

**Performance
Measurement Framework
for Business
Development Services:**

***Technical Note on the
Research Findings of the
Performance
Measurement Framework
Field Research***



Widening the circle, moving ahead

MICROENTERPRISE BEST PRACTICES

Development Alternatives, Inc., 7250 Woodmont Avenue, Suite 200, Bethesda, MD 20814 USA



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The SEEP Network
The Small Enterprise Education and Promotion Network

Performance Measurement Framework for Business Development Services:

Technical Note on the Research Findings of the Performance Measurement Framework Field Research

by

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The PMF 2001 is dedicated to practitioners, researchers, and donors who struggle to see the truth in order to do their best to improve small-enterprise development around the world.

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EXECUTIVE SUMMARY

The purpose of this technical note is to report the summary findings and recommendations of the performance measurement framework (PMF) field research. The research provides valuable insight into the potential and the limitations of the PMF. Given these limitations, the research recommends for application a current version of the PMF, “the PMF 2001,” which contains a set of indicators and methodologies that field researchers found valid, practical, and useful in assessing BDS program performance. It is recommended that the application of the PMF 2001 be tracked to gather ongoing lessons learned and to contribute to the next version of the PMF. In addition, the research team recommends particular areas of the PMF for further testing and research, especially for programs designed from the outset to be consistent with the emerging “market development paradigm.” The PMF Field Research represents an early step in the development of common performance indicators for the BDS field, but the PMF remains a work in progress.

POTENTIAL AND LIMITATIONS OF THE PMF

This report on the field research of the PMF is part of an ongoing global initiative to identify valid, practical, and useful performance indicators for business development services (BDS) programs¹ that serve small enterprises (SEs).² The indicators tested by the PMF field-research team were selected from best-practices studies and consensus-building global conference. They reflect common goals of many BDS programs, and are structured according to the objectives of the market development approach to BDS programs³:

- Having a positive impact on client firms;
- Increasing outreach to underserved populations and reaching large numbers of people, primarily through the development of vibrant, private-sector BDS markets; and
- Delivering sustainable services through sustainable suppliers and cost-effective programs.

The PMF field research took place from October 1999 through September 2001. It was carried out by six organizations representing a wide range of BDS programs, and a team of technical advisors. The findings represent a significant step in the development of a common assessment system: the PMF field research recommends a set of indicators found to be valid, practical, and useful that BDS programs may begin to apply. However, there were significant limitations in the PMF Field Research effort that limit the conclusions that can be drawn. In particular:

¹ The PMF is designed to assess the performance of BDS programs, not BDS markets or particular BDS services, although assessing these is certainly part of the PMF.

² Small enterprise (SE) refers to micro-, small, and medium-sized firms and small-scale farms.

³ Donor Committee on Small Enterprise Development, “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, 2001 Edition,” World Bank, February 2001.

- The PMF has not been tested widely. It has been tested by a small number of NGOs, in a small number of markets.
- PMF 2001 has not been tested with programs that were originally designed to develop BDS markets.
- Given the limited outreach of the field research organizations, it is not clear how effective the indicators will be in helping market development programs track the market level impact of their interventions.
- Given the short duration of the field research, the effectiveness of the market level indicators in showing the impact on markets and programs over time is not known.
- The PMF may not satisfy the needs of donors, who were advisors to the PMF Field Research, but did not test the PMF for their use.
- The PMF follows the BDS market development approach,⁴ which does not consider the final goods and services market in which SEs operate.

The findings presented here thus identify significant limitations to the indicators' application. They recommend areas and strategies for further research. The PMF work completed to date is the beginning of what will surely be a long and evolutionary process as the BDS field develops.

Given the weaknesses in the research process, the following points describe some of the potential and limitations of the PMF:

- With limitations described throughout this document, the PMF field-research team recommends application of the PMF 2001 (see Table 1).
- The PMF 2001 may experimentally be used by NGO facilitators and providers to assess many aspects of program performance, but would need significant adaptation by donors for their purposes.
- The PMF may experimentally be used by BDS programs offering a range of services in different areas of the world, serving a range of populations. The PMF Field Test programs were transitioning from more traditional approaches to market development approaches. As a result, further testing or adaptation would be needed to apply the PMF 2001 to programs designed with BDS market development in mind, such as programs with embedded services, voucher programs, and programs that work with a large number of private-sector suppliers.
- The PMF is not a holistic monitoring and evaluation or management information system. Rather, it is a snapshot of basic performance indicators, organized by typical BDS program goals. It assesses the benefits of BDS to SE customers, the outreach to SEs, the overall development of the BDS market, the sustainability of BDS program services and suppliers, and some aspects of program cost-effectiveness.
- In order to provide an overall picture of program performance against common goals agreed-upon by the BDS field, the PMF should be applied in a standard way by all BDS programs. Nevertheless, there are aspects of the PMF 2001 that can be customized to particular programs in order to reflect the specific service and target population of the

⁴ Donor Committee on Small Enterprise Development, "Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, 2001 Edition," World Bank, February 2001.

program. In addition, the PMF 2001 consists of basic and supplemental indicators. The supplemental indicators are valid and useful, but require more resources and/or technical expertise to gather and report than do the basic indicators.

- Many of the indicators can potentially be used to compare BDS programs, and to compare services and suppliers in the same program, but each indicator has to be looked at in the program context and in the context of other PMF indicators.
- This technical note constitutes a basic guide to the application of the PMF 2001, but in order to use the PMF 2001, organizations need to adapt the in-depth guides tested during the PMF field research.⁵

⁵ To access these guides, and to check for updates to them, see www.seepnetwork.org/bdsguide.html and www.mip.org.

**Table 1: Performance Measurement Framework for Business Development Services
PMF 2001**

Goal 1: Increase Impact	
Assessing BDS Customers, SEs	
Objective	Indicators
Increase customer acquisition of BDS	Customer satisfaction with a business development service (percentage satisfied)*
	Repeat customers (percentage of customers who buy more than once)*
	Reasons for satisfaction and repeat purchase (<i>supplemental</i>)
Increase customer application of BDS	Percentage of customers who applied the services as intended by the program and reported by the client.*
Increase customer benefits from BDS	Percentage of customers who experienced business benefits, as defined by the program and reported by the client, as a result of the service.*
Goal 2: Increase Outreach (Scale and Access)	
Assessing BDS Markets	
Objective	Indicators (Reported for the Overall Market and for the BDS Program)
Expand the market for BDS	Number of SEs acquiring a service through any method and purchasing a service through commercial transactions*
	Amount of sales by BDS suppliers (<i>program only</i>)*
	Market penetration: percentage of potential SE market acquiring a service through any method and purchasing a service
	A program's market share of all services acquired through any method and all services purchased (<i>program only</i>)
	Awareness: percentage of SEs aware of a service
	Reach: percentage of those aware who have purchased a service at least once
Develop a high-quality, diverse, competitive market	Percentage market share held by the three largest suppliers
	Number of BDS suppliers (<i>program only</i>)*
	Number of BDS products (<i>program only</i>)
	Retention: percentage of multiple purchasers out of all purchasers (<i>not relevant for some programs</i>)
	Satisfaction with last service purchase (<i>supplemental</i>)
	Reasons for purchase, nonpurchase, and choice of supplier (<i>supplemental</i>)
Increase access of underserved groups to BDS	Extent of access: percentage of SE customers purchasing a service that represent targeted populations (women, microenterprises, exporters, and so on)*
	Target market penetration: percentage of potential SE targeted markets (women, microenterprises, exporters, and so on) acquiring a service through any method and purchasing a service
Goal 3: Achieve Sustainability and Cost-Effectiveness	
Assessing BDS Suppliers and Facilitators	
Objective	Indicators
Achieve supplier sustainability	Percentage supplier revenue from SEs*
	Breakdown of sources of supplier revenue (<i>supplemental</i>)
	BDS supplier financial sustainability (nondonor revenues/total expenses)* (<i>supplemental</i>)
	BDS contribution margin ((SE revenues from a service – direct expenses for the service) / total expenses)* (<i>supplemental</i>)
	BDS viability (SE revenues from a service / direct expenses for the service)* (<i>supplemental</i>)
Improve program cost-effectiveness	Ratio of annual program expenses to annual program sales to SEs
	Annual program expenses per customer served*

* These indicators are used in several BDS programs.

ISSUES AND AREAS FOR FURTHER RESEARCH

The PMF 2001 explored a plethora of issues regarding performance assessment for BDS. The overarching issues are discussed in Chapter One. Chapter Three discusses issues related to each performance area—impact, outreach, and sustainability and cost-effectiveness—and describes how the PMF 2001 attempts to deal with these issues. However, there are several key issues that the PMF 2001 was not able to resolve that the research team recommends for further research. Chapter Four recommends the following research initiatives:

- 1) Adapt the detailed PMF 2001 guides. These detailed guides were developed to instruct PMF Field Research on the use of a common methodology and interpretation of the PMF. Without them, practitioners will be challenged to apply or conduct experiments on the PMF. They need to be updated to reflect the findings of the PMF Field Research.
- 2) Track the implementation of the PMF 2001. In particular, conduct further research on market development indicators to test their effectiveness in tracking changes in the market over time.
- 3) Test the PMF 2001 for use among donors and researchers to better understand how they might adapt and apply the PMF.
- 4) Develop and test the PMF 2001 with programs that more fully represent the market development approach.
- 5) Adapt and test a version of the PMF relevant to subsector or systems development programs and develop indicators for assessing SE product markets.
- 6) Conduct research into general background data to help estimate market size.
- 7) Conduct in-depth studies of BDS markets to further test the validity of the PMF indicators, to better understand how BDS markets change over time, and to further explore the contribution of BDS programs to BDS market development.
- 8) Conduct in-depth impact studies, to better understand impact and program cost-effectiveness and to identify practical proxy indicators of the PMF for financial and employment data.

CHAPTER ONE

POTENTIAL AND LIMITATIONS OF THE PMF

This report on the field research of the performance measurement framework (PMF) is part of an ongoing global initiative to identify valid, practical, and useful performance indicators for business development services (BDS) programs¹ that serve small enterprises (SEs).² The indicators tested by the PMF field-research team were selected from best practices studies and consensus-building global conferences and assembled into a performance measurement framework. They reflect common goals across many BDS programs, structured according to the objectives of the market development approach to such programs, which follow:³

- Having a positive impact on client firms.
- Increasing outreach and reaching large numbers of people through the development of vibrant, private-sector BDS markets;
- Delivering services through sustainable suppliers and cost-effective programs; and

The purpose of the PMF field research, which took place from October 1999 to September 2001, was to explore the validity, practicality, and usefulness of the PMF. The PMF field-research team consists of representatives of six organizations⁴ that facilitate or supply a wide range of BDS to a wide range of clients in different countries around the world, together with three BDS experts and an advisory committee of experts and donors. Their mandate was to:

- Develop common indicators and methodologies for the PMF;
- Test the validity, practicality, and usefulness of the indicators and methodology in their programs; and
- Explore fundamental questions and issues surrounding the goals, interpretation, application, and relevance of the PMF.

These goals were accomplished primarily by the organizations working on the ground and also through their interacting with each other and advisors via an e-mail listserv. Each organization also received one in-person visit from an advisor, and there were two in-person meetings during the field research effort. This chapter presents the conclusions from the PMF field research about the potential and limitations of the PMF.

¹ The PMF is designed to assess performance of BDS programs, not BDS markets or particular services, although assessing these is certainly part of the PMF.

² Small enterprise (SE) refers to micro, small, and medium-sized firms and small-scale farmers.

³ Donor Committee on Small Enterprise Development, "Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, 2001 Edition," World Bank, February 2001.

⁴ The six are SEEDS in Sri Lanka, CECI/MARD in Nepal, IEDI in Nepal, Swisscontact in the Philippines, Swisscontact in Peru, and FAIDA in Tanzania. For more details, see Annexes A and E.

IS THE PMF READY FOR APPLICATION?

The PMF is a work in progress. The PMF field research represents an early step in the development of common performance indicators for the BDS field. It marks the first time BDS organizations have attempted to use a common performance assessment system that reflects the goals of the market development approach to BDS for SEs. The organizations received very small grants and limited technical assistance to support their investment in developing indicators and methodologies, but were expected to test the implementation of the PMF with the human and financial resources already available to the organizations. Based on this experience, the field-research recommends for experimental application a set of indicators that the field test organizations found to be valid, practical, and useful for assessing BDS program performance. Together, they represent a promising set of performance indicators that generally reflect the basic goals of many BDS programs.

The research process was limited in scope, resources, and timeframe. These limitations include:

- Given the short duration of the field research, the effectiveness of the PMF in showing the impact on markets and programs over time is not known.
- Many members of the research team only applied the PMF to particular services or geographic areas of their programs.
- The field research organizations were a small number of NGOs, in a small number of markets.
- PMF 2001 has not been tested with programs that were originally designed to explicitly develop BDS markets.
- Given the limited outreach of some of the field researchers, it is not clear how effective the indicators will be in helping market development programs track the market level impact of their interventions.
- The PMF may not satisfy the needs of donors, who were only advisors to the PMF field research.
- The PMF follows the BDS market development approach,⁵ which does not consider the final goods and services market in which SEs operate.

Indicator-specific limitations are discussed in Chapters Three and Four.

It is expected that significant learning and changes to the PMF will result from both further research and the tracking of how organizations apply the recommended PMF 2001 presented in this report. The performance measurement experts in the BDS Field are only at the beginning of what will surely be a long process that should mirror the transformation and learning in the BDS field.

⁵ Donor Committee on Small Enterprise Development, “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, 2001 Edition,” World Bank, February 2001.

WHICH STAKEHOLDERS SHOULD USE THE PMF 2001 AND FOR WHAT PURPOSE?

The PMF is not intended as a holistic BDS program evaluation or management information system. Rather, it is a snapshot of performance indicators that could be used to provide managers with useful data to improve services to SEs, to compare programs in order to identify best practices, and to assist in establishing program funding and performance guidelines. Although there are slightly different reasons that particular stakeholders in BDS programs are concerned with the PMF, in general donors, facilitators, and suppliers⁶ all have an interest in most aspects of the PMF, as described in Table 2. In addition, researchers might use the PMF to assess objectively program performance as they develop and analyze case studies and document lessons learned.

There are limitations to the PMF 2001's capacity to be fully used for all the aforementioned purposes. For example, the PMF field research was carried out by nongovernmental organization (NGO) facilitators and suppliers. Thus, the full potential and limitations of the PMF 2001 in its use by donors, private-sector suppliers, researchers, and SEs have yet to be explored. Additionally, the impact measures in the PMF do not allow for assessment of mission goals such as increasing employment and income. Furthermore, the sustainability indicators are not specific to particular staff or units, so they cannot immediately be applied to staff incentive systems. Thus, the PMF has the potential to be useful to many players, but more testing and research are needed to understand how each stakeholder might usefully adapt the framework for specific applications.

Table 2: Audiences and Uses for the PMF

	Impact	Market	Sustainability and Cost-Effectiveness
Donor	Monitor progress in achieving mission goals; refine strategy.	Monitor development of BDS market; minimize distortions; select and monitor partners.	Ensure long-term impact; justify public-sector investment. Focus on more sustainable services, suppliers, strategies; Ensure cost-effective delivery, high return on investment. Select and monitor partners.
Facilitator	Monitor progress in achieving mission goals; refine strategy.	Monitor BDS market; provide information to clients; select and monitor partners.	
Supplier	Use information in advertising and marketing; refine services to be of more use to customers.	Determine marketing strategy; refine services.	Ensure profitability; focus on profitable and effective services and strategies; determine staff performance and incentives.
SEs		Identify good suppliers.	Decide whether to invest in a service: whether the cost to the business is lower than the normal benefit to the business.

⁶ A “provider” or “supplier” is an organization that offers BDS directly to small-enterprise clients. A “facilitator” is an organization that helps suppliers or providers serve small enterprises.

WHICH TYPE OF BDS PROGRAMS SHOULD USE THE PMF 2001?

The PMF was field-tested by a wide range of institutions that in many ways reflect the current BDS field: they are programs in transition from a traditional approach to a BDS market development approach. One was transitioning from a supplier to a facilitator of services, for example. These programs:

- Operate in three key global regions—Latin America, Asia, and Africa;
- Serve rural and urban businesses ranging in income and size from rural household activities to medium-sized, urban manufacturing firms;
- Are managed by NGO suppliers and NGO facilitators;
- Work with both NGO and private-sector suppliers that range from sophisticated business associations to individual rural entrepreneurs;
- Provide a range of training, technical, and marketing services; and
- Generally charge clients fees for services in order to recover costs or earn profits.

Thus, it is expected that the PMF would be widely applicable to the types of programs and services represented by the PMF field-research programs.

However, the field research did not include programs explicitly designed to develop BDS markets. The PMF 2001 has yet to be tested with programs such as the following:

- Those that support many suppliers in one market to deliver many services.
- Embedded-services programs.
- Voucher programs.

In addition, the PMF does not look at BDS product or service markets. The market development guidelines⁷ and the corresponding structure of the PMF do not reflect many of the goals and strategies of subsector development or systems development programs.⁸

WHAT DOES THE PMF MEASURE?

One issue around the PMF has been whether it is just a set of random indicators, or whether it corresponds to a causal development model. The PMF field-research team has proposed a causal model, presented in Figure 1, for the BDS field to further develop. It contains the following elements:

⁷ Donor Committee on Small Enterprise Development, “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, 2001 Edition,” World Bank, February 2001.

⁸ Dawson, Jonathan, Eric Hyman, Sunita Kapila, and Donald Mead, “Methodologies for the Design and Delivery of High Impact Business Development Services (BDS) for Small Producers,” draft, IDRC, January 2001.

- Mission and Goal: to increase employment and economic growth (or stability, for example), and to increase small-enterprise growth. Measuring these indicators would entail conducting program evaluations and would not be part of the PMF activities.
- Subgoal: to help SEs gain access to, apply, and benefit from business development services. Indicators relevant to these goals would be assessed by the “impact” section of the PMF.⁹
- Strategy: Small enterprises gain access to these useful and beneficial services through the development of vibrant, competitive BDS markets. Indicators assessing the BDS market would be assessed by the PMF in the outreach section.
- Objectives: The market is developed, on the one hand, because of increased demand for services, which remains part of the outreach section of the PMF, and by a sustainable supply on the other hand. Sustainable supply of services, and the cost-effectiveness of efforts to develop a sustainable supply, are assessed by the sustainability and cost-effectiveness indicators of the PMF.
- Subobjective: Efficient service design and delivery are the purview of program and supplier management information systems.

It is worth noting that in this causal model, the main goal is not the development of the BDS market; rather, the goal is the impact on SEs, and the strategy is the development of a BDS market. Because of this structure, the PMF should be helpful for testing the key assumption of the market development guidelines that developing BDS markets contributes to higher outreach, impact and sustainability. It should also reflect the performance of programs that do not explicitly attempt to develop the BDS market, or that are in transition from supplier to facilitator.

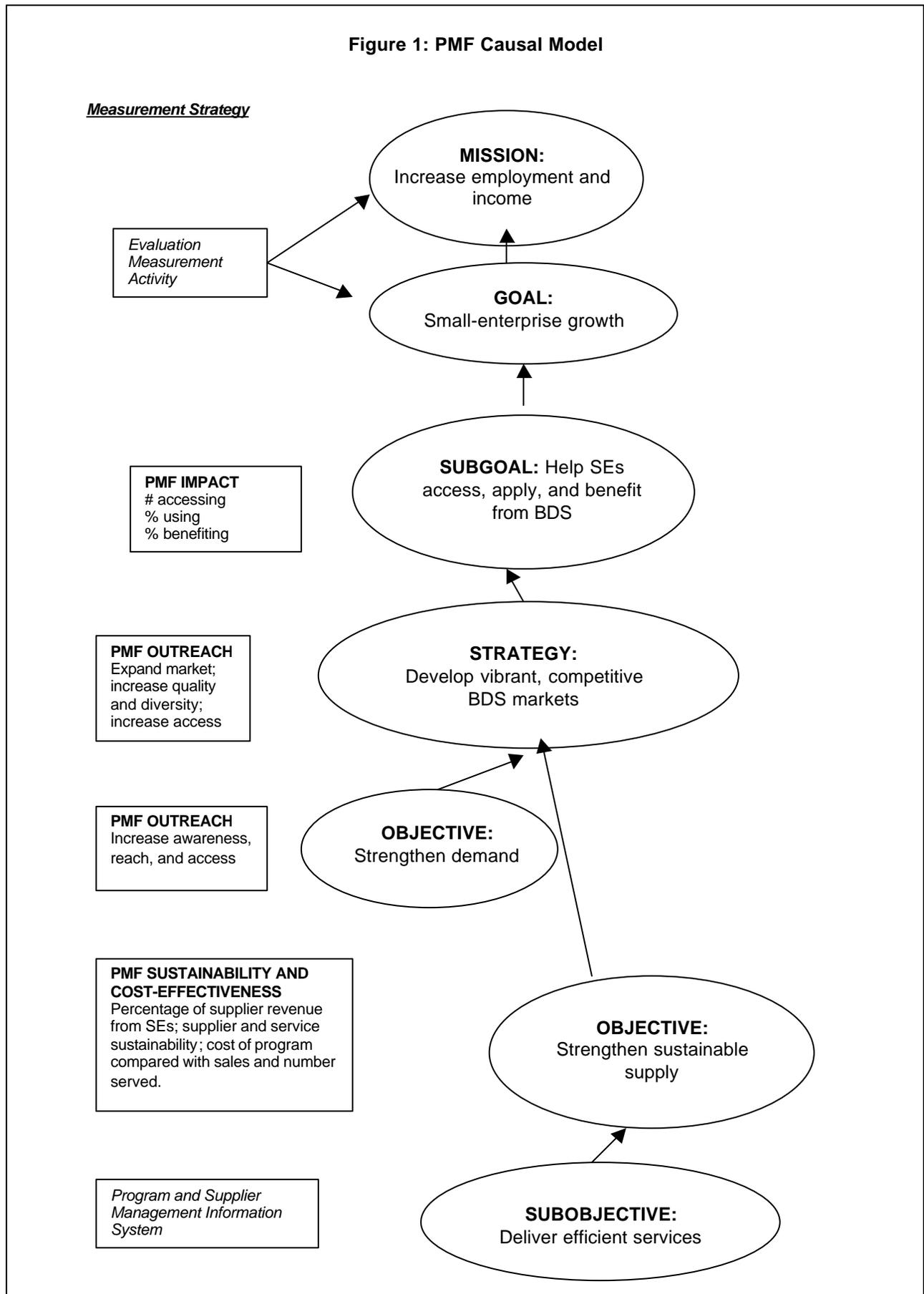
This causal model is merely suggestive. Because no programs have fully integrated the PMF 2001 into their normal program monitoring and evaluation processes, it remains to be seen how valid, practical, and useful this causal model is. In addition, the causal model itself remains somewhat circular. For example, it could equally be stated that stimulating demands leads to sustainable suppliers, which leads to increased outreach, service consumption, and impact. Also, it may become clear, as the field evolves, that suppliers and facilitators have very different goals and should be subjected to different indicators.

A Causal Model for BDS: A Research Perspective

The PMF research has benefited from the experience and perspective afforded by the practitioners working in the field. However, researchers also have a perspective on impact and performance measurement that is worth noting. From the perspective of a researcher, the causal model for BDS is more complicated than presented in Figure 1. For example, the relationship between improved access to BDS and the benefit entrepreneurs reap from an investment in BDS can be complicated by the potential for income growth of the enterprise, by the macroeconomic environment, and non-economic barriers to growth. In-depth research can reveal the multi-dimensional factors that link access to BDS to small-enterprise growth. Engaging in this in-depth research to better understand the complexity of the causal model will be one of the next frontiers for impact assessment and measurement in BDS.

⁹ Quote marks are used here because the indicators in this section of the PMF do not represent comprehensive impact, as is detailed later in this report.

Figure 1: PMF Causal Model



In addition, there are key areas of performance assessment that are important to the PMF but that are not part of the PMF 2001. Because of the limitations in funding and timeframe, the PMF field-research team was unable to develop valid, practical, and useful indicators in the following key areas of performance assessment:¹⁰

- 1) Size of BDS markets, in terms of numbers of SEs served, number of suppliers, and sales of BDS;
- 2) Quantitative program contribution to BDS market development;
- 3) Subsidy level in the market, or service sustainability in the market; and
- 4) Financial and employment impact on SEs.

Because of these limitations, the PMF 2001 should be applied and interpreted in conjunction with any data that inform these issues, and efforts should continue to develop indicators in these areas.

Another key limitation to immediate application of this causal model is that many of the indicators of the PMF are quite new or not widely used, meaning there exist few data about how existing programs have performed. Thus, there are few data available upon which to base program goals or benchmarks. The recommendation to “apply” the PMF, for many indicators in the PMF 2001, suggests tracking performance over time, rather than comparing performance with program goals.

SHOULD THE PMF BE APPLIED IN A STANDARD WAY TO ALL BDS PROGRAMS? CAN THE PMF BE CUSTOMIZED TO FIT SPECIFIC BDS PROGRAMS?

The PMF field research recommends that BDS programs applying and experimenting with the PMF 2001 use all the core indicators. By looking at all key aspects of performance, program assessment will reflect the agreed-upon goals of the BDS field, and one aspect of performance will not be emphasized to the detriment of another. For example, if one program reports high sustainability while another reports a large number of people served, which one has more impact overall? If, however, these same programs report all data in the PMF, then their performance could be assessed more fairly. By looking at the PMF as a whole, an organization may examine potential trade-offs between sustainability and outreach or impact, for example, as they adjust their program strategy. Applying the entire PMF to all programs does not imply that all programs must emphasize all PMF goals equally; the PMF will reflect these differences without judging them. The role of the PMF is to reflect performance, and then program managers can interpret this performance according to their specific objectives.

The PMF allows for customization to particular BDS programs for only two specific reasons. First, in order to assess the impact of services, the PMF calls for customization of how impact is defined. Second, the PMF contains supplemental indicators that reflect the age of

¹⁰ The issues surrounding these indicators are detailed in Chapters Three and Four.

the user program, the stage of development of the BDS market, and the capacity of the organizations in the program. Organizations using the PMF can selectively add these supplemental indicators to the PMF according to their need and capacity. In addition, of course, any organization may add to the PMF, without requiring significant additional resources, whatever other indicators are relevant to its specific program operations. Can the PMF Indicators Be Used to Compare Different BDS Programs?

One of the intentions of the PMF effort has been to develop comparable indicators. Program managers, for example, need to compare the performance of different services, suppliers, and customer groups in order to make choices about what services to deliver, how, and to whom. Donors, meanwhile, need to compare the performance of applicants and partners. Researchers need to examine program performance in order to identify and document lessons learned. Finally, all parties need to compare program performance over time to identify changes in practice that are having a beneficial effect.

The PMF field-research team concluded that most of the PMF 2001 indicators are comparable in some way, but that the PMF and its individual indicators should be interpreted in the context of the program involved, and in light of performance in each goal category of the PMF.¹¹ The PMF 2001 indicators are comparable in different ways: across programs, country contexts, and services. For example, financial sustainability or profitability of providers is broadly comparable across programs in different countries and for different services. It needs to be analyzed along with the age of the program and the maturity of the market, however. Young programs in less-developed markets may be expected to have higher subsidy rates, whereas mature providers in developed markets would be expected to be more profitable, without subsidies. In contrast, the program cost per small enterprise served is limited in relevance to one country context, and is most useful within one program, to help compare the cost-effectiveness of different partners in reaching large numbers of customers. Still, context is important. Is one supplier able to reach many people with the same level of technical assistance because it operates in an urban area and has three other programs supporting it, while another supplier operates in a rural area where no other programs provide support? These examples illustrate how the PMF data are very informative in program, service, and supplier comparison, but that the data need to be interpreted in the program context and in light of all the PMF indicators.

IS THERE A STEP-BY-STEP GUIDE TO THE PMF?

This technical note is a basic guide to the PMF 2001. It describes how the PMF 2001 might be applied and for what purpose. It identifies and defines the indicators used, broadly discusses methodology, illustrates how to interpret the PMF 2001 indicators, and discusses issues in each performance area. What is missing is a step-by-step methodological guide.

¹¹ For a list of the most comparable indicators and the factors that influence their comparability, see Annex B.

There is, however, a documented set of resources used during the PMF field research.¹² These include:

- 1) Background documents that describe the process of developing the PMF prior to the PMF field research.
- 2) Detailed guides, including questionnaires and report formats, that the PMF field-research team tested.
- 3) Interim reports that summarize the field-testing of each section of the PMF, the findings, the conclusions and recommendations.

The guides published as part of the PMF field research may be found on the Microenterprises Implementation Project Web site (www.mip.org) and the online SEEP Guide to Business Development Services and Resources (www.seepnetwork.org/bdsguide.html). However, these guides describe the indicators and methodologies tested during the PMF field research, rather than those that are recommended in this document. Although individual organizations can adapt the guides as needed, having an up-to-date guide would allow more standard methodologies to be applied and would facilitate more widespread application.

¹² For a list of resource documents used during the PMF field research, see Annex D. A quick road map is provided in Annex F.

CHAPTER TWO

HOW TO APPLY THE PMF 2001

This chapter provides basic guidance on how to apply the PMF 2001 to a BDS program. In applying the PMF 2001, organizations should bear in mind the limitations described above and the issues discussed below, in Chapter Three. For each section of the PMF, this chapter:

- Explains the goal of the section and why it has been chosen;
- Describes the objectives measured;
- Defines the indicators to be tracked;
- Describes the basic methodologies for gathering data; and
- Gives examples of how these data might be interpreted.

A full analysis of an entire PMF for one program is presented in Annex C. Detailed explanations of indicator calculation and data gathering methodology for some indicators can be found in the Impact Survey Guide, Outreach and Market Development Indicators Survey Guide, and Sustainability and Cost Effectiveness Survey Guide.¹³

DETERMINING ASSESSMENT PARAMETERS

Organizations conducting an initial PMF assessment first need to identify key factors in the context of the BDS program:

- What is the role of the organization conducting the assessment? A donor assessing its entire portfolio? A facilitator assessing its entire portfolio? A facilitator assessing one supplier, one set of services, or one geographic area?
- Why is performance being assessed? What will be the use of the PMF data to the organization and to other stakeholders?
- What program is being assessed? A program needs to be defined in terms of who the facilitator is, whether there is more than one facilitator, who the suppliers are, which services are being assessed, and which BDS market is being assessed.
- What is the timeframe? Is this a snapshot? A baseline, to be followed up with additional analyses over time?
- What are the goals of the program, and how does the PMF fit into these goals? How can assessing the PMF and the program goals be integrated most efficiently and effectively?

It is recommended that the PMF 2001 be applied to BDS programs on a regular, ongoing basis. Ideally, programs would start with a baseline survey to inform program design. Subsequently, indicators would be reported and analyzed periodically, to help program

¹³ Referenced in full in Annex D.

managers to adjust program strategy and to help program-assisted suppliers to improve services to SEs. Sharing these analyses with other BDS practitioners would further the learning in the field and help organizations better adapt the PMF for their use.¹⁴

GOAL I

MEASURING IMPACT: ASSESSING THE SMALL-ENTERPRISE CUSTOMER¹⁵

Why Measure Impact in the PMF 2001?

A central aim of most BDS programs is to help SEs grow so that they can improve the livelihoods of families, generate employment, and contribute to economic growth. However, most BDS programs are not equipped to assess changes in household livelihoods and economic growth that might be attributable to BDS programs. Instead, the PMF looks at the acquisition, application, and direct benefits of business development services. Ideally, the PMF would include firm-level financial and employment data, and some indication of whether firms have grown as a result of the BDS. At this time, these indicators require further research, as detailed in Chapters Three and Four.

The impact section of the PMF 2001 tracks indicators that provide specific feedback to BDS suppliers to help them improve and sell services. However, it does not report the financial performance of the firms.¹⁶ It is assumed in the PMF 2001 that any benefits the business experiences as a result of BDS services contribute to financial and employment gains for the firm (as well as for families and for the economy as a whole), but these linkages need to be further demonstrated with more in-depth research.

Objectives and Indicators

The impact section of the PMF 2001 assesses three main objectives: *acquisition*, *application*, and *benefits*. These terms are described and illustrated in more detail in the opposite text box and in Table 3. The indicators are then presented in detail in Table 4.

¹⁴ Practitioners may share their experiences through SEEP's BDS Web page at www.seepnetwork.org/bdsguide.html. Click on "Get Involved" on the left panel. Alternatively, e-mail the primary author at marymcvay@mindspring.com.

¹⁵ For a detailed guide used by the PMF field-research team and a detailed analysis of the results, see "Methodology for Impact Baseline Survey," and "Methodology for Repeat Impact Survey," by Tim Canedo, and "Progress Report on Impact Assessment," by Tim Canedo and Mary McVay, and available on www.mip.org (click "MBP," then "publications," then "BDS") and www.seepnetwork.org/bdsguide.html (click "Performance Assessment").

¹⁶ For more details on why financial and employment indicators are not included in the PMF 2001, see Chapter Three.

Background Data—Defining Service Application and Benefits

The first task in assessing impact under the PMF 2001 is to define the intended application and benefits of the service being assessed. To avoid bias, these definitions should be agreed by multiple interested parties (for example, by donors and suppliers, or by facilitators and assisted suppliers). Suppliers will be motivated to acquire the knowledge provided by the indicators because this knowledge will not be attainable from other sources and may help them design and sell more and better services. To determine appropriate definitions, organizations might answer the following questions:

- **Application:** How should businesses use this service? What is the main thing they should do differently as a result of receiving this service?
- **Benefits:** How should the business improve as a result of applying the service? What aspect of the business should be better off? (If the general answer is to improve sales or profits, try asking why those sales and profits increased. This should elicit more intermediate indicators that interviewers might confirm in a survey.)

For some examples of how the PMF field-research team defines these indicators, see Table 3.

Table 3: Examples of BDS Applications and Benefits

Service	Application	Benefits
Technical training	Using improved skills, using improved inputs, creating new products or raising new varieties of animals.	Improved quality; improved productivity; increased sales; reduced costs; diversified or started a business.
Entrepreneurship and management development	Began systematic accountancy; changed customer relations; improved production facilities.	Increased efficiency; fewer cash-flow crises; improved sales; better product quality.
Business training, advice, and business plan development	Started or diversified a business; began a new marketing strategy; adopted a new technology; improved business premises, layout, and displays; reorganized internal operations; streamlined business to concentrate on most-profitable aspects.	Made sales for the first time; increased sales of new product; tapped or entered a new market segment; produced new or improved products; increased efficiency.
Agricultural training, marketing services, veterinary services	Adopted commercial vegetable production and off-season nursery technology; improved off-season varieties; balanced feed mixture for animals; improved breeds; adopted de-worming practices; started new goat-raising business; started agro-vet store.	Increased income; self-employment; better land use; improved product quality; healthier animals; improved production.
Trade shows	Made new contacts at trade show; increased skills in displaying and marketing; gained better understanding of the competition.	Increased sales to new customers; improved products or developed new products.

Table 4: Goal I--Impact Objectives and Indicators

Goal I: Increase Impact	
Assessing BDS Customers, SEs	
Objectives	Indicators
A. Increase customer acquisition of business development services	1. Customer satisfaction with a business development service
	2. Repeat customers (percentage of customers who buy more than once)*
	3. Reasons for satisfaction, repeat purchase, and purchase from competition (supplemental)
B. Increase customer application of business development services	1. Percentage of customers who applied the services as intended by the program and reported by the client.
C. Increase customer benefits from business development services	2. Percentage of customers who experienced business benefits, as defined by the program and reported by the client, as a result of the service.

*Only relevant to programs that would expect to have repeat purchasers.

Objective I.A. Increasing acquisition of BDS

Increasing acquisition of BDS means providing a service of sufficiently good quality that customers are likely to want it again, or to want other services from program suppliers. (Note that the “outreach” section of the PMF 2001 looks at the number of SEs served and their demographic characteristics.) The PMF 2001 measures increased acquisition by assessing customer satisfaction and looking at repeat purchases. Step one of assessing impact is understanding whether customers are satisfied with a service and ready to consume more.

Indicator I.A.1: Customer Satisfaction: Percentage of customers reporting “exceeded expectations” in a customer survey. A random sample survey of SE customers who have received a service three to 12 months prior to being surveyed will be asked the following question: How satisfied were you with the service? They will have four options with specific wording, the best being number 4. Thus, organizations reporting the percentage of customers who describe a service as a 3 or a 4, for example, are indicating that their customers were “very satisfied” or that the services “exceeded expectations.”

Indicator I.A.2: Repeat Customers: The percentage of customers who have purchased services more than once from any supplier that is supported by the program. In many cases, the SE customer will be buying different services. This indicator is relevant for programs offering services that are likely to be consumed several times, or for programs that offer a range of services and would expect to have repeat customers. If programs do not expect to have repeat purchasers, this indicator should be skipped, and an explanation provided.

Indicator I.A.3: Reasons for Satisfaction, Repeat Purchase Patterns, and Purchases from Competition: These supplemental questions provide managers with information about the reasons behind customer satisfaction and repeat purchasing patterns. For organizations that have the resources, these are valuable additional questions that help improve services and sales. See PMF Survey Guides for details.

Objective I.B. Increasing Customer Application of BDS

Increasing customer acquisition of BDS means ensuring that the service is useful enough for SE owners to apply the service in their businesses. For example, if an SE owner attends a financial management and accounting class, does he or she afterward keep records according to the recommendations in the class? Does the owner examine these records regularly and use them to obtain financing or to report to lenders?

Indicator I.B.1: Increased Customer Application of Business Development Services:

Percentage of customers who report applying the services as intended by the program.¹⁷ In the random sample survey, SE clients are asked whether and how they applied the service in their businesses. While it is interesting to note unexpected ways in which the service was applied, the enumerator is looking primarily for the service's intended applications. The organization may decide whether one, two, or more intended applications are significant and should be tracked. The organization is not required to verify the response, i.e., the SE customer is counted as having applied the service as intended when he or she responds with one of pre-determined applications.

Objective I.C. Increasing Customer Benefits from BDS

Increasing customer benefits from BDS means ensuring that the application of a service as intended by the program benefits the business. For example, if the entrepreneur is using improved financial records, is he or she encountering fewer cash-flow crises? Are the firm's accounts receivable better managed?

Indicator I.C.1: Increased Customer Benefits of Business Development Services:

Percentage of surveyed customers who report having experienced intended business benefits as a result of the service.¹⁸ In the same sample survey, SE clients are asked whether and how applying the service in their businesses benefited the businesses. While it is interesting to note ways in which the business benefited in general, the enumerator is looking for specific benefits that the service is designed to have and that are clearly related to the application. The organization may decide whether one, two, or more benefits are significant and should be tracked. The organization is not required to verify the response, i.e., the SE customer is counted as having benefited from the service as intended when he or she responds with one of the pre-determined benefits.

¹⁷ For a full discussion of the definition of "application," see background data above, p.14.

¹⁸ For a full discussion of the definition of "benefits," see background data above, p.14.

Interpreting the Indicators (I.B.1. and I.B.2) for BDS Application and Benefits

PMF indicators on BDS application and benefits offer valuable management information that helps improve services and provides insight into the relative performance of different services, suppliers, and programs over time. The follow analysis of results from the PMF Field Research illustrates the point.

As seen in Table 5, the percentage of businesses that used services was very high in all programs in Table 6, although lower in the SEEDS program, which offers services that SEs consume in relation to its credit services. High usage rates, coupled with few customers being extremely satisfied and low repeat purchase rates, as in the FAIDA program, may illustrate that the services are effective, but are addressing low-priority issues for SEs. In the case of CECI/MARD, the satisfaction rate is relatively low, but the usage rate and repeat purchase rate are high. This may be an indication that the services are a very high priority, because people attempt to implement them despite their relatively low satisfaction. Some customers in the supplemental surveys indicated that they purchase the services repeatedly because there are no other options in the market. Swisscontact has high satisfaction and usage but a low repeat purchase rate in its training services, indicating that there is room for Swisscontact to offer more products in this market. In the training arena, where there should be a high repeat purchase rate, satisfaction is low, indicating that the program needs to improve service quality. These are some ways in which the impact data of the PMF 2001 can indicate broad levels of service and program performance, and provide important management information that can help programs improve services to SEs.

Table 5: Impact Data from PMF Field-Research Programs

Program	Satisfaction Rate*	Repeat Purchase	Percentage Users**
FAIDA	85% (zero in the highest category)	29%	92%
SEEDS: technical training and management training	82%, 86%	49%	86%, 71%
IEDI	89%	16%	90%
CECI/MARD	42%	68%	98%
Swisscontact: training, trade shows	80%, 58%	45%	90%, 94%

* Percentage reporting in the highest 2 satisfaction categories.

** The field test reported "users," but the PMF 2001 recommends breaking this category down into the percentage of firms that applied services and the percentage that benefited from service application. See Chapter 3 for details.

Impact Methodology¹⁹

The impact data come from a random sample survey of clients who received services three to 12 months prior to the survey. While the sample size will depend on the size of the program and the desired confidence level, most programs should be able to collect statistically valid data with a sample of 100 firms. No program should need to survey more than 300 firms.

Most BDS programs already have systems established to track, provide follow-up services to or assess clients. BDS programs operating with the market development approach need to work with private-sector suppliers to keep customer lists, so that the programs can track and assess clients. Suppliers are generally motivated to do this if the information is useful and helps them to generate repeat sales.

The survey itself contains basic questions that address the main indicators. Supplemental qualitative information helps explain the results. The survey can be made more or less detailed, depending on the relationship between SE customers and suppliers, as well as the resources of the organization conducting the survey.

GOAL II

MEASURING OUTREACH: ASSESSING THE BDS MARKET²⁰

Why Measure Outreach by Assessing the Scale and Access of the BDS Market?

The PMF defines outreach as the number of SEs a program or market has reached (scale) and the extent to which these SEs represent typically underserved populations, such as women and microenterprises (access). Further, the PMF assesses expansion and outreach at two levels: in the overall market and among SEs served as a direct result of program activities.

In the BDS market development approach, the main strategy for serving SEs is to foster vibrant, competitive, private-sector markets for business development services. The thinking is that more firms will have access to higher-quality services through the development of commercial markets, in which SEs acquire services through business transactions rather than receive services for free. The typical BDS program objective is to increase outreach, and a key strategy is to develop BDS markets.

¹⁹ For detailed guides, refer to the PMF impact guide published in 2000 and used by the PMF field-research team. Also, watch for forthcoming publications on the SEEP BDS guide Web site:

www.seepnetwork.org/bdsguide.html.

²⁰ For a detailed guide used by the PMF field-research team and a detailed analysis of the results, see “Outreach and Market Development Survey Guide” and “Progress Report on Outreach and BDS Market Assessment,” by Aly Miehlsbradt, and available on www.mip.org (click “MBP,” then “publications,” then “BDS”) and www.seepnetwork.org/bdsguide.html (click “Performance Assessment”).

At the market level, the PMF also helps to understand how the overall demand for and supply of services is changing over time. PMF indicators also help a program manager begin to understand the position of the program in the market, how the market may be affecting program performance, and, to some extent, the contribution of the program to the development of the market.²¹

All programs affect BDS markets, whether or not they intend to, because BDS programs add to the supply and satisfy a demand for services. They may expand the market by offering new services to new target populations, or they may distort the market with subsidies that crowd out private-sector suppliers. Although developing the market for BDS is not an explicit goal of some BDS programs, this category of objectives and indicators is relevant in all cases.

Prior to assessing outreach, program managers need to gather key background data, as described in the opposite text box.

Objectives and Indicators

To assess outreach and the BDS market, the PMF measures three key objectives:

Objective II.A. Expand the Market for BDS²²

Expanding the market means reaching more small enterprises with more services through commercial transactions. This involves increasing awareness of the service, the number of firms trying a service, the number using it regularly, and the amount of the service that SEs buy compared with the amount they receive for free. In order to expand their market, and to understand their role in the market, particular providers or organizations look at their market share to see how they stand versus the competition.

²¹ For a better understanding of the issues and limitations of these indicators, see Chapter Three.

²² The PMF 2001 does not contain an accurate assessment of the size of the BDS market. Rather, it looks at the percentage of SEs that have access to services. For details about this limitation, see Chapter Three and the PMF field-research report “Progress Report on Assessing Outreach and BDS Market Development,” by Aly Miehlsbradt.

Background Data—Definition of the Market and Estimated Potential Market Size

The first task in estimating the expansion of the BDS market is to define the potential target market of the program. Definitions for the market should be defined along three boundaries: the geographic area, the service, and the type of SE (for example, women-owned SEs, SEs in a specific subsector, or rural SEs).

For assessment purposes, it is best to define this market as narrowly as possible to accurately reflect the area of operation of the program. For example, the FAIDA program had a mandate to serve three regions of Northern Tanzania. At the time of the assessment, however, the program had been active in much smaller geographic areas. Rather than surveying the entire three regions, the FAIDA program surveyed just the sub-districts and wards where it was truly operational. When programs are truly operational in very large areas, the best strategy is to stratify the sample to ensure good representation of all areas. (Programs are advised to consult a statistician to ensure valid stratification.)

In addition, the organization should focus on the particular category(ies) of BDS that the program promotes, e.g., business management training, trade fairs or agricultural information and training. Finally, if a program targets particular types of firms (for example, manufacturing firms), it might consider only surveying those firms.

In defining market size, three decisions can introduce bias. First, organizations may be tempted to define the market as being very small, so that market penetration figures appear high. (There is, however, the corresponding danger of missing the presence of the service in the market if the service is defined too narrowly. It is more practical to ask about management training in general, for example, than about business planning courses that are two days long. The more mature the market, the more specific organizations can be in the service definition.)

Second, organizations may bias the sample, especially with stratification techniques, in order to capture more firms that have received services from the program.

Third, when looking at the market over time, data comparability requires the organization to use the same definition and sample the same geographic areas of the market at two different points in time.

Once the market is defined, organizations estimate the number of SEs in that potential market. This estimate provides context for the indicators in the PMF (that is, how large a market the program is operating in) and discourages programs from defining a very small market in order to inflate market penetration figures. For most situations, exact figures are not available.²³ While most organizations have access to some secondary data and can make reasonable estimates of the number of SEs in their target market, it is not expected that these figures will be very accurate. If they change over time, such changes will not affect the performance indicators because the indicators are not calculated based on this data.

²³ For a discussion of this limitation in the PMF 2001, see Chapter Three.

The main indicators used to assess BDS market expansion are not the actual size and value of the market.²⁴ Rather, the indicators estimate the percent of the SE market that is aware of or has access to services.

The indicators for measuring progress toward expanding the BDS market are shown in Table 6. Indicators are measured at the market level and the program level. At the market level, both an annual figure and/or a current status figure are reported. At the program level, programs report both an annual figure and a cumulative figure since the program began.

In Table 6 (as well as in Tables 7 and 8 for the other objectives), the indicators are divided into basic (indicated by “B”) and supplemental (indicated by “S”). The basic indicators are reasonably practical to gather with a small sample size. The supplemental indicators are somewhat more difficult to gather, often needing a larger sample size for surveys, but provide valuable additional information if it is possible to measure them.

**Customizing the PMF
Defining “Acquired” and “Purchased”**

In the PMF, “acquired” means that an SE received a service, either for a fee, for free, or as part of a business deal. For example, if an artisan sells crafts to an exporter and the exporter provides some training and production advice, then the SE has acquired that service. This is often referred to as an “embedded” service. In addition, if an enterprise receives a service for free from a government program, then the SE has acquired the service.

Service “purchases” are a subset of service “acquisitions.” A business “purchases” a service when it knowingly pays a fee for it. Each program embarking on this part of the PMF must define how it knows a service has been acquired and how it knows it has been purchased. This is important because the market is affected by free and paid services differently. For example, free services from the government may depress demand for paid services, but free services that are delivered as part of another commercial transaction may not. For further issues with embedded services, see Chapters Three and Four.

Table 6: Goal II—Increase Outreach (Scale and Access) by Expanding the BDS Market

Objective	Indicators	Market		Program	
		Annual	Current	Annual	Cumulative
A. Expanding the market for BDS	1.a. Number of SEs served—acquired	S		B*	B*
	1.b. Number of SEs served—purchased	S		B*	B*
	2. Sales of providers	B		B*	B*
	3.a. Market penetration—acquired	B	B	B	B
	3.b. Market penetration—purchased	B	B	B	B
	4.a. Program market share—acquired			B	
	4.b. Program market share—purchased			B	
	5. Awareness: percentage of SEs aware of the service	B		B	
6. Reach: percentage of those aware that have purchased services at least once	B		B		

²⁴ For details on why these indicators were too challenging to gather and need further research, see Chapters Three and Four and the PMF field-research report “Progress Report on Assessing Outreach and BDS Market Development,” by Aly Miehlabrad.

“B” indicates **basic** information that it is recommended all programs furnish. With the exceptions noted below, these data can be gathered by conducting a survey of randomly chosen SEs in a program’s target market. Data marked with an asterisk can be gathered from program records. A program should estimate its potential market size; however, none of the other indicators relies on this information. Rather, the information is provided as context—to help the reader understand the desired outreach and environment of the program. These basic indicators will yield a rudimentary understanding of the level of development of the market and a basic understanding of a program’s outreach and contribution to the objectives of market development. “S” denotes **supplemental** information. It may be difficult for an individual program (particularly a provider) to gather these data independently, because they may require a survey with a larger sample size. It is recommended that programs be encouraged to gather these data and that the means to do so be negotiated between programs and donors. These indicators will give more information about the market as a whole than will the basic data alone, and they will aid in understanding the interaction of programs and markets, competition, the level of distortion, and the driving forces in the market.

Indicator II.A.1.a and II.A.1.b: Number of SEs served (program-level indicator only):

Based on program and supplier records, organizations report the number of SEs that a) acquired a service at all, and b) purchased the service. This is reported for the most recent program year, and cumulatively since the program began.

Indicator II.A.2. Sales of Providers (program-level indicator only): Programs also report the sales of assisted providers or, if the program is the supplier, its sales. Sales are the total revenue received by program suppliers from sales to SEs of all products in the service category, cumulatively and in the past year. This sales figure does not include sales to donors or third parties that are not direct SE target clients.²⁶ It can be reported in any currency as long as exchange rates are documented.²⁷

Indicator II.A.3.a and II.A.3.b. Market Penetration: Based on a random sample survey of SEs in the potential market, programs report how many have acquired and purchased the service from any provider, as well as how many have done so from a program-supported provider.

Indicator II.A.4.a and II.A.4.b. Market Share (program-level indicator only): Of the numbers of SEs that have acquired and purchased a service from any provider, the percentage that have acquired and purchased it from a program-supported supplier.

²⁵ Organizations that have access to fairly accurate data on the size of the target market can calculate the estimated number of businesses served by multiplying the market penetration figure, described below, by the estimated market size. Calculating a confidence interval is recommended.

²⁶ For an explanation of how revenues are treated, see PMF progress reports on outreach and sustainability. Details can be found in Annex D.

²⁷ Sales are not reported at the market level because there is no clear methodology for gathering these data. For details, see Chapter 3.

Indicator II.A.5. Awareness: The percentage of surveyed businesses that have ever heard of a service in general, and the percentage that have ever heard of the specific services the program supports or supplies.

Indicator II.A.6. Reach: Of those aware of the service, the percentage of SEs that have tried it at least once from any provider, and the percentage that have tried it at least once from a program-supported supplier.

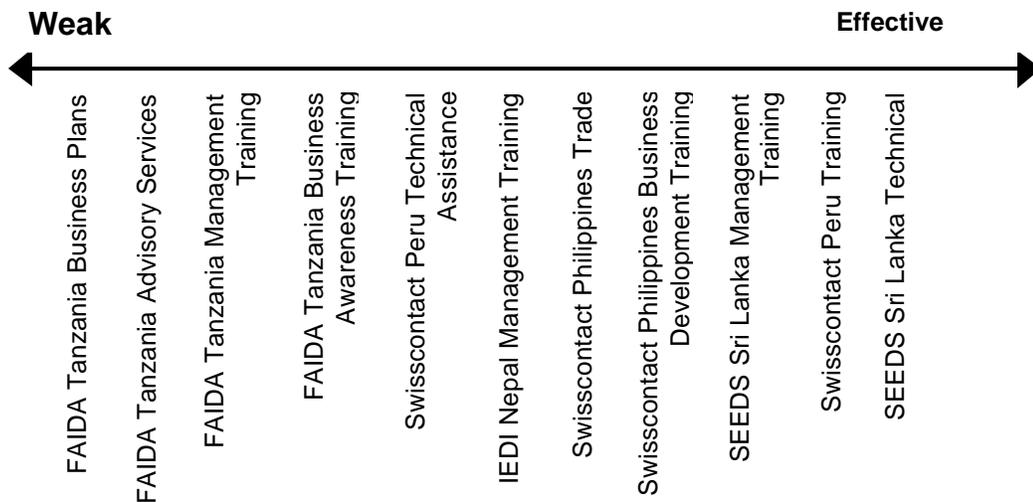
Interpreting Market Expansion (Objective II.A.) Indicators

Market expansion indicators help one understand the number of SEs programs reach directly, in the context of the market in which they operate. For example, in 1999:

- 688 SEs purchased FAIDA’s business awareness training, in a rural African market of some 21,000 businesses.
- 382 SEs purchased IEDI’s management training in an urban Nepali market of some 52,000 businesses.
- 199 SEs purchased Swisscontact’s business development training in an urban area of the Philippines representing some 2,500 businesses.

Second, the market penetration, awareness, and reach figures for the market in general make it possible to make a rough judgment about the relative level of development of different BDS markets. A comparison of the markets studied by the PMF field-research team is shown in Figure 2. For example, in one of the weaker markets, FAIDA’s business awareness training market, the level of awareness was only 3 percent and the penetration only 1.7 percent. In contrast, in Swisscontact Philippines’ market for business development training, 35 percent of SEs were aware of the service and 16 percent had acquired it. Understanding the level of market development is important because a weaker market will likely present greater challenges to increasing outreach and developing the market than a somewhat stronger market. Thus, the level of market development provides context for the performance of the program. For example, FAIDA and IEDI reached more SEs in larger, less-developed markets than Swisscontact Philippines.

Figure 2: Range of BDS Markets Assessed



Interpreting Market Expansion (Objective II.A.) Indicators (continued)

This basic information combined with data on supplemental indicators can also provide some feedback to suppliers on their marketing strategy or facilitators on their market development strategy. For example, although the market penetration for management training in IEDI's market (12 percent) is only slightly lower than Swisscontact Philippines' (14 percent), the reach in the IEDI market is only 22 percent, compared with 39 percent in Swisscontact's market. The low reach in IEDI's case indicates that SEs are relatively more reluctant to try services for the first time, even once they have heard about them, as compared with Swisscontact's market. The supplemental indicators showed that SEs in IEDI's market did not purchase the service because they a) received it for free, b) felt they did not need it, c) already provided it in-house, or d) were too busy. From this information, IEDI concluded that the benefits of management training services are not immediately apparent to most SEs, and that there is some interference in the market from highly subsidized providers. Looking at this data together with IEDI's pricing strategy gave them additional feedback. IEDI has recently raised prices significantly in order to cover costs, and the number of SEs IEDI served has declined in the past few years. IEDI is concluding from its analysis of the outreach and market data that it is pricing itself out of the market.

Finally, analyzing the program and market data together provides useful contextual information about program performance, and gives some indication of how the program might be affecting the market. For example:

- A program with greater market share is likely to affect a market more than one with less market share. In the PMF field research, market share data ranged roughly from 17 percent to 65 percent. This showed that many of the field research programs are key providers in the specific target markets where they operate. This indicates that these programs are in a position to affect significantly the overall market for the services they offer.
- A comparison of reach between the program and the market in which it operates provides information on how the program is performing relative to the market at large. For example, in the business training market in Oro, in the Philippines, 39 percent of those SEs aware of Swisscontact-supported training have purchased it at least once. In the market at large, only 20% of those aware of business development training have purchased it. This shows that the Swisscontact supported suppliers are better at translating awareness into a purchasing decision relative to other suppliers in the market. However, it does not explain if this is due to better marketing, a lower (subsidized) price or some other reason.

As organizations examine markets and programs over time, additional conclusions may be drawn. For example:

- If a program's market share is high and the market in general is expanding, then in general it can be assumed that the program is contributing to that expansion, although it may – at the same time - be preventing the development of fully commercial suppliers through subsidies.²⁸
- If awareness of program services is increasing faster than awareness of services in the market in general, it can be concluded that a program is contributing to overall awareness of services in the market.

²⁸ Also, FAIDA's and IEDI's numbers may have been higher had they narrowed the focus of their market assessments to areas they focus on, rather than including areas they have a general mandate to serve.

Objective II.B. Developing a High-Quality, Diverse, Competitive Market

Based on market development thinking, it is not enough simply to increase the availability and consumption of services; in order to benefit SEs over the long run, it is also important for SEs to have access to high-quality services, different types of services, and a choice of suppliers. This type of competitive, diverse market is assumed to help SEs access increasingly better services over time.

The development of a high-quality, diverse, competitive market for BDS is reflected in the indicators shown in Table 7.

Table 7: Goal II—Increase Outreach (Scale and Access) by Developing a High-Quality, Diverse, Competitive BDS Market

Objective	Indicators	Market		Program	
		Annual	Perm.	Annual	Cum.
II.B. Developing a high-quality, diverse, competitive market	1. Market share of the three largest players	B*	B*		
	2. Number of BDS suppliers			B*	B*
	3. Number of service products			B*	B*
	4. Retention: percentage of multiple purchasers out of all purchasers	S		B**	
	5. Satisfaction with last service purchased	S		B**	
	6.a. Reasons for purchase	S		B**	
	6.b. Reasons for non-purchase	S			
	6.c. Reasons for choice of supplier	S		B**	

Note: See Table 6 for an explanation of “B” (basic) information and “S” (supplemental) information, as well as the meaning of information marked with single or double asterisks.

Indicator II.B.1. Market Share of the Three Largest Players: Based on the sample survey of SEs in the target market, organizations identify and calculate market share of the three largest players. The larger the market share of the three biggest suppliers, the more the market is dominated by a few providers, and the fewer choices SEs have in accessing services. Similarly, the smaller this share, the more options SEs have in selecting suppliers, and the more competitive the market. Suppliers would use this information to better understand their market position. This information can also be useful to donors and facilitators in developing intervention strategies and identifying appropriate exit points. Further, if the three largest players were subsidized, it would indicate a high subsidy level in the market.

Indicator II.B.2. and II.B.3. Number of BDS Suppliers and Products (program indicator only): Based on program records, the organization reports the number of suppliers serving the target market and being supported by the program, and the number of different service

²⁹ Also, FAIDA’s and IEDI’s numbers may have been higher had they narrowed the focus of their market assessments to areas they focus on, rather than including areas they have a general mandate to serve.

products these suppliers offer.³⁰ This indicates to a limited degree whether a program is promoting diversity and competition in the market.

Indicator II.B.4. Retention: At the market level, this is the percentage of SE purchasers that have purchased the service (any product) from any supplier more than once, based on the sample survey. It does not matter whether the SEs have changed suppliers, as long as they have purchased the same type of service more than once. At the program level, this is the percentage of those SEs that have purchased services from program suppliers more than once. It is the same figure that is reported in the impact section of the PMF and is best collected from that survey. These figures do not have to involve the exact same product, but they must be products within the same service category or program. This indicator is relevant for services that one would expect to purchase more than once, or for programs that offer multiple services, but not for programs offering one service that customers do not typically purchase a second time.

Indicator II.B.5. Satisfaction with the Last Service Purchased: The sample survey asks, on a scale of 1 to 4, with 1 being the best, “How satisfied were you with the last service you purchased?” Organizations report the percentage of responses in the most-satisfied category for the market in general. At the program level, organizations use similar data from impact surveys of their clients in order to have enough responses for more statistically valid data.

Indicators II.B.6.a, II.B.6.b., and II.B.6.c. Reasons for purchase, non-purchase, and choice of supplier: These supplemental indicators provide qualitative data on what drives the market and the competitive advantage of suppliers in it, for example: relevant services; quality of service; price; proximity of providers to SEs; waiting time for service, etc.

³⁰ These data are not gathered at the market level because there is no statistically valid method of surveying a random sample of all providers. Also, note that the number of services is highly dependent on the subjective definition of each service type.

Interpreting Market Diversity and Competitiveness (Objective II.B.) Indicators

The first indicator - market share of the three largest players – is designed to reflect the diversity and competitiveness of the market. For example, as illustrated in Figure 3, in the training market targeted by SEEDS, a direct supplier in Sri Lanka, the three largest providers control 54 percent of the market, with SEEDS itself being the single largest provider. By contrast, Swisscontact Peru, which supports other suppliers, found that in one of their markets, the three largest players control only 20% of the market. From this data, it is theorized that the Swisscontact Peru market is more diverse than the SEEDS market.

**Figure 3: Swisscontact Peru and SEEDS:
Percentage of Market Share of Providers**

Swisscontact-Peru Training Market		SEEDS Training Market	
Provider	% Market Share	Provider	% Market Share
CEPROEM	8	Family members	34
INPET	6	SEEDS	31
SENATI	6	Government	18
Instituto Continental	6	Former Employers	6
Inider	6	Individual Suppliers	6
30 other providers	58	Other NGOs	5
Not specified	10		

The second indicator is meant to show the extent to which a program is promoting competition and diversity in the market. For example, Swisscontact Peru is assisting 2 suppliers with a total number of 13 business training products. This shows that Swisscontact Peru is promoting diversity of products in the market, but perhaps not competition among suppliers. FAIDA is assisting 3 suppliers with a total of 7 business training products. This shows that FAIDA is promoting some competition but not contributing as much as Swisscontact Peru to diversity.

However, these figures must be taken in the context of program strategy. For example, many programs support several suppliers but these suppliers do not actually compete with one another because they are in different markets geographically or with respect to target clients. Alternatively, a program may choose to work with only one supplier for a time as a method for demonstrating the viability of a product or offering some competition in an otherwise monopolistic market.

In addition, the program level indicators (II.B.2 and II.B.3.) must be looked at in context of the market level indicator (II.B.1). It may be easier for a program to promote diversity and competition in a market in which there is already competition. In a market with only a few suppliers, it will be more difficult for a program to promote competition and diversity. It might be expected that a program will support fewer suppliers and products in a less competitive market than in a more competitive market, and in a smaller market than in a larger market.

Interpretation of Quality (II.B.4., II.B.5., and II.B.6.) Indicators

Retention and satisfaction are basic and limited proxy indicators of the quality of services in the market and of services supported by the program. Given the scope for bias in interviewing and the wording of questions, satisfaction rates are more valid when compared within the same country context and, preferably, within the same study. Retention can be compared more readily. The following Table 8 reports retention rates from several programs in the PMF field research.

IEDI's and CECI/MARD's retention rates were higher than those in the market in general, which reflects the fact that customers are more satisfied with program services than with other services in the market. The difference between SEEDS and the market was negligible, whereas the retention rates for Swisscontact's training program and trade shows fell below those of the market.

Table 8: Retention: Percentage of Purchasers That Bought Twice

	Market	Program
IEDI	30%	38%
Swisscontact Philippines Trade Show	94%	78%
Swisscontact Philippines Training	87%	75%
CECI/MARD	58%	67%
SEEDS	73%	69%

Supplemental indicators can shed light on reasons for the data above. For example, the supplemental indicators showed reasons for the low retention rate in IEDI's training market. Respondents reported that a key motivation for purchasing the service is receiving other services, primarily access to credit. Because many SEs are using training as a gateway to finance rather than a useful stand-alone service, fewer people purchase it twice. The supplemental indicators also uncover information about subsidy levels in the market. For example, 25 percent of SEs in the IEDI survey reported that they did not purchase a service because they got it free. Likewise, 34 percent of respondents in the CECI/MARD survey reported that they chose a particular provider because the service was free.

Objective II.C. Deepening the Market: Reaching Underserved Populations

The PMF assesses BDS programs that are funded by public and charitable funds. The purpose of these funds is to close market gaps—to help people who are left out of existing private-sector markets. In many BDS markets, women-owned firms and microenterprises typically face challenges in accessing services that large firms use regularly. Programs may also be designed to target other types of firms; for example, export firms or rural firms. This section of the PMF helps programs assess the extent to which they serve populations that may be underserved by private-sector markets. All programs are requested to gather information about the extent to which they serve microenterprises and women-owned enterprises, because so many BDS practitioners focus on these populations and are concerned with reaching these typically lower-income groups. Programs may also want to gather data on other specific groups in which they are interested.

Success in reaching underserved populations, at the market and program level, can be evaluated via the indicators shown in Table 9. Prior to gathering this data some background information is needed as described in the text box on the next page.

Table 9: Goal II—Increase Outreach (Scale and Access) by Increasing Access of Underserved Groups to BDS

Objective	Indicators	Market		Program	
		Annual	Perm.	Annual	Cum.
C. Deepening the market: reaching underserved populations	1.a. Female market penetration—acquired	B	B	B	B
	1.b. Female market penetration—purchased	B	B	B	B
	2. Percentage of purchasers who are women	S	B	B	B
	Other underserved group data (e.g., microenterprises, rural SEs): same indicators as for women				

Note: See Table 6 for an explanation of “B” (basic) information and “S” (supplemental) information, as well as the meaning of information marked with an asterisk.

Indicator II.C.1.a. and II.C.1.b. Penetration of underserved markets: First, organizations report the percentage of all the SEs in the underserved population that have ever acquired services through any type of transaction. Second, organizations report the percentage of all the SEs in the underserved population that have ever purchased services. At the market level, organizations gather these data from the sample market survey, and consider those underserved SEs that have acquired the service from any provider. At the program level, organizations gather the data from program records or impact surveys, and consider those underserved SEs that have acquired the service from a program supplier. These figures are gathered for women-owned firms, microenterprises, and other groups of interest to the program.

Background Data for Tracking Increased Access

The organization should estimate the percentage of businesses in the market that represent the underserved populations the program targets, such as women and microenterprises. This estimate can come from the market survey data itself.

For the PMF, a women-owned firm is defined as a business with 50 percent or greater ownership by a woman. For example, household-level businesses described by the family as a family business in which women are clearly very involved are categorized as women-owned, but a household business in which the woman's role is unclear is a "jointly" owned firm. Microenterprises are defined by the PMF as businesses with fewer than 10 employees, and small enterprises are firms with between 11 and 20 employees. Medium enterprises have between 21 and 50 employees.

Indicator II.C.2. Percentage of purchasers from underserved group: Of all the businesses purchasing services, the organization reports the percentage that represents underserved groups. At the market level, these data are gathered from the sample surveys, and all suppliers are considered. At the program level, the data are gathered from program records or the impact survey, and only program-supported suppliers are considered.

Interpreting Indicators (II.C.1. and II.C.2) that Track the Access of the Underserved

These indicators reflect program performance in reaching underserved populations compared with the market and compared with the intended target group. Market penetration figures tell us in general whether women, for example, have similar access to services as men, and whether the program is contributing to this outcome. The percentage of businesses served that are women-owned tells us how the market and program compare in reaching women-owned firms.

For example, CECI/MARD is making a significant contribution to helping rural women in Nepal access services. Overall, the market has reached 50% of all women-owned enterprises, with CECIMARD reaching 40% of all women owned enterprise – the majority of those reached. However, only 4 percent of businesses purchasing services from all providers are women-owned, whereas 25 percent of CECI/MARD's paying customers are women-owned businesses. In the market in general, 26 percent of firms are women-owned, so CECI/MARD is reaching a representative proportion of these farmers.

In another example, Swisscontact Philippines intended its services for small enterprises, but ended up servicing more microenterprises than expected. For business management training services, for example, only 15 percent of buyers in the general market are microenterprises, whereas 43 percent of Swisscontact's paying customers are micros. This type of information prompted Swisscontact and its partners to focus more explicitly on microenterprises.

Outreach Methodology³¹

As noted above, the main market-level data come from a random sample survey of SEs in the target market. In most markets, a random survey of approximately 100 SEs provides statistically valid data for the basic indicators, which are all expressed in percentages. There is no need to extrapolate the data to represent numbers of firms in the market; thus, the data do not depend on an exact estimate of the market size. In order to collect statistically valid supplemental information, organizations would need to survey approximately 300 firms for most markets. Organizations that cannot undertake this level of survey may wish to hold focus-group discussions with some of the SEs interviewed from the small random sample survey in order to gather additional market knowledge.

Providers are not surveyed because, at this point, there is no statistically valid way to identify a random sample of providers; these existing provider surveys tend to be biased toward the large, subsidized providers known to the development community. However, once a program has an idea of the type of large and small providers in the market, the organization may wish to conduct informal interviews with these providers to supply the program with important market information about the competition's product, pricing, packaging, placement, and promotion.

The program-level data come from a combination of the random sample survey, program data, and, in some cases, the PMF impact survey of program clients.

³¹ For detailed guidelines, see Annex D. Also, look for forthcoming publications on SEEP's BDS Web site: www.seepnetwork.org/bdsguide.html.

Holistic Interpretation of Outreach and Market Development Indicators

Examining all the market development indicators together provides an insightful picture of program performance, the status of the BDS market, and the ways in which the two influence each other. Table 10 does this for one program, the Swisscontact Philippines–supported Oro Service Center. The organization is a business association focusing on a small geographic area of Cagayan de Oro, an urban center in southern Philippines. Unit of the Oro Chamber of Commerce, the Oro Service Center offers business development training and trade fairs to chamber members and, more recently, the general SE population in this community of around 2,500 businesses. The program receives grants and technical assistance from Swisscontact, which is helping the center become more sustainable, and it charges for its serviced. What do the outreach indicators for the center’s business development training show?

- **The Oro Service Center is a big fish in a small pond:** Although serving only 199 businesses in 1999, the center controlled 44 percent of the market.³²
- **The market for this service is relatively well-developed, and Oro is a big part of that market:** Overall penetration is 25 percent, and penetration for Oro is 16 percent. Awareness of the service is high: 69 percent, with 37 percent aware of Oro’s services. By supporting only one supplier in this market, SC Philippines is not promoting diversity. They could perhaps contribute more to market development by supporting other existing suppliers in this market as well.
- **There are significant subsidies in the market:** The percentage of firms that receive services is 25 percent, but only 12 percent of all businesses purchase services.
- **SEs are reluctant to try BDS services but Oro has more success than other providers at turning awareness into purchases:** There is a significant gap between awareness (69 percent) and reach (20 percent) in the market. This means only 20 percent of those who have heard about the service have tried it. Meanwhile, 39 percent of businesses that have heard of the Oro Service Center services have tried them. It is not clear however, whether this is due to better products, better marketing or subsidies, which make Oro’s price lower than prices offered by other providers. Therefore, other indicators – such as sustainability – would have to be taken into account when judging what this indicator says about Oro’s performance. Supplemental indicators might show why Oro is better able to capture new customers.
- **The rate of retention is high:** Eighty-seven percent of businesses in the market and 75 percent of Oro customers are repeat purchasers. This indicates that both Oro services and other services in the market are good quality and that a diversity of services is available. Retention is higher in the market, but satisfaction is higher at the center. This indicates that the center could probably attract more customers if it offered even more services in this category.
- **Women and microenterprises have low access to this service, but Oro is contributing to increasing access for both groups:** Only 14 percent of women-owned businesses in the market access business development training, compared with 25 percent of all SEs. An estimated 20 percent of firms overall are owned by women, but only 8 percent of the SEs in the market purchasing services are women-owned. On the other hand, 44 percent of Oro’s customers are women-owned businesses. Microenterprises represent 49 percent of businesses in the market, but only 22 percent of them are acquiring services, and only 15 percent are purchasing services. In contrast, 43 percent of Oro’s customers are microenterprises.

While the indicators can provide considerable information about the program and the market, it is not possible to understand all interactions. For example, the indicators do not show if the Oro center is crowding out private-sector suppliers because it is subsidized. While the data shows that the center is positively contributing to reaching women and micro enterprises, it does not show if unsubsidized private-sector providers would step into this market niche in the absence of the center. Tracking the data over time, preferably against a pre-program baseline, might provide more information on these issues.

³² The 1999 figure of businesses served cannot be compared with the 2,500 estimated businesses in the market to determine market share because the 2,500 figure is a very rough estimate. Rather, 12 percent of the businesses surveyed purchased services. Of these, 44 percent purchased services from Oro.

**Table 10: Swisscontact Philippines, Oro Service Center
Market Development Indicators**

BDS Market Development Indicators				
Objective	Indicator	Market	Program	
			Annual/ Status	Cumulative
Expanding the market for BDS	Estimated potential market size	2,500		N/A
	Number of SEs purchasing	N/A	199	342
	Market size, annual sales	N/A	US\$3,269	US\$34,388
	Market penetration—acquiring	25%	16%	N/A
	Market penetration—purchasing	12%	5%	N/A
	Market share	N/A	44%	N/A
	Awareness: percentage of businesses aware of service	69%	37%	N/A
	Reach: percentage of those aware that have purchased service at least once	20%	39%	N/A
Developing a high-quality, diverse, competitive market	Number of BDS suppliers	N/A	1	
	Number of service products	N/A	12	18
	Retention: multiple purchasers	87%	75%	N/A
	Satisfaction with last service purchased (scale of 1 to 4)	2.6 (satisfied)	3 (very satisfied)	N/A
Deepening the market: reaching underserved groups	Percentage of SEs in the potential market that are women-owned	20%		N/A
	Female market penetration—acquired	14%	5%	N/A
	Percentage of purchasers that are women-owned businesses	8%	44%	45%
	Percentage of SEs in the potential market that are microenterprises	49%		N/A
	Microenterprise market penetration—acquired	22%	7%	48%
	Percentage of purchasers that are microenterprises	15%	43%	N/A

GOAL III
MEASURING SUSTAINABILITY AND COST-EFFECTIVENESS:
ASSESSING THE PERFORMANCE OF BDS FACILITATORS AND SUPPLIERS³³

Why Assess Sustainability and Cost-Effectiveness?

The broad goal of developing BDS markets is to develop vibrant and competitive, (primarily) private-sector markets of relevant, differentiated services consumed by a broad range and significant proportion of small businesses. One key element of developing BDS markets is ensuring the sustainability of service delivery, from both an institutional and a financial point of view. From an institutional perspective, the market development approach recommends separating financially viable commercial-delivery activities from broad market development activities for which in general it is difficult to recover costs.³⁴ It is envisioned that suppliers will carry out these sustainable activities and facilitators will engage in temporary activities that support the commercial suppliers.

Sustainability may be looked at on many levels. The PMF 2001 attempts to answer the following questions about sustainability in a BDS program: Are suppliers generating their revenues primarily from SEs? (What portion of supplier revenues comes from SEs or related commercial sources, compared with the portion that comes from donors or other subsidized sources?) Are suppliers in general profitable, based on SE revenue? How do they compare with each other? Are the particular services that suppliers provide to SEs profitable? How do they compare with each other? To what extent are the different services helping the suppliers cover their overhead or fixed-cost expenses? Although there is no one single indicator for sustainability in the overall market, when examining these indicators, along with other indicators in the PMF 2001, one can draw conclusions about the subsidy levels in the BDS market as a whole.

In addition, the facilitation activities also need to be assessed from a cost perspective. Although they are in most cases not expected to be sustainable, they are expected to be cost-effective, i.e., to deliver significant results from the public investment made. Also, when the BDS becomes sustainable in the market, a facilitator is expected to exit that market. This section of the PMF examines the sustainability of BDS suppliers and the cost-effectiveness of BDS facilitation activities. Whether or not it is a goal of a program to become financially sustainable, it is important to assess financial performance, because such performance reflects the extent to which services are subsidized and may be crowding other, private-sector suppliers out of the market. Similarly, even sustainable programs should assess cost-effectiveness.

³³ For a detailed guide used by the PMF field-research team and a detailed analysis of the results, see “Sustainability and Cost-Effectiveness Guide” and “Progress Report on Sustainability and Cost-Effectiveness Assessment,” by Mary McVay, and available on www.mip.org (click “MBP,” then “publications,” then “BDS”) and www.seepnetwork.org/bdsguide.html (click “Performance Assessment”).

³⁴ Committee of Donor Agencies for Small Enterprise Development, “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention,” February 2001.

Table 11 indicates the sustainability and cost-effectiveness indicators used in assessing BDS facilitator and supplier performance.

Table 11: Goal III -- Sustainability and Cost-Effectiveness Objectives and Indicators

Goal III: Sustainability and Cost-Effectiveness	
Assessing BDS Suppliers and Facilitators	
Objective	Indicator
A. Achieve supplier sustainability	1. Percentage supplier revenue from SEs*
	2. Breakdown of sources of supplier revenue (supplemental)
	3. BDS supplier financial sustainability (nondonor revenues/total expenses)* (supplemental)
	4. BDS contribution margin ((SE revenues from a service – direct expenses for the service) / total expenses)* (supplemental)
	5. BDS viability (SE revenues from a service / direct expenses for the service)* (supplemental)
B. Improve program cost-effectiveness	1. Ratio of program expenses to program sales to SEs
	2. Annual program expenses per customer served*

* These indicators are used in several BDS programs.

Objectives and Indicators

Objective III.A. Achieve Supplier and Service Sustainability

In the context of the PMF, sustainability refers to the financial viability of delivering services to SEs. The main sustainability indicators in the PMF answer the following questions: To what extent are SEs paying the cost of supplying services? Who else is paying for services? The supplemental indicators answer the questions, How profitable are the program-supported institutions that supply services to SEs? and, How profitable are the specific services?

The sustainability and cost-effectiveness indicators need to be interpreted in light of other indicators in the PMF. For example, high sustainability and low outreach to microenterprises would indicate that a program is achieving sustainability by serving larger businesses. Similarly, strong cost-effectiveness accompanied by low satisfaction rates and a low percentage of businesses applying and benefiting from services would indicate that a program is not investing appropriate levels of time and money into the quality of delivered services. Ideally, sustainability and cost-effectiveness contribute to one another, and strong program performance would be accompanied by strength in several program areas.

In addition, the program context should always be taken into consideration when interpreting sustainability and cost-effectiveness data. For example, rural programs serving women might

³⁵ The 1999 figure of businesses served cannot be compared with the 2,500 estimated businesses in the market to determine market share because the 2,500 figure is a very rough estimate. Rather, 12 percent of the businesses surveyed purchased services. Of these, 44 percent purchased services from Oro.

not be expected to reach the level of sustainability and cost-effectiveness as urban programs serving largely male-owned medium-sized businesses.

Indicators III.A.1 and III.A. 2. Percentage of supplier revenue generated from SEs:

This equals the revenue from sales to SEs divided by total supplier revenue, for each assisted supplier, and then on average for all assisted suppliers, expressed as a percentage. More informative is a supplemental pie chart illustrating the breakdown of revenue by source (see Figure 4).

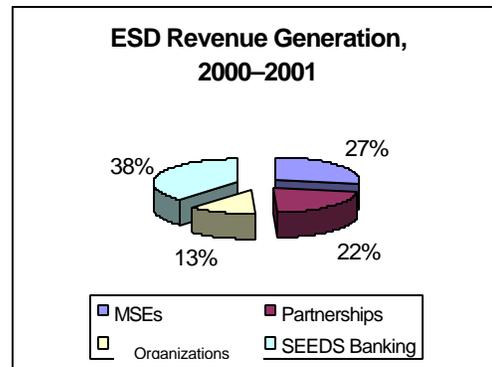
Interpretation of Supplier Revenue (III.A.1-2.) Indicators

For subsidized providers (providers with significant institutional contracts from donors and foundations to serve SEs, and/or providers using voucher programs), the percentage of revenues generated from SEs indicates the subsidy level of the supplier. As an average across the program, this figure indicates the subsidy level of the program-assisted suppliers.

For example, with the SEEDS ESD (Enterprise Services Division) program, illustrated in Figure 4, SE revenue for 2000–2001 accounted for 27 percent of overall revenue, up from 14 percent the previous year. In addition, ESD generates 38 percent of its revenue from fees paid by SEEDS’s microfinance program. An additional 13 percent comes from consultancies to other organizations, and 22 percent comes from straight grants. Thus, although SEEDS ESD sustainability based on SE revenue alone is low, indicating that services to SEs are subsidized, its overall picture of financial diversity and stability is strong.

When a supplier that serves only businesses reports its percentage of revenues from SEs, this can reflect two things: 1) the extent to which the supplier serves SEs versus large businesses, and 2) the extent to which large businesses are paying for services to small businesses or cross-subsidizing services to SEs. For example, the CECI/MARD program supports private-sector veterinary suppliers whose sole source of revenue is small farmers. All these suppliers are sustainable and exclusively serve SEs. In another example, the FIT-supported SE radio program delivered by CBS Radio in Uganda is fully paid for by large enterprises advertising to SEs. Although the commercially viable radio station receives no income from SEs, the program is nevertheless financially profitable and serves 90,000 SE listeners. Thus, even for purely private-sector suppliers, the percentage-of-SE-revenue indicator can be informative.

Figure 4: Breakdown of Revenue by Source: ESD Program of SEEDS, Sri Lanka



Supplemental Sustainability Indicators (Indicators III.A.3., III.A.4., and III.A. 5.): In addition to the supplemental sustainability indicator illustrated in Figure 4 (the breakdown of supplier revenue sources), Table 12 outlines the remaining supplemental sustainability indicators that provide more detailed financial performance information.

Table 12: Supplemental Sustainability Indicators

Goal III: Sustainability and Cost-Effectiveness		
Indicator	Proposed Methodologies	Questions Addressed
III.A.3.BDS supplier financial sustainability	Financial sustainability = nondonor revenues / total expenses	Last year, what percentage of total expenses of a BDS supplier was covered by nongrant revenue?
III.A.4. BDS contribution margin: calculate for each service, then average	BDS contribution margin = (SE revenues from BDS – BDS direct expenses)/ total expenses	Last year, what percentage of total expenses was covered by this particular BDS? When comparing different BDS, it answers the question, Which BDS is most profitable for the institution?
III.A. 5.BDS viability: calculate for each, then average	BDS viability = SE revenues from BDS/ direct expenses for BDS	How profitable was a particular BDS? Last year, what percentage of the direct expenses to deliver a BDS was covered by the revenues generated for that BDS?

An interpretation of these indicators is presented on the following page.

Objective III.B. Increase Program Cost-Effectiveness

Cost-effectiveness refers to the public or project expenses of creating impact. The cost-effectiveness indicators in the PMF are limited to two very basic indicators. They answer the questions, “What is the total program cost per SE customer served?” and, “What is the program cost per sale, in monetary terms, to SE customers?” (In U.S. dollars, how much does a program spend, per dollar, in sales that a supplier makes to SEs?) When a service becomes sustainable, it is expected that the program costs-to-sales ratio will approach zero, while at the same overall sales will continue to rise. This would indicate when a program might consider exiting the market. Table 13 indicates questions to consider regarding the cost-effectiveness indicators used in assessing BDS facilitator and supplier performance.

Table 13: Cost-Effectiveness Indicators

Goal III: Sustainability and Cost-Effectiveness*		
Objective	Indicator	Questions Addressed
B. Improve program cost-effectiveness	1. Ratio of annual program expenses to annual BDS sales by assisted suppliers*	How do program expenses compare with the sales of assisted BDS suppliers? The higher the ratio, the less cost-effective the program, in terms of helping providers generate sales to SEs.
	2. Annual program expenses per customer served*	How much does it cost the program to help assisted suppliers serve one customer?

*Note that these indicators do not reflect cost compared to program *impact*.

An interpretation of these indicators is presented on page 39.

Interpretation of Supplemental Sustainability (III.A.3-5) Indicators

CECI/MARD¹ supports three cooperatives and 40 veterinary entrepreneurs (in addition to three wholly subsidized NGOs). As shown in Table 14, the supplemental indicators illustrate that these partners are not only sustainable, but are also earning significant profits and doing better over time. The individual sales and profitability rates of each supplier provide CECI/MARD with useful management information that helps the organization understand which veterinarians are performing well, which need more assistance, which respond well to additional training, and which may need to be dropped from the program. The service-level indicators show that veterinary services are relatively more profitable than the marketing and input supply services provided by cooperatives in the program. With SEEDS, the increasing cost recovery, from 17 percent to 22 percent over the course of a year, reflects the organization's new efforts to become financially sustainable, although the negative contribution margin illustrates that the services are not yet earning any revenue to cover overhead costs. One service, credit support services, paid for primarily by the SEEDS microfinance program, is generating 93-percent cost recovery, whereas SEEDS's technical training services, still highly subsidized, are at 21-percent cost recovery.¹ The Swisscontact data, from one of the organization's business associations that offers trade fair participation and training services for fees, illustrate that Swisscontact's services are highly viable but are not contributing significantly to covering the organization's overhead costs. This indicates high overhead costs and the challenge of reaching sustainability, which is hovering below cost recovery. Thus, for a wide range of programs, these data reflect the overall sustainability picture. In addition, the particular ratios for specific providers and services provide useful management information.

Table 14: Financial Sustainability

Organization and BDS Offered	Type of Institution(s)	BDS Supplier Financial Sustainability		Average BDS Contribution Margin	Average BDS Viability
		Year 1	Last Year		
CECI/MARD Ag-marketing: training, marketing, veterinary	Three cooperatives	117% (coop. avg.)	120% (coop. avg.)	26% (coop. avg.)	128% (coop. avg.)
	40 entrepreneur suppliers	143% (average)	153% (average)	74% (average)	153% (average)
SEEDS technical training, credit training	NGO provider, division of larger NGO	17%	22%	-4.5% (average)	57% (average of two services: 21%, 93%)
Swisscontact Philippines training and trade fairs	Facilitator, one supplier	90%	88%	20%	531%

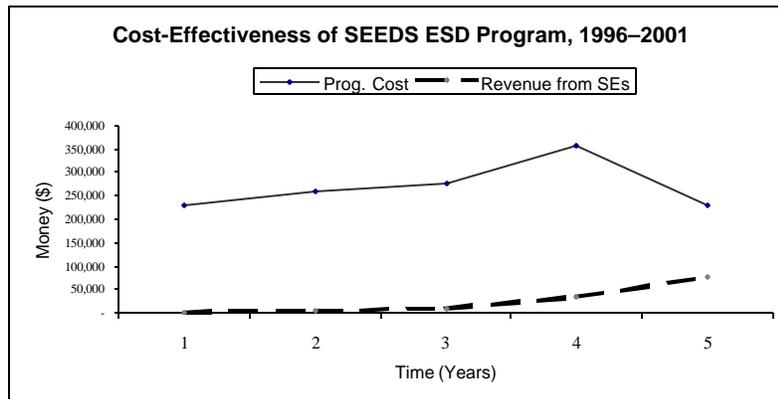
Interpretation of Cost-Effectiveness (III.B) Indicators

Table 15: Cost-Sales Ratios, 2000

	Program Cost	SE Revenue	Cost/Revenue
CECI/MARD	\$115,860	\$1,000,000	12%
SEEDS	\$16,083,840	\$5,465,909	294%
Swisscontact Philippines	\$272,214	\$774,675	35%

The above cost-to-sales ratios illustrate the relative costs, for each program, of generating BDS sales to SEs. These ratios are closely related to program sustainability strategies because the expense-to-sales indicator measures the cost of generating sales to SEs. The SEEDS program invests significantly more money to generate a unit of sales than do the Swisscontact or CECI/MARD programs. This reflects the reality that SEEDS only recently began charging fees to clients, and the program is still highly subsidized. CECI/MARD, whose program costs are only 12 percent of SE revenue generated by assisted suppliers, is serving numerous, sustainable suppliers. Swisscontact Philippines (35 percent) is serving several suppliers that are nearly sustainable. SEEDS took the tool further and compared on a grid its sales and costs over time (see Figure 5). The wider the distance between the lines, the higher the cost to generate sales to SEs. SEEDS's pattern of increasing cost-effectiveness, combined with reducing overall costs, also reflects the organization's growing level of cost recovery. If SEEDS program costs were to significantly decline, while program sales increased, this would indicate that SEEDS services were becoming sustainable and SEEDS might think about exiting the market.

Figure 5: Cost-to-Sales Ratio for SEEDS Program



The program cost per customer served can be compared only in the same country context, because of the influence of different cost structures and the relative significance of the U.S. dollar in each country. For example, two programs in Nepal, IEDI (\$18) and CECI/MARD (\$44), have significantly different costs per customer served. CECI/MARD operates in rural areas, where it is more labor-intensive to serve people than in closer-in areas, although costs are lower. Additionally, CECI/MARD is a facilitator of services and an international NGO with high overhead. IEDI, on the other hand, provides services directly to clients, is a local NGO with comparatively low overhead, and operates in an urban area. Thus, each program's cost per customer reflects that program's relative cost-effectiveness in its particular context. As seen from the above data, CECI/MARD's sustainability and cost-effectiveness in terms of generating sales are high.

Sustainability & Cost-Effectiveness Methodology³⁶

All the financial data needed to calculate the above ratios are available from facilitators and suppliers. The data for the basic indicators for sustainability and cost-effectiveness are generally easily reported, as long as organizations and suppliers track revenue by source, which is fairly common, and as long as suppliers are willing to report their sales and number of SE customers (as opposed to number of transactions).

The supplemental sustainability indicators require organizations to have accounting systems that also track profitability (costs and revenue) by service and by customer (SEs as opposed to other customers). Also, it requires suppliers that are willing to reveal their profitability rates to facilitators. These conditions are not prevalent in most BDS programs, which is why the profitability ratios are supplemental indicators. Other issues to note:

- Programs working with many private-sector suppliers may choose to sample a random selection. The most essential data to gather are sales by source.
- Many providers have institutional contracts to serve SEs. For the sustainability indicators, all expenses related to serving SEs should be considered, along with revenues from SEs only. In the case of consulting services to other institutions, both costs and revenues should be excluded from the sustainability calculation. Such organizations may also wish to report their overall sustainability ratio, as they usually calculate it.
- Nonprofit organizations reporting organizational costs for the sustainability calculation, or program costs for the cost-effectiveness indicators, need to allocate fairly to the program any organizational overhead. Two strategies for this include allocating overhead according to the size of the program budget, and allocating it according to the time staff spend on the program.
- When a BDS and a microfinance program are significantly integrated, the financial viability of both programs should constitute the main organizational sustainability ratio, although the sustainability of the BDS alone is also important.

³⁶ For detailed guidelines, see Annex D. Also, look for forthcoming publications on SEEP's BDS Web site: www.seepnetwork.org/bdsguide.html.

CHAPTER THREE

ISSUES IN PERFORMANCE ASSESSMENT

This chapter considers issues in performance assessment particular to the three sections of the PMF, detailed in the previous chapter. This chapter discusses several key issues that arose during the PMF field research and how they were resolved. (Additional, less-resolved issues are explored in the next chapter.)

IMPACT

Feasibility of gathering SE financial and employment data: The biggest challenge in measuring the impact of BDS programs is attempting to gather impact data from very small enterprises, households, and communities where few data are collected and reported. The PMF field-research team attempted to develop practical ways of gathering financial and employment data from assisted firms, with poor results. This occurred despite the fact that the PMF field-research team included two of the most experienced technical experts in this area, who have been successful at gathering and reporting financial data in their programs, Eric Hyman, formerly with Enterprise Works Worldwide, and Jim Tomecko, of GTZ. Although the exact systems they had used in the past were viewed as too complex by PMF field-research team members, the team did use aspects of the recommended systems, along with aspects of the research methodology of the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, to develop a simpler method of collecting financial and employment data. However, this effort yielded generally invalid data, and there was no clear explanation of why some organizations were able to collect valid data and others were not. Rather, the issue seemed to be the training and expertise of the enumerators, and particular characteristics of the services themselves. These findings led the research team to conclude that more research is needed to identify a) better techniques that can be used by a wide range of organizations to collect financial and employment data, and/or b) simple proxy indicators that can be easily collected and that are proved to represent changes in the financial and employment status of firms.

Many BDS practitioners, and especially strong proponents of the market development approach, argue that if a service is sustainable and people are purchasing it in the market (particularly if one knows whether these SEs are owned by underserved populations), there is no need to assess impact. There are, however, at least three key reasons to keep assessing impact. First, there are many reasons the poor purchase services that do not help them or could help them better. The most significant of these reasons is that there is little choice. Second, it is important to assess the impact of the market development approach. The assumption is that vibrant, competitive markets that reach underserved populations create more impact, but is this indeed the case? Programs may be achieving high impact with unconventional strategies, and only impact indicators give them an opportunity to demonstrate this. Third, it is important to keep analyzing the cost of achieving impact with different strategies, because the field is ultimately trying to achieve the most impact with the limited resources available.

Attribution of SE financial data to BDS programs: The second challenge in measuring BDS impact, which needs to be addressed in conjunction with the first, is how to determine whether any changes in the financial and employment status of assisted firms are caused by the BDS program. The proposed attribution tool, which has been successfully used in other situations, entailed asking, in a general way, what contributed to any changes in the business. The thinking was the businesses would provide various answers, such as the economy, a bright idea, the program services, and hiring a new employee. The program could then report the percentage of SEs attributing to the program the changes they cited. This was viewed by the PMF field researchers as too complex, however, and they chose instead to ask directly whether the change in business performance was “primarily” or “secondarily” attributable to the program. Nonetheless, the resulting data were viewed by many as biased, and, consequently, the team now recommends testing the more-general, open-question format in the next round of impact research.

Bias and comparability of satisfaction ratings: It was assumed at the beginning of the impact survey that SE customers would not give accurate answers about their satisfaction with the program, and that they would generally answer in the highest category. In fact, within the same program, there were variations between services, and in no case were the satisfaction rates all extremely high. This turned out, then, to be a very useful and valid indicator of customer value of the service. However, doubts remain about the comparability of such an indicator across different cultural contexts.

Relevance to all programs of repeat purchases: In preliminary discussions of the PMF, many practitioners objected to the use of repeat purchases as an appropriate indicator because, they argued, most services are not designed to be purchased more than once. Who attends business planning training twice, for example? Similarly, why would someone purchase an oil press twice if it lasts 10 years and is designed for small-business volume? The PMF 2001 addressed this issue in two ways. First, repeat purchases constitute a supplemental indicator; the indicator is not required of all programs using the PMF. Second, SE customers are asked whether they bought more than once any BDS from any assisted supplier in the program. Thus, if a program is innovating and helping many suppliers to offer a range of services, repeat purchases should be occurring in general.

Bias and comparability of application of the BDS and of benefits to the business: The main PMF 2001 indicator for impact is the percent of businesses that report having applied the BDS and benefited from it, as defined by the program. There is significant room for bias in the definition of how a service is applied and how a business benefits from a BDS. If a program defines a minimal benefit, they may obtain a high percentage. Program managers and donors need to work together to define these objectively. As the PMF is used and data for particular services is reported, it is possible that some standardization of these definitions will occur for particular service groups.

OUTREACH

Do the Market Indicators Reflect a Healthy BDS Market? Attempts to assess and develop BDS markets are in their early phases. The objectives and indicators in the PMF 2001 are premised on the belief that an expanding market, improved quality of services, and increased penetration of underserved groups are signs that the supply and demand of services are increasingly aligning. The objectives and indicators are also based on the premise that as supply increases and aligns itself with demand, the market will become vibrant and effective. This has yet to be demonstrated by a wide range of programs and in a wide range of markets. In-depth research studies on BDS market development need to be conducted to determine whether these assumptions are correct, and what level of achievement for different indicators represents signs of a healthy market. For example, is a 30-percent market penetration a sign that the market is functioning well? Does that mean the program should start to implement its exit strategy? The research should also improve the field's understanding of how market development happens and the positive and negative consequences of market development for the development community's objectives of reaching more SEs with better services.

Attribution of change in the BDS market to program performance: The PMF 2001 enabled organizations to draw some conclusions about their roles in the market, and about the roles of other providers in the market. However, there remain significant gaps in our understanding of how programs affect markets and what the management and design implications are. For example, if a supplier's market share is increasing, is this always beneficial? Does too much market share indicate dominance by too few players, or that these suppliers are benefiting too much from the program and distorting the market? Just because a program is growing and the market is growing, does that necessarily lead to the conclusion that the program is contributing to market growth? How do we know the program is not benefiting from other factors that are increasing market demand? More in-depth research into the dynamic interaction of BDS markets and BDS programs is needed to help clarify these issues, provide guidelines for interpreting PMF data, and perhaps modify the indicators to better reflect program performance in developing the BDS market.

Lack of data on market size: Adequate data on the SE markets in which PMF field researchers operate was not available, making it difficult to estimate the number of SEs in the market and to stratify samples. CECI/MARD, for example, conducted its own baseline survey of SEs in its area in order to obtain background information for the BDS market survey. The PMF 2001 works around this issue by calling for market data in percentage form. However, the PMF 2001 does not include quantitative estimates of market size by either the number of SEs obtaining services or the total value of transactions. The PMF merely estimate the percent of SEs that are aware of and have access to services, in a given geographic area. The data would be more useful in attracting additional suppliers to the market were the information tracked in numeric form, rather than in percentage form.

No data from suppliers: Given the extent to which services in BDS markets are "hidden" by the provision of embedded services from a wide range of suppliers, it is difficult to estimate the number of suppliers in the market and to conduct any kind of random survey of suppliers

that is not heavily biased toward NGO and government providers supported by development agencies. Instead, SE consumers themselves actually have the best information about suppliers. What is missing from the PMF 2001 as a result is the number of suppliers in the market and the number of service types in the market. These cannot be validly estimated from the sample survey of SEs in the market.

Sampling issues: The best sampling strategy is to randomly select several geographic areas in the market and survey within them a random selection of firms. One does not need a list of firms to do this. Rather, the methodology is to take a map, randomly select areas, and visit, for example, every fifth household, asking each whether it has a business and interviewing the owner. The danger with this strategy, however, particularly in large geographic areas, is that the geographic areas sampled may miss or focus solely on the most dense business areas. This, of course, introduces bias. The solution is to take a stratified sample, based on geographic considerations such as proximity to markets, roads, and towns. The problem is that without data on the general distribution of businesses in these different areas, the sample cannot be adjusted to represent the whole. Thus, organizations that lack access to good data for their target areas (which is virtually the case everywhere) are forced to do a baseline survey of businesses prior to conducting the BDS market assessment. This baseline survey provides data on the geographic distribution of firms in the different areas. Until this issue can be explored further and better background information provided, the PMF 2001 team strongly recommends conducting a very focused market assessment of the areas that programs aggressively target. When necessary, larger geographic areas can be surveyed, but that will allow significant room for inaccuracy and bias.

Lack of pricing data: The PMF field-research team attempted to gather data on service prices in the market, but the results were not useful. The price ranges were amazingly wide—from \$2 to \$2,000, in the case of the Sri Lanka study. It was unclear in these situations whether the price differences were due to service packaging, subsidies, cost of services, pricing strategies, or SEs' poor recollection about how much they had paid. In addition, it was unclear what the results would say about a market or a program. Does increasing prices mean reduced subsidies in the market, or does it mean there is less competition and that therefore prices are increasing? Does a wide price range indicate a variety of products in the market or the presence of heavy subsidies in some programs and commercial prices in others? The proposed solution to this problem was, as a supplemental activity, for organizations to visit a few different types of suppliers to gather basic market data on products, pricing, packaging, placement, and promotions—data that would generally be available to any SE customer. This information would inform the program's market strategy and provide background for performance assessment, but would not constitute a quantitative indicator.

Bias in interpretation: Most staff of BDS organizations are unfamiliar with basic concepts in market assessment and analysis; interpretation of market-level data poses challenges for most BDS practitioners and donors. It is quite possible to collect and report the data correctly, but then interpret it incorrectly. Some training and further guidance are needed before the techniques of interpreting BDS market-level data become widespread.

Capturing embedded services: The PMF BDS Market Assessment Survey was limited in its capacity to capture embedded services; that is, services that are delivered as a package with other market transactions. For example, CECI/MARD cooperatives provide technical advice with their input supply and marketing services, but the survey focused on the input supply and marketing services themselves. SEs often do not distinguish embedded services from the main service; yet, often, it is these services that a BDS program is attempting to improve. In response, PMF field-research participants have recommended some fundamental changes to the market survey tool to enable it to capture embedded services better. The approach with the existing tool is to start narrowly, by asking about SE purchases of a particular service. The recommended new approach is to begin more broadly, by asking what business services, if any, the SE uses, and then to narrow down to a specific category and a specific type of BDS. If the embedded services still do not turn up, interviewers can then ask about the main service in which the embedded services are packaged. For example, they can ask where an SE procures inputs, whether the SE receives technical advice with those inputs, whether the SE is satisfied with that advice, and so on. This strategy, however, needs to be tested in practice.

Defining services and service packages: In a related issue, the service definitions in some of the PMF field-research surveys were very narrow, making it difficult to explain the type of services to the SEs being interviewed. For example, the FAIDA survey asked separately about particular business training workshops—business awareness, business planning, and so on. The organization’s SE customers, however, were sometimes only aware of and able to answer questions about business management training in general. SEEDS experienced the same problem: SEs could talk about receiving services from SEEDS, but often did not remember which ones or how much they paid, and the like. The unit of analysis for them was not a particular product, but rather the experience of getting services from SEEDS, or getting a general type of service, such as management training. It was not possible to get detailed data about which type of management training was preferred over other types. Data of this level of detail might be more available in focus-group discussions. Then, to better capture market penetration and market share of a program, it has been suggested that the methodology change in the market survey suggested above (broadening question focus) will address this problem, as well.

SUSTAINABILITY AND COST-EFFECTIVENESS

Sustainability of the service in the market: The PMF focused on sustainability of suppliers and services, within the context of the institution. It was unable, however, to collect data for a single figure that reflects the sustainability—or subsidy level—of a service in the market. For example, even if the suppliers in the program are financially viable, the indicators do not capture ongoing investment by facilitators. If a facilitator promotes a new technology through media and trade shows and the technology suppliers are profitable, the subsidy of that publicity remains hidden in the PMF 2001 indicators. As practitioners continue to explore strategies for developing BDS markets and to report these sustainability indicators, they should also experiment with different ratios that might reflect the full sustainability of their programs. For example, MART in India analyzes the percentage of the total cost of

supplying a service that is paid for by the program. The organization reports that the marketing costs for the Gram Shree Mela crafts markets, which are organized by contracted NGOs, to COPART, a government ministry, are only 16 percent of the total cost of marketing. The actual festival event is paid for by organizations paying fees to participate in the markets (primarily grass-roots-level NGOs that market crafts manufactured by the poor). More research into BDS markets is needed to identify a good, single indicator that represents “subsidy level” in the market.

The PMF field-research team did propose that the cost-per-sales ratio (see the section on cost-effectiveness in Chapter Two) has the potential to represent market-level sustainability. Ideally, over time, program costs are eliminated and sales to SEs continue. That is sustainability. This indicator may be explored further but has limitations at the moment. For example, the indicator does not capture other programs supporting the service in the market, such as a voucher program. By tracking application of the PMF 2001, the field could learn more about whether this indicator has valid applications for sustainability.

Complexity of gathering profitability data: Although the profitability of services and suppliers is a valid indicator of sustainability, PMF field research revealed challenges for some programs in calculating this indicator. For example, informal suppliers and many NGO providers lack the accounting systems that break down revenue and expenses by source and by service. In addition, facilitators working with numerous suppliers are faced with gathering a large amount of data. Finally, facilitators working with private-sector suppliers encounter suppliers who are unwilling to share their profitability data with the project. To avoid these issues, PMF field researchers selected, as the main sustainability indicator, the percentage of revenues a supplier generates from SEs. This indicator clearly and simply reflects the subsidy level of a particular provider, and the extent to which the provider is serving small enterprises. Data for this indicator are relatively easy to gather from a large number of suppliers, and from suppliers without sophisticated bookkeeping systems, as well as those who are unwilling to report profitability data. When looked at in the context of the overall breakdown of supplier revenue by source, the indicator is even more informative.

Calculating organizational sustainability: NGO suppliers incur many costs of doing business that are not directly related to supplying services to SEs (for example, tracking the number of women served or the environmental impact of their services). Many argue that it is not fair to include these costs in sustainability calculations. However, as one advisor aptly put it, in a time when BDS practitioners are attempting to support private-sector BDS markets, it is best to use existing business ratios, rather than invent complex, donor-related ratios. So, rather than attempt to calculate a sustainability ratio that excludes specific donor-related costs, the organization-level indicator simply asks for the profitability of the institution—the bottom line, including all overhead, donor-related costs, depreciation, and so on.³⁷ These costs are then compared with nondonor revenue, which in most cases is revenue from SEs. Some organizations also receive income from “institutional contracts,” which refers to

³⁷ If you feel strongly that your true institutional sustainability is better reflected by calculating a sustainability ratio that excludes donor-related costs, as you define them, you may also report this ratio as you usually calculate it, providing details on what expenses are included and which are excluded. This would be in addition to reporting the sustainability ratio described here.

donors paying organizations to serve SEs. These contracts and voucher income are considered donor revenue, but revenue received from large commercial enterprises is considered nondonor revenue as long as it result from a commercial transaction, not a charitable grant.

Unit of analysis and cost allocation for NGOs: NGO providers face challenges in determining the unit of analysis and the appropriate cost-allocation methodologies for assessing organizational sustainability. Depending on the organization, it may be useful to look at the sustainability of several units: the overall institution, the BDS program, and specific BDS service programs or regional programs. For example, SEEDS is an organization with a mission to develop businesses and a strategy to become financially sustainable. It provides financial and BDS services in three units. Managers would benefit from knowing the sustainability of SEEDS, the sustainability of its microfinance programs compared with that of the BDS programs, the sustainability of the microfinance and BDS services that are integrated, and the individual sustainability of the BDS programs. One needs to ask, What is the appropriate level to report on the PMF? and, How should SEEDS overhead be allocated to the different programs when considering program-level sustainability? As organizations integrate the PMF into their programs, tracking this implementation should shed light on what unit of analysis is useful in different contexts for different purposes.

Calculating service-level sustainability: There are many cost-allocation strategies and a wide variety of ratios available for assessing service-level sustainability, but the PMF asks for only two indicators. One is most helpful for BDS program managers: the contribution margin of a particular BDS. It helps assess the extent to which different services are helping to achieve sustainability or profitability. The second ratio, which compares the expenses with the revenues of a particular service, reports the service's profitability, excluding overhead and indirect costs. This ratio is helpful for looking at a BDS outside the context of its organizational home. Although it is difficult to standardize the method of allocating "direct" costs, when used in conjunction with the above indicators, which capture total costs, the ratio should be a useful indicator of whether a service is financially viable, whereas the other indicators reflect whether the service is profitable within the institution that is offering it.

The challenge of cost–benefit assessment—the relevance of efficiency measures: The ideal indicator for cost-effectiveness would be an overall cost–benefit ratio that reflects the total program expenses and total program benefits to clients over time. However, such an indicator would be too complex for most programs to collect data for on a regular basis. The impact indicators should not stand without some comparison with the cost of achieving that impact. Simplified versions attempted by the PMF field-research team were either invalid or impractical. In conjunction with impact research, the field should identify a simple cost–benefit ratio, or a reasonable proxy for cost versus benefit.

Meanwhile, the two simple indicators in the PMF 2001—cost per person served and cost per unit of sales generated—give a very basic picture of cost-effectiveness in terms of the overall program cost of generating sales to SE customers. When looked at over time, one would expect that as cost-effectiveness improves, programs would reach increasing numbers of people and assisted suppliers would generate increasing sales, while program costs would

decline. In a sustainable market, there would be no further program costs, while suppliers would continue to increase the number of people served and their sales, at least for the service life cycle. Thus, the indicators contribute to the picture of a sustainable market.

These indicators are not very relevant for private-sector suppliers, however. Instead, such suppliers would generate more useful management information by looking at efficiency ratios that reflect the sales and customers per staff, region, department, service, and so on. Such efficiency indicators were viewed as too service- and context-specific, and too detailed for the PMF.

CHAPTER FOUR

RECOMMENDATIONS FOR FURTHER RESEARCH

This chapter proposes further research for exploring the issues with the PMF that were raised in Chapters One and Three. It recommends specific research and it they might contribute to the further development of a valid, practical, and useful performance measurement framework for BDS programs.

- 1) **Adapt the detailed PMF 2001 guides:** These detailed guides were developed to instruct PMF Field Research on the use of a common methodology and interpretation of the PMF. Without them, practitioners will be challenged to apply or conduct experiments on the PMF. They need to be updated to reflect the findings of the PMF Field Research.
- 2) **Track the implementation of the PMF 2001** in a wide range of programs around the world to learn further lessons about:
 - a) How the PMF may need to be adapted when examining entire programs and BDS markets over time.
 - b) How the PMF is integrated into existing program log frames and performance assessment systems.
 - c) Additional tips for data collection.
 - d) Additional indicators that, when used in conjunction with the PMF, provide additional valuable information, and that may be integrated into the PMF. For example, programs are experimenting with indicators that reflect BDS sustainability at the market level.
 - e) How organizations define the “application” and “benefits” of services, particularly for categories of services, and whether these can be standardized for categories of services.
 - f) For calculating sustainability indicators, how organizations determine the unit of analysis for sustainability calculations and how they allocate costs, so that we can develop more standard tools in this area.
 - g) The extent to which the indicator methodologies and interpretative guidance are easily transferred to organizations with a range of institutional capacities, or the extent to which training is required to do so.
 - h) Which indicators are most valid, practical and useful, and which might be dropped to simplify the PMF.
- 3) **Test the PMF 2001** for use among donors and researchers to better understand whether it produces essential data, and how these stakeholder might adapt and apply it; and over time to understand how it assesses BDS market and program performance over time.

- 4) **Develop and test the PMF 2001 with programs that more fully represent the market development approach;** for example, programs with embedded services, programs that support numerous private-sector suppliers offering diverse services, and, specifically, voucher programs. This research would contribute to further adaptation of the PMF to meet the assessment needs of more market-oriented programs.
- 5) **Adapt and test a version of the PMF relevant to subsector or systems development** programs that attempt to develop SE product markets to adapt the PMF to better capture the performance of these types of programs, particularly changes in SE product markets.
- 6) **Conduct research on general background data** to help estimate market size. There are at least two avenues that might be explored here. First, adapting the GEMINI baseline surveys to local communities should be explored so as to provide local organizations with market information on the number of SEs in their market, broken down by location, gender, firm size, and general sector. The last round of GEMINI surveys not only are outdated, but also do not provide data on a very local level. Second, experiments should be conducted with very broad BDS market assessment surveys, such as those fielded by GTZ in Nepal, that assess a large market for a wide range of BDS. Can these surveys be adapted to provide local information on the number of firms and/or to supply some of the market penetration and market share data needed for the PMF for specific programs?
- 7) **Conduct in-depth studies of BDS markets & market development interventions** to provide more information about BDS markets, BDS programs, and how to assess performance of both. The research should focus on three key issues.
 - a) First increase understanding about how private-sector BDS markets function. What does a healthy BDS market look like? How do BDS markets change over time? What constitutes a healthy, sustainable market and how BDS program interventions are affecting the market? This research would test the assumptions of the PMF that the selected indicators indeed represent a description of healthy markets. It may recommend alternative indicators, or a focus on fewer, more relevant indicators.
 - b) Second, fill significant gaps in our understanding of how programs affect markets. For example, if a program-supported supplier's market share is increasing, is this always beneficial? Does too much market share indicate dominance by too few players, or that these program suppliers are benefiting too much from the program and distorting the market? More in-depth research into the dynamic interaction of BDS markets and BDS programs is needed to help clarify these issues, provide guidelines for interpreting PMF data, and perhaps modify the indicators to better reflect program performance in developing the BDS market. It might also identify additional indicators, narrow down the list of indicators, help assess subsidies in the market, and help programs determine more specifically their contribution to BDS market development.

- c) Third, the research should also improve the field's understanding of how market development happens and the positive and negative consequences of market development for the development community's objectives of reaching more SEs with BDS. Does the market development approach work?
- 8) **Conduct in-depth impact studies** to help make the link between businesses applying and benefiting from BDS and consumer-level effects, such as increased income and employment. In particular, exploring the application of the AIMS tools to BDS programs might be fruitful.³⁸ The goal, from the PMF perspective, would be to
- a) Document financial and employment changes in firms, and link these to changing business benefits, BDS application, and, ultimately, business service acquisition.
 - b) Identify simple proxy indicators that could be integrated into future versions of the PMF with confidence that they truly represent impact.
 - c) Analyze the cost-effectiveness of programs in achieving impact; impact data without cost analyses are significantly limited.
 - d) Identify proxy cost–benefit indicators that could be integrated into future versions of the PMF.

The overriding research issues in the PMF field research remain very broad: how to develop a common set of valid, practical and useful performance indicators for BDS programs. The key big-picture issues are many that have been part of the PMF research throughout the development of the PMF:

- 1) How can we develop a small set of indicators that sufficiently reflect program performance? Several advisors and participants recommend further reduction in the number of indicators.
- 2) How can the PMF be fairly used and interpreted, given the wide range of BDS programs, program contexts and stakeholders?
- 3) How will the PMF evolve over time to reflect our rapidly developing understanding of BDS markets and the role of program interventions in those markets?
- 4) How can the PMF validly include or reflect impact on SE clients?

The PMF 2001 represents an important step on a long path of developing valid, practical and useful performance indicators for BDS programs, but much work remains to be done.

³⁸ AIMS stand for Assessing the Impact of Microenterprise Services. It is a project of USAID that developed tools and techniques for assessing the impact of microfinance programs. Details can be found at www.mip.org.

ANNEX A
PMF FIELD-RESEARCH PROGRAMS

PMF Field Research Programs

Program	SEEDS	IEDI	CECI/MARD	Swisscontact Philippines	Swisscontact Peru	FAIDA
Country and Region	Sri Lanka Asia	Nepal Asia	Nepal Asia	Philippines Asia	Peru Latin America	Tanzania Africa
SE Target Clients	Rural poor, primarily women	Urban small enterprises	Rural small- scale farmers in villages and remote areas	Urban micro and small enterprises	Urban, micro- enterprises	Urban and rural micro- enterprises
Services	Technical training (in aquarium fish raising); credit support training	Business management workshops and training	Veterinary service; agricultural education; agricultural marketing	Trade fairs; business management training	Business management training; technical assistance	Business management training
Delivery Channel	NGO supplier; some services linked to microfinance program	NGO supplier and facilitator	NGO facilitator; three NGO suppliers; three cooperative suppliers; 40 veterinary entrepreneurs	Works with several NGO and private- sector suppliers in different markets	Works with several NGO and private- sector suppliers in the same market	Facilitator of several competing private-sector suppliers
Financing Mechanism for Suppliers— How SEs Pay for the Service	Fees for service; fees from interest charged to borrowers who also receive training.	Fees for services.	Fees; technical advice embedded into input supply; agricultural education is free.	Fees.	Fees and vouchers.	Fees.

ANNEX B

COMPARABILITY OF PMF 2001 INDICATORS

Comparability of PMF 2001 Indicators

Goal 1: Increase Impact	
Assessing BDS Customers, SEs	
Indicators	Potential for Comparability
Customer satisfaction with a business development service	Comparable across services, programs, and contexts.
Repeat customers (percentage of customers who buy more than once)	Comparable across services, programs, and contexts, but the relevance of repeat purchasing for the particular service needs to be considered.
Percentage of customers who applied the service as intended by the program	Comparable across services, programs, and contexts, but the definition of the application and its significance to business operations needs to be considered.
Percentage of customers who experienced business benefits, as defined by the supplier, as a result of the service	Comparable across services, programs, and contexts, but the definition of the benefit and its significance to business operations needs to be considered.
Goal 2: Increase Outreach (Scale and Access)	
Assessing BDS Markets	
Indicators (Reported for the Overall Market and for the BDS Program's Contribution to the Market)	Potential for Comparability
Number of SEs acquiring a service through any method and purchasing a service through commercial transactions	Comparable across services, institutions, and contexts, but the context must be considered, especially the general size of the SE market.
Amount of sales by BDS suppliers	Comparable across services and institutions in the same country, but the context needs to be considered.
Market penetration: percentage of potential SE market acquiring a service through any method and purchasing a service	Comparable across services, institutions, and in different contexts, but the context needs to be considered, especially the overall size of the target market.
A program's market share of all services acquired through any method and all services purchased	Same as above; the interpretation challenge here is whether increasing market share is good or bad. At the very least, this is an indicator of a program's prominence in the market; thus, if the market is doing well or doing poorly, this indicator suggests the extent to which the program has played a role.
Awareness: percentage of SEs aware of a service	Comparable across services, institutions, and in different contexts, but the context needs to be considered, especially the overall size of the target market.
Reach: percentage of those aware who have purchased a service at least once	Comparable across services, institutions, and in different contexts, but the context needs to be considered, especially the overall size of the target market.

Percentage market share held by the three largest suppliers	Comparable across services, institutions, and in different contexts, but the context needs to be considered, especially the overall size of the target market. The smaller the market, the less room for many players and the higher one would expect the share of the largest three players to be.
Number of BDS suppliers	Comparable, but more contextual than performance-related. Is having more suppliers in one program always better?
Number of BDS products	Comparable across services, institutions, and contexts, taking the context and service type into account.
Retention: percentage of multiple purchasers out of all purchasers	Comparable across services, institutions, and in different contexts, but the context needs to be considered, especially the overall size of the target market. Also to be considered is whether the services are the type of service that is typically purchased more than once in a given time frame.
Satisfaction with last service purchase <i>(supplemental)</i>	Comparable across services, institutions, but may have limited comparability in different contexts.
Reasons for purchase, nonpurchase, and choice of supplier <i>(supplemental)</i>	Comparable across services, institutions, and in different contexts, but comparison is less relevant than with other indicators.
Extent of access: percentage of SE customers purchasing a service that represent targeted populations (women, microenterprises, exporters, and so on)	Comparable across services, institutions, and in different contexts, but the overall distribution of firms in the market must be used to understand the context. For example, if 25 percent of SEs with access to services are women-owned in a country where only 15 percent of firms are owned by women, that constitutes strong performance with regard to reaching women. In a country where 50 percent of firms are owned by women, it shows weak performance with regard to serving women. Another useful comparison to make with this indicator is the percentage of women or micros served in the market compared with the percentage in the program.
Target market penetration: percentage of potential SE targeted markets (women, microenterprises, exporters, and so on) acquiring a service through any method and purchasing a service	Comparable across services, institutions, and in different contexts. The most useful point of comparison with this indicator is comparing the penetration of underserved groups with the penetration of SEs in general.
Goal 3: Sustainability and Cost-Effectiveness	
Assessing BDS Suppliers and Facilitators	
Indicators	Potential for Comparability
Percentage (average) supplier revenue from SEs	Comparable over time, across suppliers and service types, in different countries and contexts, and in different programs. Needs to be assessed along with age of program, overall market penetration of the service (market maturity).

Breakdown (average) of sources of supplier revenue	Same as above. Needs to be interpreted based on program sustainability goals and definitions. For example, how are large-enterprise revenues viewed? How are institutional contracts and consultancies from donors viewed?
BDS supplier financial sustainability (nondonor revenues/total expenses) <i>(supplemental)</i>	Same as above.
BDS contribution margin ((SE revenues from a service – direct expenses for the service) / total expenses) <i>(supplemental)</i>	Useful for comparing different services within the same institution. Can compare the performance of institutions generally in generating income from services.
BDS viability (revenues from a service / direct expenses for the service) <i>(supplemental)</i>	Useful for comparing the viability of services delivered by different institutions in the same context. With further exploration, it may be applied to analyze whether, in a wide range of contexts and institutions, particular services tend to be more profitable than others.
Annual program expenses per dollar BDS sold by assisted suppliers*	Comparable over time, across suppliers, across services, and in different contexts. Needs to be interpreted along with the age of the program and the pattern of overall costs; for example, whether they are up or down.
Annual program expenses per customer served*	Comparable across services in similar contexts; cannot be looked at across countries. Additionally, within a country, the context must be considered (rural or urban, for example). Also, one needs to examine the description of the service, the types of applications, and the benefits expected. Ideally, it is considered along with the impact on firms.

ANNEX C

**INTERPRETATION OF AN ENTIRE
PMF FOR ONE PROGRAM (SWISSCONTACT)**

INTERPRETATION OF AN ENTIRE PMF FOR ONE PROGRAM (SWISSCONTACT)

Goal 1: Impact: Oro Service Center			
Objective	Indicator	2001	
Increase customer acquisition of business development services (increase sales)	Percentage of customers reporting exceeding expectations:		
	Enterprise development training	80 percent	
	Enterprise development promotion	58 percent	
	Fund accessing	100 percent	
	Repeat customers	45 percent	
Increase customer application and benefits of business development services	Percentage of customers who change business practice as program intended:		
	Enterprise development training	90 percent	
	Enterprise development promotion	94 percent	
	Fund accessing	100 percent	
Goal 3: Financial Sustainability: Oro Service Center			
Indicator		1999	2000
Percentage of revenue generated from SEs		N/A	26 percent
BDS supplier financial sustainability (<i>nondonor revenue/total program expenses</i>)		90.6 percent	88.0 percent
BDS contribution margin (<i>nondonor BDS revenues – BDS direct expenses</i>)/total expenses Service 1: entrepreneurship development training		5.5 percent	21.4 percent
BDS contribution margin Service 2: enterprise promotion (trade fairs/exhibits)		45.6 percent	20.6 percent
BDS viability (<i>nondonor BDS revenues/direct expenses for BDS</i>) Service 1: entrepreneurship development training		270.4 percent	431.2 percent
BDS viability Service 2: enterprise promotion (trade fairs/exhibits)		258.4 percent	632.9 percent
Goal 3: Cost-Effectiveness: Oro Service Center, in US\$			
Indicator		1999	2000
Ratio of annual program expenses to annual sales to SEs		58 percent	35 percent
Annual program expenses per customer/client served		\$57	\$33

Goal 2: Increase Outreach Enterprise Development Training				
Objective	Indicator	Market	Program	
			Annual/ Status	Cumulative
Expanding the market for BDS	Estimated potential market size	2,500		N/A
	Number of SEs purchasing	N/A	199	342
	Market size, annual sales	N/A	US\$3,269	US\$34,388
	Market penetration—acquiring	25 percent	16 percent	N/A
	Market penetration—purchasing	12 percent	5 percent	N/A
	Market share	N/A	44 percent	N/A
	Awareness: percentage aware of service	69 percent	37 percent	N/A
	Reach: percentage of those aware who have purchased services at least once	20 percent	39 percent	N/A
Developing a high-quality, diverse, competitive market	Number of BDS suppliers	N/A	1	
	Number of service products	N/A	12	18
	Retention: multiple purchasers	87 percent	75 percent	N/A
	Satisfaction with last service purchase*	2.6 (satisfied)	3 (very satisfied)	N/A
Deepening the market: reaching underserved groups	Percentage of SEs in the potential market that are women-owned	20 percent		N/A
	Women-owned market penetration—acquired	14 percent	5 percent	N/A
	Percentage of purchasers who are women	8 percent	44 percent	45 percent
	Percentage of SEs in the potential market that are microenterprises	49 percent		N/A
	Microenterprise market penetration—acquired	22 percent	7 percent	48 percent
	Percentage of purchasers that are microenterprises	15 percent	43 percent	N/A

*Should be reported as a percent of respondents reports highest 2 categories of satisfaction. This is the average rating of all respondents.

Goal 2: Increase Outreach Market Access Services; Trade Fairs				
Objective	Indicator	Market	Program	
			Annual	Cumulative
Expanding the market for BDS	Estimated potential market size (number of SEs)	2,500		N/A
	Number of SEs purchasing the service	N/A	102	154
	Market size, supply: amount of annual sales	N/A	US\$8,157 Php 342,526	US\$24,140 Php 937,555
	Market penetration: percentage of potential SE market acquiring the service	20 percent	9 percent	N/A
	Market penetration: percentage of potential SE market purchasing the service	10 percent	N/A	N/A
	Market share	N/A	35 percent	N/A
	Awareness: percentage of SEs aware of the service	59 percent	35 percent	N/A
	Reach: percentage of those aware who have purchased services at least once	28 percent	23 percent	N/A
Developing a high-quality, diverse, competitive market	Number of BDS suppliers	N/A	1	1
	Number of service products	N/A	1	1
	Retention: proportion of multiple purchasers out of all purchasers	94 percent	78 percent	N/A
	Satisfaction with last service purchase*	2.6 (satisfied)	3 (very satisfied)	N/A
	Deepening the market: reaching underserved groups	Estimated size of potential women-owned–enterprise market	20 percent	
Deepening the market: reaching underserved groups	Women-owned market penetration—acquired	27 percent	0 percent	N/A
	Percentage of purchasers who are women	36 percent	28 percent	31 percent
	Estimated size of potential microenterprise market	49 percent		N/A
	Microenterprise market penetration—acquired	19 percent	6 percent	N/A
	Percentage of purchasers that are microenterprises	45 percent	56 percent	58 percent

*Should be reported as a percent of respondents reports highest 2 categories of satisfaction. This is the average rating of all respondents.

Established in 1959, Swisscontact is a Swiss development agency that contributes to sustainable development, a concept that encompasses the long-term preservation of economic, social, and ecological potentials of present and future generations. Swisscontact has been in operation in the Philippines since 1989. It operates a coordination office in Metro Manila and has a North Luzon branch office in Baguio. Swisscontact's approach to BDS stemmed from an environment characterized by:

- An inadequate offer from BDS suppliers—often being irrelevant and inefficient—and weak demand for BDS from small enterprises usually supported by nonsustainable subsidies from the government or donors;
- A poorly functioning BDS market as a consequence of weaknesses on the supply and demand sides; and
- Prevailing support for BDS from the government and donors that did not address the supply–demand inconsistency, and, indeed, often seemed to strengthen it.

Supported by the Swiss Agency for Development and Cooperation (SDC), SC's response to the above situation has been to develop the business development center (BDC) approach. Originating in Swisscontact Ecuador and Peru programs in the mid-1990s and adapted in Indonesia and the Philippines in 1996-1997, the BDC approach uses an incentive-based form of support to facilitate the development of BDS providers. It represents a shift away from direct provision and subsidies at the level of BDS transactions toward an entrepreneurial and market-based intervention. The BDC approach is primarily aimed toward facilitating the removal of supply constraints by addressing provider skills deficiencies, motivating entrepreneurial behavior, and providing joint funding for innovations and to test new markets and services. To date, there are eight Swisscontact-supported BDCs in six provinces in the Philippines. At the start of 2001, five of the eight operated “independently” of Swisscontact Philippines except for competitive funding support in product, market, and human resources development.

One of the Swisscontact-supported BDCs, the Oro Service Center, is a unit within the Oro Chamber of Commerce and Industry. As such, clients come from a diverse range of industries: retail and trading, service sectors, and the manufacturing sectors. The last two years have been transitional for the Oro Service Center, from an internal and external point of view. The operating environment has been characterized by economic upheavals. Internally, the center has shifted from the provision of many services, including finance, to a focus on only two services, business development training and trade shows. Additionally, it has developed institutional autonomy from the chamber to allow it to function more as a business, focusing more on market demand than on donor and chamber priorities.

In this context, Swisscontact reports, on a one-time basis, the PMF indicators presented above. The following are some conclusions that can be drawn based on the data and contextual information provided by Swisscontact. More conclusions could be drawn were the data to be reported over time.

- **Customer benefits and satisfaction:** The Oro Service Center has grown significantly in the last two years and in general delivers a high-impact service that customers value. Between 90 percent and 100 percent of customers are applying these services to their business as intended, and 45 percent of customers are repeat purchasers. Customers prefer the business development training and fund-accessing services over the trade shows. The satisfaction rate of the trade shows is only 58 percent, compared with 100 percent for fund accessing and 80 percent for business training. Swisscontact suggests that the satisfaction rate for the trade shows is low, in part, because people have high expectations of making big sales at the trade shows, but expect less of the other services.
- **Overall, the market is mature and well-developed, and the Oro center is contributing significantly to the market,** and to helping women and microenterprises access the market through commercial transactions.
- **Oro is a big fish in a small pond, and is growing rapidly:** Although serving only 199 businesses in 1999, the center controls 44 percent of the market. It served over half of its cumulative client base in the last year, 199 of 342 businesses.¹
- **The market is well-developed for this service, and the Oro center is a big part of that market:** Overall penetration is 25 percent, while penetration for the Oro center is 16 percent. Awareness of the service in general is high: 69 percent, with 37 percent aware of Oro's services.
- **Significant subsidies exist in the market:** The percentage of firms that receive services is 25 percent, but only 12 percent of all businesses purchase services.
- **SEs are reluctant to try services, but have more confidence in the center than in other providers:** There is a significant gap between awareness (69 percent) and reach (20 percent) in the market. This means that only 20 percent of those who have heard about the service have tried it. Thirty-nine percent of businesses that have heard of the Oro center services have tried them, which indicates that a high proportion of SEs have confidence enough to buy Oro services.
- **The rate of retention is high:** Eighty-seven percent of businesses in the market and 75 percent of Oro businesses are repeat purchasers, which relates to the high number of service types offered by the center, and probably in the market. Retention is higher in the market, but satisfaction is higher at the center. This indicates that the center could probably attract more customers if it offered even more services in this category.
- **Women and microenterprises have low access to this service, but the Oro center is contributing to increasing access for both groups:** Only 14 percent of women in the market acquire business development training, compared with 25 percent overall. An

¹ The 199 figure of businesses served cannot be compared with the 2,500 estimated businesses in the market to determine market share because the figure of 2,500 businesses is a very rough estimate. Rather, 12 percent of the businesses surveyed purchased services. Of these, 44 percent purchase services from the Oro center.

estimated 20 percent of firms overall are owned by women, but only 8 percent of the SEs in the market purchasing services are women. Oro's clientele, on the other hand, is 44 percent female. Also, 22 percent of microenterprises in the market acquire services, compared with 25 percent of firms overall. Microenterprises represent 49 percent of businesses but only 15 percent of those purchasing in the market. On the other hand, 43 percent of Oro's customers are microenterprises.

- **The center's sustainability is low.** Overall, the program receives only 26 percent of its revenue from SEs. Changing this will be challenging while maintaining a focus on microenterprises and women-owned firms and with the current culture of subsidy in the market.
- **Sustainability at the center declined** as the center became autonomous and absorbed some costs that had previously been hidden by the chamber's accounting systems. In 2000, the center reported an overall sustainability rate of 88 percent, down from 91 percent the previous year. The services themselves are profitable, generating 400- to 600-percent gross profits, and they were more profitable in 2000 than in 1999. However, the center cannot cover overhead costs with contribution margins of around 20 percent in 2000. This illustrates the high overhead costs, compared with fees currently generated from SEs.
- **The program is becoming more cost-effective from Swisscontact's point of view.** Swisscontact's costs per person serviced declined from \$57 in 1999 to \$33 in 2000. The ratio of program costs to BDS sales to SEs went from 58 percent in 1999 to 35 percent in 2000. This reflects Swisscontact's gradual reduction in subsidy.

Overall, the Oro Service Center is growing, serving underserved clients, and providing a valuable service. Customer satisfaction issues with the trade show need to be addressed. The Oro center is making a significant contribution to a small market. Cost-effectiveness, from Swisscontact's point of view, is increasing. The services are generally profitable; however, they do not cover full costs. In fact, the center's sustainability is declining, as noted above. The Oro center will need to look into reducing overhead costs in order to avoid charging higher fees, which may price the center out of this highly subsidized market and force it to move up-market, to larger firms.

ANNEX D
RESOURCES

RESOURCES

The following documents represent preliminary research, progress reports, guides, and PMF field participant reports that make up the PMF field-research effort to date. They can be found at www.mip.org. Click on MBP, then Publications, then BDS, and on www.seepnetwork.org/bdsguide.html. Click on “Performance Measurement.”

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McVay, Mary, “Sustainability and Cost-Effectiveness Assessment Guide,” USAID/DAI Microenterprise Best Practices Project. April, 2001.

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Canedo, Tim and Mary McVay, "Progress Report on Impact Assessment," USAID/DAI Microenterprise Best Practices Project. September, 2001.

ANNEX E

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PMF FIELD-RESEARCH TEAM MEMBERS

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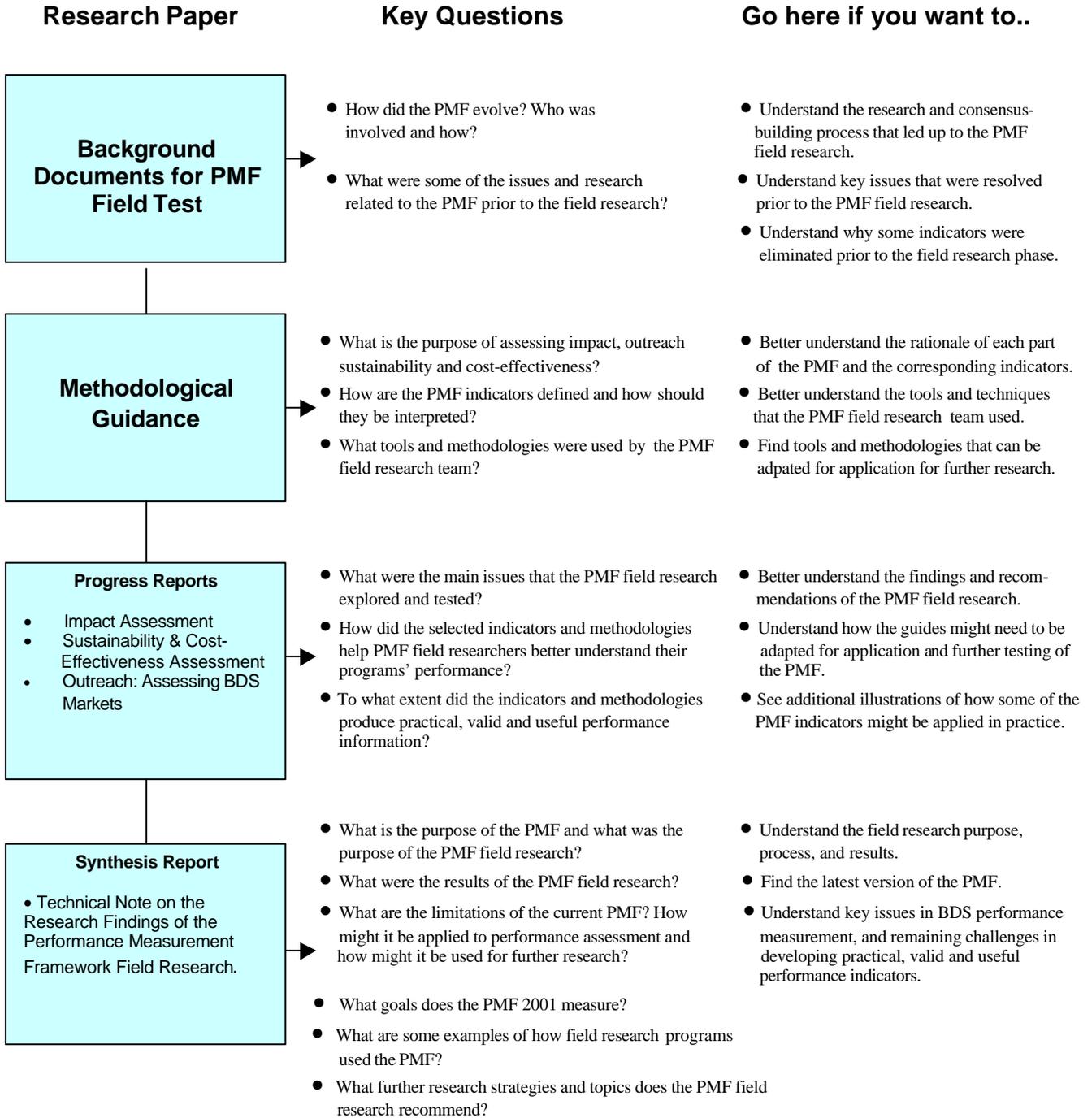
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ANNEX F

**BDS PERFORMANCE MEASUREMENT RESEARCH:
A QUICK ROAD MAP**

BDS Performance Measurement Research: A Quick Road Map



The above documents can be accessed through the following websites: www.mip.org and www.seepnetwork.org