; different market functions; multiple intervention points.
E: Business services for pond fisheries sub-sector	Bangladesh	Using embedded services to increase productivity and competitiveness
F: Veterinary and livestock services	Mali	Agricultural extension services, building effective demand through vouchers, linking advice with inputs, public and private extension roles
G: Business services for small scale horticulture	Honduras	Business services within sub-sectors, role of services in integrating small rural producers to new markets: facilitator's role in market development
H: Group based business services in the poultry sector	Bangladesh	Group-based delivery to reduce transaction costs, practical sub-sector-focused services, bundling services with physical inputs
I: Expanding business services to new areas and segments	Nepal / Various	Shifting services to peripheral areas, relationship between services and other public functions, public-private intervention approaches
J: Building private services from "public benefit" infrastructure platforms	India	Public and private service linkages, embedded services, piggybacking services on a common platform, differentiation between access costs and operational costs
K: Private agricultural extension services via large companies	India	Embedded services, linking services to input and output markets, market access, bundling of services
L: Linkages and synergies between rural infrastructure and services	Various	Common experiences of rural infrastructure and rural service provision, underestimation of willingness and ability to pay, importance of educating consumers
M: Business services and rural infrastructure	Mali / Nicaragua	Infrastructure providers as business service consumers, business services as economic change agents supporting commercial viability of infrastructure
N: Bundling agricultural product trading, finance and business services	Zimbabwe	Linking finance and business services through product chains of agricultural input suppliers, rural retailers to small scale farmers
O: Linking agricultural and finance and business services to reach small producers	Various	Using established commercial trading relationships and incentives to reduce the transaction costs of service provision to rural poor

Mini-case A: Information for rural businesses via commercial radio, Uganda

Focus on: provision of business services to large numbers of small farmers and rural businesses via commercial radio stations

Small, rural businesses, farmers and other producers lack access to appropriate, timely information. Consequently development agencies have intervened to address this constraint. The ILO has had a variety of innovative projects in this area, working to stimulate provision of business information in the commercial media.

The FIT SEMA project recognised that, in a newly liberalised, competitive media environment, commercial radio stations were desperate for content. The formula was not complicated: appropriate content translates into sustained audiences; that in turn generates commercial sponsorship and advertising revenue.

The project worked with local FM radio stations, seventeen out of twenty of which broadcast to rural areas. It was recognised from the outset that acquisition and preparation of content is something that radio stations have to do for themselves. In this context clear commercial incentives and ownership the project chose to intervene with a light touch: initial research into audience and content and capacity building to develop journalistic skills and editorial practices. To the project's surprise very little financial support was required. Project support primarily involved linking radio stations with market research organisations, content providers and production specialists rather than direct financial and technical assistance. The total cost to establish the first radio programme was \$39,000, including research, local staff and expatriate staff, and capacity building. The major challenge was persuade the first radio stations to try the idea (it took five months). The lesson is that market development approaches may be cheap in terms of direct expenditure but can be very intensive on time and needs to involve staff with a creative approach, private sector credibility and considerable perseverance.

Another early lesson was that radio was comparatively more important for rural areas than urban areas (who have more diverse sources of information and entertainment). The key to success was understanding what rural populations listen to, when and how (eg late afternoon/early evening for households, who typically go to bed early; early in the morning for fishing communities, who listen whilst fixing nets after a night-time's fishing).

Radio stations now air a small business programme every week. Programmes are presented in seven local languages, with a significant cross-border audience. Content is set according to area of broadcast (70% is agriculture focused) and includes technical discussions with experts, information from local and national markets, interviews with successful businesses, investigative journalism and advocacy. Radio stations' own journalists source a good deal of the content. Programmes operate on a purely commercial basis through sponsorship and advertising revenue, eg by mobile phone operators or large agricultural input suppliers. Moreover other radio stations now appear to be copying the format independent of project support – a sustainable and diverse market for business information is emerging.

The first small business radio programme was launched in late 1999. The project provided small inputs to support the replication of this programme concept onto other rural radio stations through 2000 to 2003. By late 2003 the project had directly supported the start up of 8 weekly radio programmes but had also identified 6 copycat programmes that had launched on different radio stations with no support from the project. In total 14 weekly radio programmes focussed on small business were running in 11 local languages by early 2004. These programmes are estimated to have an audience of over 2 million. The project continues to stimulate additional replication in other radio stations.

The project staff noted a variety of challenges, mainly arising from the actions of other development projects. Some stations have withdrawn their own crop information coverage because they can make more money from carrying donor-sponsored programmes. Others can

no longer afford to engage resource people for interviews because donor projects have driven interview fees up to \$50 a time. A second problem is has been an undermining of editorial control. Projects typically pay a production company to produce programmes and then pay local radio stations to broadcast them. Local stations have no editorial control or production input into the programme, eroding balance and ownership and consequently inhibiting the development of a sustainable link between the microfinance industry and the media. Ironically, other stations wanted to cover microfinance but couldn't because of the unwillingness of the microfinance industry to engage with the media and provide information in an open and less directive manner.

A final challenge is how to improve the flow of business-related information to the media and the ways in which information from the media is being used. The market development challenge therefore is not just to ensure the sustainability of the business information programming (delivery), but to improving the way in which information is available to the media from eg government, BMOs, NGOs, universities etc.

Source: FIT-SEMA Project (an ILO project funded by SIDA).

Mini-case B: Business education via commercial audio-visual distributors, Cambodia
Focus on: provision of business education programmes via commercial distribution companies

The ILO wanted to reach Cambodians outside the capital, Phnom Penh, with business information, particularly in visual format. Collaboration with a Phnom Penh TV station showed that broadcast signals do not reach some rural parts of the country and that commercial sponsorship was limited, constraining long term viability.

However there is a sophisticated distribution network for audio-visual material in pre-recorded form (VCDs, VHS, DVD) which reached far into rural areas. Several distribution companies exist, with different content specialities (films, karaoke etc.) and/or geographic coverage. Low-cost TV sets and players from China are widely available, and many people in remote rural areas apparently have access to these, in communal viewing halls or bars and on buses. The project set out to establish whether this network, ultimately funded by the end-purchaser, could be used to disseminate business information.

Since the materials had to be immediately saleable, some of the best-known Cambodian comedians were engaged, one of which already had a stage persona as a businessman. With them, two episodes of a comedy were produced featuring two competing restaurants, one very badly managed and the other better managed. In these episodes, a number of issues came up; for example, the badly-managed restaurant ran out of money, as all the customers went to the competition, so the owner refused to pay his workers. The scene where the workers protest, and the owner's daughter mediates in the dispute, for example, resonated with rural viewers.

The project approached several commercial distributors, one—with a strong network in the rural north-west of the country—agreed to test-market the episodes and paid for all copying and distribution costs, and made a small profit.

The distributor initially made 3,000 copies, but these sold quickly and she had to make additional copies. At the time of writing, sales stood at around 10,000. The selling price is \$0.80-1.50 each in urban markets and \$2.00 each in rural markets (there are more traders in the chain to reach rural areas). Piracy is a problem, both for profitability of the distributor and for tracking of sales, and therefore the price is kept as low as possible; also, distribution is being achieved as quickly as possible, to reach all potential customers before pirate copies.

A follow-up study has found that 40% of small businesses approached had seen the material. The venue depended on their location; rural viewers were most likely to have seen it in a village cinema, in a restaurant or coffee shop, or on a bus, but the material was ultimately disseminated in many forms. For example, a taxi driver made an audio tape and played it to passengers. Viewers had often retained ideas about management skills, but otherwise, perceptions of urban viewers were rather different to those of rural viewers. In particular, rural viewers preferred different media personalities, and more obvious humour; on the other hand, they were also much more interested than urban viewers in messages that would help them in their own business (whereas urban viewers were more inclined to regard the materials as entertainment per se).

There is some evidence that other media organisations are launching similar products.

Source: ILO SEED Program (Geneva).

Mini-case C: Micro-scale services for businesses, various

Focus on: informal and traditional business services; private service solutions in response to public service vacuum

Dispute resolution / mediation services in rural Uganda

In North West Uganda, an extremely rural bordering Congo research indicated that 52.6% of business were aware of conflict and dispute arbitration and 9.6% had used these services, whereas in more urban Central Uganda awareness and usage was 21.1% and 2.8% respectively. Whilst this service might not be seen as a conventional business service, in a context where formal public mechanisms for enforcement of transactions and property rights are dysfunctional, private solutions such as these are an important way in which exchange-related disputes can be resolved.

More surprising was the fact that CADER (The Centre for Arbitration and Dispute Resolution) had been undertaking a media awareness campaign in central Uganda with activities limited to Kampala. Investigations suggest that the Paidha business community uses traditional approaches to solving disputes through village based arbitration. It appears that a traditional system is providing services more effectively than a formal service organisation like CADER.

Rural business training in Uganda

A Kampala based freelance business trainer sees his prime market as rural communities. He appears as a business “agony aunt” and business adviser on radio and in newspapers (see Case A) and finds that– particularly through radio– he is in contact with over 5,000 rural clients. His strategy is to use radio to make contact with rural associations (he has linked with over one hundred) and then organise business seminars with these associations in local languages. He has used mass media and rural associations to reduce the cost of identifying and mobilising potential clients, thus overcoming a key constraint to organising and delivering rural training activities.

Neither of these services have received support from development agencies.

Source: FIT-SEMA Project (an ILO project funded by SIDA)

Urban business and consumer services as a microenterprise in Nepal

GTZ in Nepal worked with a group of street children to form their own formally-registered company, *Prayas*, which has successfully won municipal contracts to handle refuse collection and car park management and which is also expanding into other business and consumer services, such as handling bill payment and small scale procurement for clients. Project support comprised limited assistance for developing business ideas and dealing with the registration process; direct financial support has been modest. The children have reinvested proceeds in purchasing uniforms, promotional material and implements. They have gone on to win contracts independently from project support.

Source: *GTZ Nepal, Business Service Aadhar*

Business services for micro-retailers in urban townships in S Africa

The Cape Town-based NGO Triple Trust Organisation has identified opportunities for business growth for many of the 14,200 black-owned convenience store (“spaza”) owners serving low income township consumers with basic groceries. Research shows that the interests of small retailers are aligned with the interests of larger product manufacturers (such as milk and bread) and wholesalers in reaching and satisfying consumers in the significant township market. A range of business services – some embedded and some standalone services – appear to be key to improving retailer performance and mutually profitable business relationships between micro-retailers and their larger trading partners:

- Training and advisory services to improve costing and pricing practices and enable retailers to make better stock purchase decisions
- Training and advisory services to improve customer service and increase customer retention

- Introduction of debit cards instead of cash for stock purchases from suppliers to reduce risk of theft
- Pest control/hygiene services to reduce waste and increase standards of hygiene to make stores more attractive to customers

Source: TTO, Source: Forthcoming case study on TTO Spaza Market Project, Marshall Bear (Independent Consultant).

Mini-case D: Market access services for small-scale wool farmers, South Africa

Focus on: embedded services; different market functions; multiple intervention points

The wool subsector extends from wool farmers to final wool consumers, including breeders, input providers, brokers, spinners and exporters as well as other formal and informal services. Production is dominated by 9,000 commercial farmers who produce 97% of output. The remaining 3% is generated by 200,000 small-scale producers, many of them poor. Within this a smaller group of emerging farmers (up to 20,000) are beginning to use more organised flock and grazing management practices. There is a marked divergence in performance between different farmers, due in part to lack of access to key services.

Average return/animal, S African wool sector (2002)

Commercial farmers	£7/animal
Emerging farmers	£1.73/animal
Marginal farmers	less than £0.30/animal

Key players in the provision of technical guidance for farmers has historically been:

- The National Wool Growers' Association (NGWA) provides services to (fee-paying) members and establishes industry standards.
- Brokers and agents are key players in downstream marketing and provide a range of formal (shearing, transporting, baling) and informal (price and industry information) services to producers. They are regulated by an industry body.
- Public and private wool "sheds" are vital for collective organisation and service delivery.
- Public agencies offer services particularly related to animal health and management.

Services related to genetics and productivity, herd management and marketing are important but have historically been concentrated on commercial farmers, not emerging farmers. The latter are small-scale, scattered and, without organisation, difficult for providers to serve. Lack of voice and organisation has not allowed them to articulate their demand. Their knowledge and understanding of services is weak and existing sources of information inadequate. However some services, eg shearing and transporting, are already paid for, indicating willingness to pay for services is there. Some farmers deal with traders on a cash-in-hand basis, who handle all buying, grading and auction risk, but returns are low as wool is not classed prior to sale. Better prices are realised by selling, via brokers, through auction floors, but there is insufficient understanding of, and confidence in, such transactions.

On the supply-side, providers' existing practices are inappropriate for the small-scale and they are unable to see the commercial benefit in serving them. Overall, there is a disconnection between the mainstream industry and emerging farmers.

Project response

DFID's ComMark project is focusing on improving key supply-side players' knowledge, capacity and practices to serve small-scale farmers and demand-side players' organisation and knowledge of the mainstream industry. This might include activities such as:

- Limited support to enhance the "offer" of private sector providers of market services.
- Stimulating regeneration of dysfunctional, government-owned sheds in remote areas, under different ownership—private or membership-based—as a collective point for service delivery.
- Working with associations to develop wool processing services (eg classing) financed through membership fees.
- Assistance to enhance health management, selection and breeding services from NGWA and government-provided services.
- Promoting better information and recording practices on bales.
- Improving linkages between commercial breeders and farmers.

Source: ECI Africa, "South African Wool Subsector Analysis", Making Commodity Markets Work for the Poor (ComMark) Project/DFID (2002); Personal correspondence J. Howell, ComMark Adviser.

Mini-case E: Business services for the pond fisheries sub-sector, Bangladesh
Focus on: using embedded services to increase productivity and competitiveness

Freshwater fish is an important source of protein in the Bangladeshi diet, but over-fishing and pollution has reduced fish stocks and caused prices to rise. The Faridpur pond fisheries subsector has grown dramatically in response to this supply gap: over 22,000 fishpond operators, and an additional 20,000 related-enterprises, produce 37,000 tonnes of fish annually and require 3,800 tonnes of fingerlings per year. The emerging pond fisheries subsector is one Faridpur's few activities that generate a marketable surplus.

Subsector research found that productivity of the Faridpur subsector lags behind industry norms as a result of failure of the local fingerling market to satisfy pond farmers needs (only 2,300 tonnes of the 3,800 tonnes of annual demand is produced locally) and poor pond management and business practices limiting returns from purchased inputs. This supply gap encourages nursery operators to sell excessively young and poor quality fingerlings to satisfy seasonal demand, contributing to high mortality rates, greater feed requirements and lower returns to pond operators. Pond operators want more mature fingerlings but this requires greater investment on the part of nursery operators. Nursery operators see no reason to invest while they can sell everything they produce—although poor quality results in poor prices—and believe that that high mortality rates result from poor pond and business management practices. Pond operators are dissatisfied with nurseries, nurseries have few incentives to change, and hence productivity problems persist.

The subsector's productivity is constrained by inadequate information and knowledge about production standards, pond and business management. Better availability of information and knowledge for pond operators on how to buy and use fingerlings for their ponds is believed to be vital to achieving industry norms. The DFID-funded Katalyst Project ascertained that the most cost effective means to improve the availability of information and know-how was to embed it in commercial transactions between nursery operators, their sales agents and their customers.

Katalyst is starting work with nursery operators who are interested in developing and incorporating these embedded services to improve their competitive edge vis-à-vis Jessore. The embedded service offers focuses on assisting pond operators to optimise their returns by getting more output per pond over a longer growing season. This also requires the nursery operators to change fingerling marketing and distribution to include a diagnosis of pond quality, information on fingerling care under different conditions and to train sales agents accordingly. Additional costs are compensated by better prices by matching fingerlings to pond quality, a longer selling season and lower marketing costs as a result of increased customer retention. The project will also work with the sector association to form a consortium of private operators, local government and the association to establish a local fishery market, as is common elsewhere in Bangladesh (eg Jessore).

The project's objective is to provide an effective demonstration of the link between better customer service and increased fingerling sales and higher prices, so that more nursery operators are encouraged to offer buyers a better product throughout the growing season. This will help establish a quality chain for inputs. The physical market will also provide a platform for a range of other embedded business services. The project's role is essentially to bring different subsector actors together, stimulate awareness and creativity about a more viable business model geared to customer value and provide limited support for the demonstration of that new business model.

Source: *Katalyst Project (funded by DFID, SDC, SIDA); Marshall Bear (Independent Consultant).*

Mini-case F: Veterinary and livestock services, Mali

Focus on: agricultural extension services, building effective demand through vouchers, linking advice with inputs, public and private extension roles

This private animal health network provides a good opportunity to improve livestock production extension. On the one hand, private veterinarians like to diversify their activities and increase their clientele and income. On the other hand, governments need to support the private sector and reduce the costs of their extension services. In Africa, for instance, more than 2,000 veterinarians are currently practising privately.

Identification of the Case

Mali has been innovating new approaches for stimulating its private veterinary network and involving it in extension work. The project in focus here is called PASPE (Projet d'Appui au Secteur Privé de l'Élevage) funded by the French Co-operation.

Since 1998, the project has supported the livestock development of three regions of Mali: Sikasso, Kayes and Mopti. The approach comprises:

- The use of a network of private veterinarians (vets) and paraveterinarians (paravets) to transfer information on livestock.
- The participation of the producers through Producer Organisations (POs) and Regional Agriculture Chambers (RACs) in extension programming and contracting.

Country context

Livestock production extension (LPE) was provided by the Ministry of Rural Development and Water (MoRDW). LPE messages were the same for all regions and considered too theoretical and often inappropriate to the local demand. Also, the program was considered too costly with very low impact on livestock productivity.

Since 1991 Mali has been engaged in privatising, decentralising and restructuring its agricultural services. A total of 213 private vets practices were established by 1998. In the context of decentralisation, RACs were established to represent POs at the regional and national levels. Finally, following the restructuring of the public sector, extension staff levels of the MoDRW were reduced leaving opportunities for alternatives and limiting unfair competition with the private sector.

Inception Phase

In 1998, PASPE started a program for supporting livestock development in Sikasso, Kayes and Mopti. Aims were primarily to strengthen the private sector, reduce the operating costs of the support services and promote a more demand-driven extension system. Specifically, the model conceived contracting private vets or paravets through the RACs after having selected regional extension programs through consultations with the producers at the village level.

Village consultations in 1999 highlighted eight extension themes covering poultry, small ruminant and cattle production and animal health were identified in. The RACs contracted 120 private agents for providing training in 4,500 villages (two visits per year). Private agents were paid on the basis of the number of villages visited. The costs were only US \$ 20 per village and per year. Extension messages were provided free to farmers. Vaccines, drugs and other material such as fly-traps were charged at full cost by the vets.

A contract was established between each private vet / paravet and the RAC. The vets / paravets were due to report the number of training sessions organised. The RAC was in charge of paying the private agents after having confirmed that the work had been done. Checks were based on random sample surveys.

Revised Inception Phase (vouchers)

Following the first round of training sessions at the end of 1999 the demand from the PO's was getting increasingly diversified between villages. PASPE recognised that more flexibility was required. It launched the village extension vouchers (chèques formation) scheme (delivered through the RAC).

The RAC issues vouchers valued at \$17 per village. It manages a catalogue of training options, their costs and details of the trainers. The villages select whatever training sessions they need. Villages participate in funding if training costs exceed their extension allocation. They can also ask for other training options than those presented in the official list. Any new themes are agreed by the RAC and organised in collaboration with the supporting NGO. The villages select the trainers themselves. If a trainer is based far from a village, additional transport costs are paid partly by the village. The representative of the village, the private agent and the RAC co-sign contracts.

Observations confirmed that in addition to introducing flexibility in selecting extension themes, the vouchers improved the empowerment of the producers, transferred part of the control to the beneficiaries and allowed for competition between extension agents.

Impact

The primary beneficiaries are the livestock producers with access to support services and inputs improved in the regions covered by the project. For the year 1999, the results are deemed impressive (no comparative baseline data is presented, but results are agreed to be considerably stronger than those achieved previously) in the region of Sikasso where about 40 private agents were involved. Specifically,

- 1,850 villages received advice on poultry diseases and 2,500,000 poultry were vaccinated against Newcastle disease.
- 1,250 villages received information on sheep and goat diseases and 15,000 small ruminants were vaccinated.
- 175 villages attended training in trypanosomiasis control and 500 fly traps were sold.
- 425 villages were trained in range and water management.

Other beneficiaries of the project are obviously the private vets / paravets. Evidence shows that they have diversified their activities and increased their income.

Each of the private agents earned an average \$740 from the RACs. However, through providing these extension services they have also discernibly strengthened their relationship with these rural clients and have reportedly increased the sales of drugs and vaccines. These additional sales have bolstered net incomes. This shows that remote rural producers are indeed discerning and are willing and able to pay for services / inputs that they deem important.

Four critical success factors of the approach were determined

- Vouchers encouraged strong participation of the herders in selecting priorities.
- Appropriate extension programs were developed with resulting rapid and tangible impact such as a decrease of animal mortality rates.
- Extension messages were stronger and more effective through being associated with improved access to relevant inputs (drugs, vaccines, traps, feed, material) – that were paid for commercially.
- the information and management service provided by RAC's was critical and ensured appropriate facilitation and quality control.

Lessons learned

Private commercial relationships between vets and herders are being established. This is creating a market for services. The market is underpinned by a relatively low cost public funding of basic extension messages. It can be envisaged that in the future, any funded

extension messages may become more oriented to public health issues, leaving productivity related extension issues being provided – and paid for- privately. Through expressing (as discerning consumers) their demands, producers are receiving the services that they require – they are taking the messages on board and purchasing recommended inputs – the messages and inputs combined are having positive productivity impacts. A market is being created. However, as a market develops, various market functions are required, and various actors are required to perform these functions. The project has specifically identified four key market development issues:

- An honest broker to regulate competition and prevent misinformation.
- The on-going professional training, accreditation and licensing of private vets / paravets (likely requiring a public-private partnership of some description).
- A need for public and private extension research (particularly public health related), and translation of this into training and skills development.
- Improved access to credit for private agents particularly for buying stocks, and buying transport to reach the remote villages.

Source: adapted from “Contracting for livestock production extension with private veterinarians: The case of Mali”; E. Fermet-Quinet (French Co-operation – Mali) and J. Gauthier (World Bank).

[For another consideration of markets for livestock services see Mercy Corps’ South Azerbaijan case study summary for the SEEP PLP market assessment list serve discussion: “Estimating demand and supply in weak or limited markets” (January - March 2003).]

Mini-case G: Business services for small scale horticulture, Honduras

Focus on: business services within subsectors, role of services in integrating small rural producers to new markets: facilitator's role in market development

The Fintrac CDA Project is focused on the development of specific crops or processed food products with strong consumer market prospects in the Honduran horticulture sector (cucumbers, jalapeño peppers, sweet potato, cassava, pickled bay corn, melons, onions). The project explicitly recognises that for the development of new crops to be successful and for growers to remain competitive they need access to a wide variety of services. Accordingly a key element of the project's approach is to stimulate sustainable service provision to the horticultural sector from the outset. The typical approach is to enter the market with a relatively intensive set of interventions (providing market information, technical assistance and establishing new contacts), test new linkage models, demonstrate their value to businesses in the supply chain and then exit the market, leaving behind new business-to-business relationships between producers, buyers and business service providers.

Consequently services are now being provided to small growers by private companies, including drip irrigation design and installation, greenhouse seedling production, freight aggregation, legal consulting, design for labelling and packaging, technical assistance, land preparation services, vegetable grading, packaging and exporting services. For example, biological controls developed commercially by an agricultural college are now being used for pest and disease control in more than 5,000 hectares of productive land.

Many micro-processors have improved their labelling and packaging and sell to supermarkets and convenience stores in the main cities in Honduras, via medium sized distributors.

The following examples illustrate this more specifically:

Broker service for small rural processors

Rural processors are typically unable to establish direct contacts with markets in main cities. They lack transport, produce insufficient volume and product ranges, their labelling is poor and they do not meet the legal requirements for selling in some markets.

Conversely brokers are not interested in distributing products of small, rural processors due to poor presentation, low volumes, low product diversity, high transport costs and irregular delivery and product quality. Smaller brokers themselves often have limited access to mainstream markets.

The project's response has been to:

- ❑ Support a "pilot" distributor and establish contacts between it and supermarkets.
- ❑ Link the pilot distributor with twenty micro-processors.
- ❑ Provide micro-processors with some TA for product development and quality and compliance with legal regulations.

As a result the pilot distributor's product lines have grown from three to seven, and has secured new accounts with supermarkets, doubling sales from \$50,322 in 2001 to \$99,393 for 2002. Producers now use new packaging and labelling. Combined sales for the micro-processors (85% women owned) increased from \$88,000 in 2001 to \$190,000 for 2003. By 2003 five new distributors entered the market looking to work with products from micro-processors.

Customs agents and freight services for regional exports

Jalapeño growers saw potential to sell their products in neighbouring countries. This required several permits and papers. Growers did not have access to the services of customs agents to assist them comply with the export/import requirements. Furthermore

most growers lacked contacts with truckers who could transport freight to neighbouring countries.

Truckers were generally inexperienced in the transport of perishable products to other countries. Customs agents tended not to want to deal with diverse, small clients who make infrequent shipments to regional markets. Agents' services were typically poor; document processing was inefficient and shipments were frequently delayed at borders for lengthy periods.

Moreover service providers and consumers lacked sufficient information about who provides and who needs services.

The project's response has been to:

- Provide TA to growers and include truckers in post harvest handling procedures.
- Establish contacts with new regional buyers, between growers and BDS providers (eg custom agents) and between BDS providers and regional buyers.
- Assist in the formalisation of delivery schedules.

As a result between eight and twelve new truckloads/month were sent to regional markets during 2002. A total of 25 growers in different regions of the country entered the Guatemalan market for the first time within an eighteen-month period. During 2002, customs agents assisted in the export of 820,000 lbs (45 truckloads) of peppers, worth more than US\$170,000. In 2003 1.5m lbs (85 truckloads) worth \$330,000 have been sold to Guatemalan processors. The number of large buyers in Guatemala sourcing from Honduras has increased from two to five processing companies. Raw materials are also being sold to large companies in Costa Rica.

Source: *FINTRAC CDA Project, Honduras.*

Mini-case H: Group-based business services in the poultry sector, Bangladesh
Focus on: group-based delivery to reduce transaction costs, practical sub-sector-focused services, bundling services with physical inputs

BRAC is one of world's largest NGO. Its poultry sector development programme has interacted with approximately 1.6m people (2000, cumulative) over twenty years. At present over 50% of participants in the sub-sector are female.

BRAC's early experiences indicated that no single intervention was able to reduce mortality and improve productivity and profitability in the sub-sector, particularly in face of poor government service delivery.

BRAC therefore adopted a sub-sector approach, mapping out input-output relationships in the sub-sector, identifying key constraints and making a series of interventions in response. A key objective of the approach has been to leverage appropriate private sector or government involvement throughout the sub-sector. Although critics argue that BRAC has tended to become too directly involved in the sub-sector (or at least for too long) there are many positive signs of independent (often micro- and small-scale) private activity as a result of BRAC intervention. These include feed supply, chick rearing and distribution, egg collection, marketing and, in particular, private para-veterinarians. In cases where BRAC has been directly involved, its activities are not heavily subsidised, indeed many appear to achieve breakeven/profit.

A key element of the approach has been to utilise group-based delivery (groups often established as part of BRAC's wider rural development activities, particularly microfinance) to reduce transaction costs. For example, estimates suggest that training costs are under US\$10 per trainee.

Impact on service users, many of them start up poultry microenterprises, is impressive; a doubling of annual income is not unusual. Some people within BRAC argue that service prices could actually be increased considerably in view of their utility to users. Indeed an important lesson from BRAC's experience is that in order to charge microenterprises for services, the service "offer" has to be as tangible and practical as possible. Combining service delivery with physical inputs like feed supply, hatchery equipment and vaccination may also be important.

[Two caveats need to be made: First, clear identification and measurement of BRAC's activities can be difficult due the scale and complexity of its operations; Second, a uniquely dense, homogenous population distribution may aid service delivery efficiency and group effectiveness in Bangladesh.]

Source: Hitchins, R; "BRAC Poultry Programme: A Subsector Approach to Developing Microenterprises in Bangladesh"; Springfield Centre / DFID (1999).

Halder S; "BRAC's Business Development Services - Do They Pay"; Small Enterprise Development Journal, Vol 14, Number 2 (2003).

Mini-case I: Expanding business services to new areas and segments, various Focus on: shifting services to peripheral areas, relationship between services and other public functions, public-private intervention approaches

Facilitating service expansion to secondary towns and microenterprises in Nepal

In Nepal GTZ has worked to promote Accounting, Finance and Taxation (AFT) services, particularly in the capital Kathmandu. It has worked with service providers to introduce new products that assist SMEs to comply with new VAT regulations. GTZ's intervention strategy is to stimulate private sector response and investment, intervening only in start up activities like market research, product identification and promotion. It explicitly avoids financing any form of service delivery.

In general while purchase of AFT services for statutory compliance is common in Nepal, purchase of these services on a "voluntary" basis (eg financial and tax consultancy, feasibility studies, bookkeeping, financial management advice) is more rare, particularly in secondary towns, which act as hubs for surrounding rural hinterlands, and amongst microenterprises.

A private service provider approached GTZ with the idea of franchising its innovative package of AFT training and consulting to partners in ten small towns (population 100,000 and below), with a potential market of approximately 3.500 enterprises.

GTZ agreed to provide some "risk-reduction" support for a pilot franchise, on a 33:67 basis. GTZ is co-financing a consultant in franchise development, \$450 for advertising and promotion to attract potential franchisees in four pilot towns, while the service provider is financing logistics and training of potential franchisees to the value of \$1,300. Response from both potential franchisees and SME clients has been positive, and one franchise has begun operating successfully.

In Kathmandu, GTZ is promoting AFT service consumption within the microenterprise segment, where access and consumption is currently very low (at this level only 30% of microenterprise spend money on financial consultancy). GTZ is intervening by

- Increase microenterprises' general awareness and knowledge about AFT services using social marketing techniques, partly financed by private service providers.
- Working with service providers to develop more appropriate and affordable products.
- Bringing service providers and microenterprises together in a trade fair, sponsored by the private sector.

*Source: GTZ Private Sector Promotion Project
Tomecko, J "Case Studies of BDS Market Development Interventions in Weaker Markets"*

The role of public functions and decentralisation in stimulating business services in new areas in Kenya and Indonesia

When business registration and licensing in Kenya was decentralised to the sub-national level demand for local legal services increased considerably.

Source: private discussions, Catherine Masinde, DFID Kenya

In Indonesia, the world's largest Muslim nation, *halal* food certification is a key function in the food-processing industry. Currently *halal* certification is controlled by a central government agency on Java. This is an inhibiting factor to the growth of food processing (and higher value addition) business in the poor, but resource-rich outer islands from where most raw materials are sourced. Decentralisation of this service, either to regional government or by contract to private sector providers is seen as an essential step to stimulating food processing and related services upgrading, quality control, packaging etc in more peripheral parts of Indonesia.

Source: Hitchins, R "Role of government in BDS market development"; ILO; (2002).

Mini-case J: Building private services from “public benefit” infrastructure platforms, India

Focus on: public-private service linkages, embedded services, “piggybacking” services on a common platform, differentiation between access costs and operational costs

Madhya Pradesh Government's pilot e-governance project – Gyandoot – started in January 2000. Its stated goal was to establish community-owned, technologically innovative and sustainable information kiosks in a poverty-stricken, tribal dominated rural area of Madhya Pradesh. The entire start-up expenditure for the Gyandoot network was borne by Panchayats (village committees) and the local community with no expenditure burden for the state or national government. Charging user fees for the services provided covers operating costs. Initial service definition was determined through a need/demand assessment with local villagers, and include:

- *Agriculture produce auction centre rates:* Prevailing rates of prominent crops at the local and other recognised auction centres around the country are available on-line for a nominal charge of Rs. 5.
- *Copies of land records:* Documents relating to land records including khasra (record of rights) are provided on the spot at a charge of Rs. 15. All of the banks in the district have agreed to accept these kiosk documents. Approximately 0.2 million farmers require these extracts at every cropping season to obtain loans from banks for purchasing seeds and fertilisers.
- *On-line registration of applications:* Villagers had to make several visits to the local revenue court to file applications for obtaining income/caste/ domicile certificates. Now, they may send the application from a kiosk at a cost of only Rs. 10. Within 10 days, notification about the readiness of the certificate is sent via e-mail to the relevant kiosk. Only one trip is needed -- to collect the certificate.
- *On-line public grievance redress:* A complaint can be filed and a reply received within 7 days for a cost of Rs 10. These can include complaints regarding drinking water, quality of seed/fertiliser, scholarship sanction/disbursement, employee establishment matters, functioning of schools or village committees, etc.
- *Village auction site:* This facility began in July 2000. It makes auction facilities available to farmers and villagers for land, agricultural machinery, equipment, and other durable commodities. One can put one's commodity on sale for a charge of Rs. 25 for three months. The list of saleable commodities can be browsed for Rs. 10.
- *Transparency in government:* Updated information regarding beneficiaries of social security pension, beneficiaries of rural development schemes, information regarding government grants given to village committees, public distributions, data on families below the poverty line, etc. are all available on the Intranet, which makes the government functioning more transparent.

As can be seen above, these services are a mix of business and individual services; the line between these two groups is fine indeed.

Within a year of opening, the entire network of 31 kiosks covers 311 Panchayats (village committees), over 600 villages and a population of around half a million (nearly 50% of the entire district).

A number of key operational challenges are observed, including:

- The government-oriented services involve the consumer paying the kiosk for the service – but these services are entirely dependent on actions by the relevant civil servant. Increasingly civil servants are failing to meet the defined service level

agreements. This undermines the quality of service and thereby the willingness of consumers to continue to pay for the service.

- Connectivity, power supply and adequate technology infrastructure generally remains a major constraint.

Despite these challenges, this initiative is being transformed from a 'project' to a 'business' – and what's more, a business with major ambitions. This business is called Drishtee.

Drishtee is based on a tiered franchise and partnership model. It believes the benefits of this model are twofold. Firstly, it will enable the financing of a rapid expansion to the target of 50,000 information kiosks within six years (by when Drishtee projects it will be highly profitable). Secondly, a franchise model allows Drishtee to concentrate on its core business as the franchiser, and importantly allows the 50,000 franchisees to concentrate on running and expanding their respective businesses.

The services being offered remain threefold:

- access to government programs and benefits.
- market related information.
- private information exchanges and transactions.

Since its inception in 2000 a number of encouraging observations of impact can be observed. These include:

- All the commercial banks in the district where Drishtee is working are reportedly eager to finance new kiosks and three new kiosks are sanctioned by the commercial banks for financing.
- There is a discernible increased awareness of computers and IT in those rural areas where Drishtee has been working. This has evidently resulted in the opening of new private computer training institutions and enrolment in such institutions has reportedly increased by 60%.
- Having paid for services from government consumers are evidently forming Self Help Groups to lobby for effective delivery of these services, and increased transparency generally from government. For example the Farmers' Association in Kod village are reportedly demanding a new kiosk in the village.
- Anecdotally government functionaries are seemingly becoming more computer-savvy. This is apparent in an increased number of applications for computer loans from the Employees Provident Fund and an increased number of officials who have joined computer-training classes.

Additionally, it is reported that the model has been investigated by a number of potentially interested 'investors'. Many of these are private organisations, including Mahindra Tractors, are investigating the relevance and usability of the model to boost their own commercial performance through improved interaction with large numbers of rural customers.

Sources: Adapted from a number of sources. (1) a case prepared by Satyan Mishra, CEO, Drishtee.com presented at the "International Conference on Achieving Connectivity for the Rural Poor in India"; Baramati, India (May 31–June 3, 2001); (2) "The Strategic Role of Information in Support of Sustainable Livelihoods"; Country Report India; ODI/DFID/FAO (2001); (3) "Information Communication Technologies and Governance: The Gyandoot Experiment in Dhar District of Madhya Pradesh, India"; Anwar Jafri et al., ODI (2002).

Mini-case K: Private agricultural extension services via large companies, India

Focus on: embedded services, linking services to input and output markets, market access, bundling of services

Agricultural inputs are increasingly seen as important for raising productivity and yields. Increasingly agricultural inputs are being supplied commercially through private input supply companies. This is certainly the case in India where private input suppliers dominate the market.

As competition between input suppliers in India has increased, and as the supply businesses have become larger and more complex there has been recognition by some of these companies that they need to innovate if they are to remain competitive and grow in the longer term. A particular focus of innovation has been on approaches to engaging more effectively on a commercial basis with large numbers of rural farmers as both buyers of inputs and suppliers of outputs. These approaches have been around the commercial provision of agri-business services delivered on both a fee basis and embedded within other commercial transactions.

Detailed case studies addressing issues such as commercial impacts on the input supply companies and the farmers they supply are not yet available. However, the following anecdotal evidence from two large Indian input supply companies is powerful and encouraging.

Mahindra & Mahindra is a leading tractor and utility vehicle manufacturer. In 2000 it opened a subsidiary in Tamil Nadu to cater to paddy growers. More recently the company has been opening new centres in Tamil Nadu and in various other States. Further, it has also been expanding its model to other crops including maize, wheat and sugarcane. The types of products / services being offered by these centres include:

- Sell quality farm inputs (seeds, fertilisers and pesticides).
- Rent out farm equipment (tractors, harvesters, dryers etc).
- Arrange credit (in partnership with ICICI bank).
- Offer farm advice by trained field supervisors who visit fields and supervise the critical farm operations.
- Buy the produce (through contracts with processing units).

In paddy the services are provided at around \$10 per acre per season. In one particular area, within a year, paddy area registered went from 797 to 2000 acres.

Rallis initiated the concept of Rallis Kisan Kendra (RKK) to provide integrated services to farmers. RKK targets farmers in soybean, vegetables and fruit and is active in five States. The products and services offered are similar to Mahindra and include:

- Visit by agronomists to the fields of farmers at regular intervals (agreed schedule).
- Facilitate credit to farmers (through ICICI and other banks).
- Provide all farm inputs (seeds, fertiliser and chemicals).
- Soil testing.
- Procure the entire crop (on behalf of other market partners).

The RKK scheme started in 2001 with 584 farmers and 3600 acres. Next year it expanded to 725 farmers and 5000 acres. The enrolment fee is \$2 irrespective of size of holding (though charges vary by crop and nature of services provided).

Overall, whilst these innovations are less than 3yrs old, they provide indications of potential advantages for private extension services in India:

- A clear *win-win situation* for farmers (access to quality inputs, services, enhanced productivity and better prices) and agri-businesses (lower transaction costs, access to better quality produce, and better corporate image)
- The value of partnerships among different firms to provide farmers a wide range of *inputs and services at a single point*
- Farmers *willingness to pay* for quality services
- Preliminary *evidence of increases in productivity* when farmers are supported with information, field visits, quality inputs, reliable access to output markets, and non-exploitative and timely credit.

Source: Sulaiman; "Private extension in India: recent initiatives"; published in Agricultural Research and Extension Network Newsletter No. 47 (January 2003).

[See also Case N]

Mini-case L: Linkages and synergies between rural infrastructure and services, various

Focus on: common experiences of rural infrastructure and service provision, underestimation of willingness and ability to pay, importance of educating consumers

The provision of rural infrastructure services can increase the general level of local economic activity and thereby increase, over the medium-to long-term, general prosperity and resulting demand for wider services from both individual and business consumers.

Increasingly, the private sector is the main provider of rural infrastructure services. These providers are both providers of infrastructure services for businesses, and are consumers of services as they seek to improve their offer and expand their services.

There are a number of emerging lessons from private infrastructure service provision that are consistent with and informing about business service provision. These include:

- *Informed rural consumers are discerning:* Project assessments often underestimate demand levels, thereby reducing the attractiveness of rural projects for private sector investors. For example, willingness to pay and/or ability to pay are measured before a service is introduced, they may lead to under-estimation of the potential demand. As customers learn more about services that were previously unavailable, they value them more. For example, in rural Laos, demand was found to be directly proportional to the villagers' understanding of the potential benefits of the service. For the villagers, largely women, who had no exposure to opportunities beyond their village, demand for sanitation improvements was small or non-existent. For further example, several telecommunications providers in Uganda expressed surprise at how high and how quickly levels of utilisation of new capacity rose in rural areas when telecommunication services were offered.
- *Rural consumers are willing and able to pay for services:* Rural customers dedicate a larger portion of their disposable income to infrastructure services than their urban counterparts. In Uganda, 94% of rural households spend an estimated average of US\$72 a year on dry cell batteries, with a per unit cost of US\$400 per kilowatt-hour (when the average cost per kilowatt-hour in the United States is less than 10 cents). Improved technologies with lower unit costs will free much valuable income for rural poor that can be invested in other more productive activities.
- *Rural consumers place a premium on service quality:* There is evidence that rural customers, like their urban counterparts, are sensitive to quality issues and are willing to pay more for higher quality service. For example, when rural communities in Sri Lanka were provided information on technical options and service levels in the water sector, they most often chose dedicated house connections with technologically advanced service, and paid significantly more than was required for lower quality forms of service.

Source: Adapted from Econ One Research Inc (2003) (18). This report has been prepared with funding from The Public-Private Infrastructure Advisory Facility (PPIAF) - a multi-donor technical assistance facility aimed at helping developing countries improve the quality of their infrastructure through private sector involvement. Website: www.ppiaf.org.

Mini-case M: Business services and rural Infrastructure, Mali & Nicaragua

Focus on: infrastructure providers as business service consumers, business services as economic change agents supporting commercial viability of infrastructure

This case study presents two aspects of the relevance of BDS to rural infrastructure provision:

- *Mali Water Advisory Unit*: Shows the relevance of BDS to improving the operating performance of small private infrastructure providers. This case also demonstrates other 'multiplier' benefits that can emerge from BDS provision
- *Nicaragua Off-grid Rural Electrification Project*: Shows the emerging recognition of the importance of BDS in supporting the upgrading of economic activity in line with increased availability of infrastructure service provision.

Mali's Water Advisory Unit (CCAEP)

Much water provision in rural areas is managed by Water User's Associations. These typically lack the business and technical skills to deliver as well as they might. This results in high prices, and low quality of service. Public Authorities and consumers tend to hold the view that prices are high because profit margins are high.

In response to improving the efficiency and scale of rural water provision, Mali's Water Advisory Unit (CCAEP) - sponsored by the Water Ministry –began in 1994 to offer a range of business services to the Association's for a fee.

The services provided include:

- Semi-annual financial audits of operating accounts;
- Advisory services for equipment and infrastructure maintenance and repair, ensured by daily radio contact;
- Accounting and technical training for association officers, and
- Regular communication among the member associations and between association officers and the unit's own governing board.

The fees are probably not fully commercial, but they are substantial. Typically, fees of CFAF 20 are charged for each cubic meter of water distributed by any Association. Total fees paid in 1998 amounted to CFAF 16,486,940 (about US\$30,000).

Results

- **Lower costs for consumers.** A steady reduction of unit operating costs by about half over a five-year period from about US\$0.70 per cubic meter to about US\$0.30. The reduction in unit costs of about US\$ 0.30 per cubic meter amounts to about six times the unit's fee. The source of these savings has been primarily economies of scale through expansion of production, made possible through better management costs and water stocks, and due to reduced repair times made possible through the technical advice line.
- **Self-financed sector monitoring.** CAEP provides the Water Ministry with a self-financing means of monitoring water operations in these towns. The unit collects data on a number of indicators, such as per capita water consumption, unit production costs (per cubic meter of water), cost of fuel per unit produced, and gross profit, allowing it to identify towns where there appear to be problems or deficits.
- **Improved visibility and transparency.** The availability of comparable data from a credible independent agency encourages competition and ensures transparency, a factor required to attract participation by existing independent providers in other markets where such a unit might be established.

- **Fosters formalisation and recognition of independent water providers.** CCAEP's audits will form the basis of contractual relationships to be established between the users' associations and the local authorities, and between the local authorities and the Water Ministry. The audits will constitute a powerful decision-making tool for:
 - regulating water service and establishing fair prices for the consumer and a fair return for the operator.
 - resolving any disputes between the local authorities and the water operator.
 - motivating operators to improve performance to meet that of their peers.
 - informing consumers about the performance of their local water operators.

Source: "Independent Water and Sanitation Providers in African Cities Full Report of a Ten-Country Study", Bernard Collignon & Marc Vézina, (April 2000).

Nicaragua Off-grid Rural Electrification Project (PERZA)

The PERZA project is concerned with the provision of off-grid rural electrification, particularly in remote and fairly under-served areas. The project recognises that the provision of electricity will offer new value added production opportunities to local populations – based on higher energy consumption production. This in term means that local businesses face both challenges and opportunities in upgrading their existing practices to be more energy intensive, and/or establishing new additional businesses that demand higher energy use.

PERZA recognises that for the electricity service provision to be commercially sustainable there must be sufficient consumption. This means that local businesses do indeed adapt their existing practices to become more energy intensive.

Specifically, PERZA has a defined programme component aimed at demonstrating in the pilot areas the potential of targeted rural micro-finance and business services to significantly enhance the development impact of rural electrification.

The business services component provides grants to qualified BDS providers so that new BDS products and delivery models can be provided to the project sites and surrounding communities. The BDS products will include:

- Technical and managerial training courses.
- Consulting services.
- Agroprocessing skills and techniques.
- Access to market and technology information.
- Other support to improve the productivity and profitability of local SME.

This is a new project only getting off the ground at the time of writing. There are a number of questions over the approach of the project to facilitating BDS markets and the intended use of transactional subsidies. However, the example is used as it illustrates the connection between business services and sectors, and the corresponding need for professionals from these two fields to co-operate effectively.

Source: personal correspondence with Mr. H. Somarriba, BDS Coordinator, Off-grid Rural Electrification Project (PERZA), Nicaragua

Mini-case N: Bundling agricultural product trading, finance and business services to reach small producers, Zimbabwe

Focus on: Linking finance and business services through product chains of agricultural input suppliers, rural retailers to small scale farmers

Context

Farmers require access to a range of agricultural inputs in order to increase their productivity, thereby raising net incomes. In Zimbabwe, markets for agricultural input supply have been liberalised. However, the distribution network between the agricultural input supplier and the smallholder farmer is inadequate. Consequently, less than 20% of agricultural inputs sold in Zimbabwe reach smallholder farmers, although they constitute 70% of the farming population. Specific constraints to the development of a more efficient market for agricultural input supply are identified as:

- Lack of distribution networks
- Lack of affordable finance and rural banking sector
- High deposit requirements for letters of credit
- Poor rural infrastructure
- Low volume of input sales
- Lack of rural retailers
- Lack of product knowledge in the smallholder market
- Shortage of foreign exchange
- Poorly organised private sector
- Donor programs interfering with the market

Seeking to positively address these constraints in favour of small farmers the CARE AGENT model was conceptualised and piloted between 1995 and 1998. Lessons were drawn at the conclusion of the pilot. These lessons were learnt and were applied to a reformulated intervention model. CARE applied this reformulated model under its new programme. They were also applied by CNFA under its new RAISE programme.

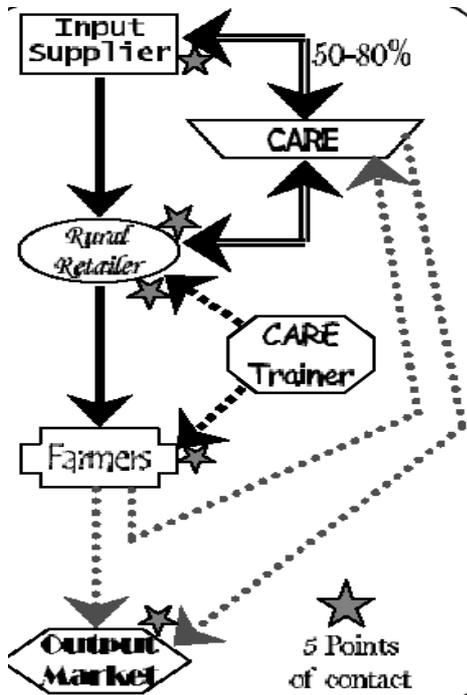
A detailed case study was written comparing and contrasting the pilot phase of AGENT with the reformulated RAISE model. Both the pilot AGENT and RAISE intervention models seek to address identified financial and business service constraints coherently and at different points in the supply chain.

Key differences in approach between the pilot AGENT model and RAISE were observed as:

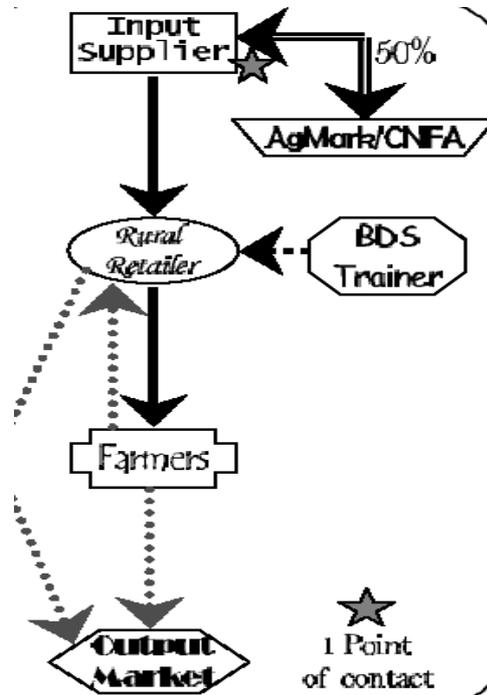
- As shown in the following model diagrams, the AGENT intervention is based on a relatively 'heavy-touch', intervening at five points in the supply chain, and thereby embedding its functions within the market. This in turn results in a dependency by the market on the AGENT intervention. As AGENT is a non-commercial 'developmental' intervention funded by donors, this in turn implies a continued dependency on donors funds for the market to function.
- By contrast, the RAISE model takes a relatively 'light-touch' approach, intervening only at one point in the supply chain. Its actions are very much based on that of a market facilitator – and thereby are deliberately designed to be focused and finite and with a clear exit strategy (for itself and importantly for donor funding).
- Both models offer business services (training) to rural retailers. For AGENT this means subsidised training delivered by CARE staff. For RAISE this means working with for-profit business service providers, who did receive initial subsidy, but no longer.
- Rural retailers go through a screening process in each programme. However, in AGENT CARE selected them. In RAISE rural retailers are identified by input suppliers and training providers.

Overall, RAISE is striving to be sustainable through being commercial, while CARE (under its pilot phase) was not.

CARE AGENT Model



CNFA RAISE Model



The following preliminary results are emerging:

- RAISE incorporates three times the amount of training that was provided by AGENT with 100% cost recovery, and training four times the number of rural retailers annually.
- 4 of the 5 active RAISE BDS trainers reported substantial increases in their revenue and profits as a result of obtaining the RAISE training certification.
- An average of 267 rural retailers is being trained annually under RAISE, compared to only 68 annually under the pilot phase of AGENT.
- Analysis, whilst rudimentary, estimates an economic value to donor dollar ratio equal to 4.8:1 for RAISE, compared with 0.8:1 for the pilot phase of AGENT.

Challenges and opportunities

The early challenges were concerned with getting the model off the ground and a substantial network of players in the supply chain activated and organised. Now that there is something to work with, a number of commercial BDS opportunities arise, including the channelling of new products through the supply chain, with associated embedded advice and information packaged readily for emerging farmers. On the reverse side, as commercial consumers of goods and services, farmers have more choice about what they buy and when – important marketing information to be fed back to input suppliers who can then adapt their services accordingly.

A special note

It is fully acknowledged that the above comparisons are with the pilot phase of the CARE AGENT model. It is further acknowledged that results being delivered under the revised CARE AGENT model since 1999 are as encouraging (if not more so) than those being achieved by RAISE. In fact, CARE reports that the new AGENT model has a higher number of rural retailer graduates and a higher graduation rate (ie they continue to receive lines of credit from input suppliers post-guarantee period) respective to RAISE.

Source: adaptation of the paper: Mitchell, M; "An evaluation of a market entry model for agricultural input suppliers in less developed countries"; unpublished (2001).

Mini-case O: Linking agricultural and finance and business services to reach small producers, various

Focus on: using established commercial trading relationships and incentives to reduce the transaction costs of service provision to the rural poor

Four out of five rice mills surveyed in India offer advance payments to farmers to cover input costs and over 50% of vegetable and fruit traders give credit (cash or in-kind) to farmers. In Mozambique lending arrangements between farmers and commodity-trading companies are widespread. In Zimbabwe the number of smallholders who receive input loans from Cottco, a cotton ginner, exceeds the number of clients of any single microfinance organisation in the country. Buyers for supermarket chains use input credit to increase their influence over production processes and quality and food safety standards are met.

These simple examples identified by Pearce illustrate that traders, processors, input suppliers and exporters are a vital source of financial and non-financial assistance—bundled with input supply and product purchase transactions—to poor, agriculture-dependent households. Their established networks, trading relationships, commercial incentives and involvement in the supply chain enable them to overcome key constraints of dealing with farmers: lack of information, remoteness, risk, fluctuation and seasonality and high operating costs. Hence they often offer better prospects for providing small producers with sustainable and appropriate credit, input supply, information, technical assistance and access to markets than do conventional, specialised lenders and service providers.

For example, finance organisations use contractual or ownership arrangements with providers of product-related technical assistance to ensure that small farmer clients receive the inputs and advice needed to be good credit risks and lower their costs of selecting and monitoring them.

Banco Wiese in Peru had an arrangement with CES Solidaridad, a technical assistance provider. CES Solidaridad selected and provided technical assistance to groups of two or three farmers located close to one another; Banco Wiese provided loans to the farmers. CES Solidaridad gave the bank confidence in the clients and overcame the bank's limited experience and high costs in identifying and assessing small farmer clients. CES Solidaridad took a 2.5% commission on each loan and an additional 1.5% after successful loan repayment. An outstanding loan portfolio of US\$3m, with excellent repayment rates, was achieved.

Critecna is a firm that works with small cotton farmers. Farmers sign a management contract with Critecna, which buys and markets their produce and provides inputs at favourable rates. Critecna also links farmers to financing sources. Prior to its involvement poor repayment by farmers was endemic and finance organisations were wary of financing farmers. Critecna now negotiates loans on behalf of farmers, with the farmer providing land as collateral. Critecna subtracts loan repayments and fees for technical assistance and management at the point of sale and then splits profits equally.

Pearce concludes that donors need to be creative in understanding and finding ways to engage with a wide range of private sector actors in product markets, to learn from them and build on their greater flexibility in providing services to poor farmers. Whilst interventions need to be handled with caution and sensitivity, donor support may be used to stimulate the prevalence of such embedded service practices within product markets, amongst brokers and intermediaries, input suppliers, finance organisations and market-oriented associations.

Source: Pearce, D; "Buyer and Supplier Credit to Farmers: Do Donors Have a Role to Play?"; CGAP (undated).

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