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**The Development of Markets for Business Development Services:
Where we are and how to go further**

**A summary of issues emerging from the real and virtual
conferences on BDS for small enterprises**

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USAID's Microenterprise
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Abstract

Market development: where we are and how to go further

Within the major process of learning and development in BDS that has characterised the last few years, market development has emerged as a key priority. For many it represents a logical extension of the (preliminary) good practice principles developed by the Donor Committee and, more important, offers the alluring possibility of achieving much greater scale and sustainability through BDS interventions than has been the case to date. This paper attempts to set the context for where “we” (development agencies) are in our understanding of market development and provides some ideas on future directions. Market development interventions are defined and the underpinning rationale for our interest in market development is outlined. Although *how* we design and implement interventions to promote BDS market development is a young experience for most agencies, the paper sets out some key stages that appear to be important, based on market analysis and clear sustainability objectives. It concludes by setting out some central challenges for the future that need to be addressed in order to intervene more effectively and to measure the performance of interventions more precisely.

1. Introduction

The last few years have witnessed a significant change in prevailing views on business development services for SME development. Beginning with the publication of the Donor Committee's Preliminary Guidelines for Donor-Funded Interventions (1) and continuing through such high profile events as the Harare (2) and Rio (3) conferences and most recently, the virtual conference on performance measurement in BDS, a major collective learning process has been taking place. It is clear that many views on BDS have changed and that there is a greater sense of what "we" - donors and other development agencies with an interest in BDS - should do and how we should do it. From this momentum of learning, *market development* has emerged strongly as a priority area of interest. Indeed, for some it is clearly the way forward offering the alluring possibility of the scale and sustainability (and implied impact) that microfinance has apparently achieved but through different means.

Yet, despite this substantial level of interest, there is comparatively little *hard* experience of market development interventions on which we can draw. Our interest, rather, is premised on a positive, optimistic view of its potential. This is not a view formed from abstract thinking; on the contrary, there is a sense in which market development is the (next) logical step arising from our thinking on BDS; this is where our analysis has taken us. However, it is clear that in order for progress to be made in improving our understanding of and the results from market development interventions, it is necessary to *get tighter* in our thinking and actions, in what we do and how we do it.

This brief paper is an attempt to help focus our analysis and efforts in market development. Drawing principally on the recent virtual and real conferences, its overall objective is to summarise where we are currently in our understanding of market development interventions and where we should focus in the future to enhance performance in this field. More specifically, in section 2, a rough definition of market development intervention is provided. Section 3 sets out the rationale for market development interventions. Section 4 examines different experiences in BDS interventions, and on this basis, offers some ideas on key stages in any intervention process. Section 5 looks at approaches to measurement in BDS, including some key indicators and methods. Finally, section 6 outlines some key challenges for the future.

Three caveats should be mentioned from the outset:

- An assumption is made throughout of some knowledge of the Donor Committee Preliminary BDS Guidelines and major debates in the recent virtual conference.
- This is written as a briefing note and not as an exhaustive trawl through the literature on BDS; it seeks to be relevant but not comprehensive;
- In particular, the economic rationale for market development interventions (clearly important) is not subject to an in-depth analysis nor are the minutiae of measurement techniques. As much as possible, the paper seeks to avoid jargon (doubtless, on occasion it fails).

2. What do we mean by market development interventions?

Before looking at the reasons for this growth in interest in market development interventions in BDS, it is important to be clear on what we mean by these. Market development interventions are aimed at the development of “vibrant and competitive, (primarily) private sector markets of relevant, differentiated services consumed by a broad range and significant proportion of small businesses”¹. They are therefore manifested in more BDS products, of greater quality and differentiation being delivered to greater numbers and variety of small enterprises.

This definition distinguishes market development from other types of BDS intervention which are, to a greater or lesser degree, concerned with the more effective functioning of specific providers (direct partners of aid projects);

i.e. market development is focused on institutional development²(a market) rather than the better functioning of organisational partners *per se*. In pursuit of the final goal of enhanced enterprise performance, therefore, it is the development of markets that will be the key (intermediary) test of success and not the performance of individual partners³.

In practice, it is likely that market development interventions will be characterised by some or all of the following:

- a) Based on an analysis of existing markets;
- b) Temporary in nature, envisaging a clear point of exit for the intervention;
- c) Pursuing a clear vision of how the market will work beyond the intervention;
- d) Based on private sector providers – although conceivably (depending on c) above) with other players as regulators, product developers etc.;
- e) Working with more than one private sector provider – only one partner could be seen as anti-competitive and lead to negative distortions in the market;
- f) Facilitative rather than delivery oriented – intervening to allow others to act in the market rather than doing so directly.

Market development, of course, often occurs as an unintended consequence of other types of BDS intervention, and can be negative where, for example, one organisation is favoured at the expense of the wider market. The main focus throughout this paper is on interventions aimed *directly* at market development. However, much of the analysis is germane to other types of intervention that may wish to assess the market development impacts of their endeavours.

¹ A definition developed during the recent virtual conference on performance measurement in BDS

² Institutional development is taken here to mean the development of appropriate structures, relationships, values and behaviour that underpin a functioning market.

³ This also makes the approach distinctive from that typically followed in microfinance where the priority, invariably, is the development of specific organisations.

3. Why market development interventions: the underpinning rationale

While free markets may, in principle, provide a means through which “allocative efficiency” is achieved in an economy, it is, of course, not quite as simple as that! Markets are prone to failure and distortion and pay little heed to the values of equity and opportunity that lie close to the hearts’ of most development organisations. Nonetheless, functioning markets are now accepted to be the engine of development in successful economies. And although perhaps this analysis is less commonly applied to BDS, the rationale for market development interventions is rooted in this same broad belief in the benefits of markets.

A number of underlying factors appear to justify interest in market development in BDS:

- a) The Preliminary BDS Guidelines: the core principles of good practice – especially the emphasis on being business-like and demand-led and developing a clear picture of sustainability – lead inevitably to markets. Markets only succeed if providers (the supply-side) have appropriate incentives and the capacity to respond to consumer demands (to be demand-led); markets will be sustainable as long as they are able to continue to do this. In many senses, therefore, markets are the practical embodiment of these principles.
- b) The reality of low outreach and sustainability: “conventional” approaches to BDS – focused through one organisation – have, in the main, simply not delivered on a scale and with sufficient duration to have a meaningful impact on SMEs. The model of developing a partner and scaling up – as in microfinance – doesn’t appear to work in BDS. Broader market development – working to stimulate the supply and demand-sides as a whole – may, it is argued, have more potential for substantial impact.
- c) Current BDS “markets” are prone to considerable distortions: although situations vary from one context to another, BDS markets are often subject to some or all of the following factors which prevent markets working effectively and which may justify intervention:
 - Externalities: where the wider social rate of return is higher than the SME’s (common in training – and regarded as a justification for subsidy)
 - Imperfect information: for SMEs, this may mean that they don’t appreciate the true value of and returns from purchasing a BDS, for example, because it is new, or the benefits are not immediate or because of bitter previous experience. For providers, this may mean that they don’t have access to appropriate knowledge on products or skills in delivering, marketing etc. More widely, the lack of precedent in developing and providing BDS on a commercial base inhibits both potential suppliers and consumers in the market place.
 - Imperfect competition: particularly in former-state controlled economies, there is often a dominant state BDS player that – with the aid of considerable subsidies – effectively restricts competition.

So what emerges from this economic analysis is a series of supply and demand constraints – essentially the knowledge, skills and attitudes of supply and/or demand-side – which prevent markets from working more effectively. In *principle* at least, interventions focused on these constraints can bring about enhanced market performance (4).

- d) The legacy (and current reality) of donor-induced and government distortion: in many countries, the net effect of years of government and donor-supported interventions has been to undermine the development of market forces. Products delivered at low cost or

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

- e) Equity concerns: while significant, targeted subsidies are often offered to increase access to the poor, it is by no means clear that they do help to enhance access of lower income groups, let alone have a greater poverty reducing impact. The situation is complex and generalisations should be made with caution. However, market development efforts that can stimulate demand may induce other providers to enter the market, so increasing competition and improving and differentiating the quality and price offerings of the supply-side to the benefit of small businesses including those owned by disadvantaged groups. Equity issues also may apply in markets where there is a substantial fixed cost in accessing services, such as in acquiring information on export markets.

So, to summarise, the rationale for market development interventions is sourced in the related factors of: the prevailing view of good practice in BDS; the disappointing experience of conventional approaches; a number of characteristic demand and supply-side constraints which themselves may be the product of ill-considered interventions; and finally equity concerns.

Together, these provide a strong case for pursuing market development interventions⁴. However, there are arguments against these and these need to be acknowledged before we move on.

- a) The economic arguments are too loose: why not always intervene?: the problem with the economic analysis that lies at the heart of the above rationale is that it appears to always justify intervention. Markets are never perfect, there are always information constraints (especially in relatively information-poor low income economies), there are always equity issues to be addressed.....in short, if you want to find them, there are always “valid” reasons for intervention! So do we always intervene? Clearly not. The apparent inability of economic analysis to provide a clear picture of what donors and governments should and should not do has focused attention on the importance of developing strategies based on agreed “pictures of sustainability” for BDS in different countries that outline priorities, roles, possibly indicators and benchmarks (for example in relation to cost-recovery) and good practices. Indeed, the advance of microfinance has only been possible because such types of consensus have been developed in different national settings.
- b) Good in theory but where’s the practice?: it is the case that arguments on market development have not been shaped by the common practice of interventions in either developing or industrialised nations (except, in the negative sense, that the failure of many of these has driven us to these conclusions). Two points need to be borne in mind:
- As has been said elsewhere, the state-sponsored BDS industry and the approaches emerging from it in the wealthy North owe little to hard analysis of economic worth

⁴ They also provide hypotheses for testing in the real world since they represent beliefs based on observation and considered analysis rather than irrefutable truths built from detailed research.

and more to social, welfare and political objectives. There is often little to emulate here.

- The reality – everywhere – is that most small businesses are born, develop and die in a world of private markets, with little or no contact with state-supported initiatives⁵.
- c) Most BDS are really public goods; we can't develop private markets: the term “public goods” is much bandied about in BDS circles and used frequently as though it were an irrefutable judgement from on high. However, it is often misused. “Pure” public goods – nonrival and nonexcludable – are actually few in number⁶. There are many more goods that may have some public goods character – such as training - where there is wider social benefit. But the case is hardly clear cut. There is an active (if often rough and ready) small business private sector training market in many low-income countries that donor interventions are sometimes blind to or choose not to see. Moreover, over-theorising about BDS can lead us away from basic market realities: most small businesses would not recognise *information* as a product but they might understand advertising or technical manuals. In reality, the degree to which governments do (and should) intervene in BDS markets is as much a function of their capacity as slightly academic debates on their possible public goods character.

Of course, in reality there will always be some types of BDS that are unlikely to be provided by the private sector without some subsidy – for example, some types of information, physical infrastructure and some technical services. Moreover, there may well be cases where – on grounds of equity – services for priority social groups merit support. However, care does need to be taken not to use theoretical ideas to lure governments into interventions that are not appropriate for their level of capacity.

4. How do we undertake market development interventions?

Given the above rationale, what have we learned from the experience of recent experiences about how BDS market development interventions should be undertaken? Is it possible to develop clearer guidelines on what works and what doesn't to guide future interventions?

As emphasised earlier, this is a comparatively young experience for most development agencies. Certainly, there have been many projects which, though working with a particular partner, will have had some market development impacts but these probably have not been assessed from this perspective. Furthermore, this is not a closed club; there is no sacred ring around market development BDS interventions separating them from other types of intervention; in both cases, good practice principles provide an overarching framework of what to do.

According to the definition offered earlier, the number of interventions where the development of the BDS market is the main objective is actually quite small. Among the key experiences – or “instruments” - are the following:

- Training vouchers: especially in Latin America, this form of principally demand-side intervention is aimed at addressing information constraints among SMEs and providers (5). While some voucher programmes have clearly been successful in stimulating greater demand and a more active and differentiated market during the period when vouchers have continued to be issued, the extent to which they stimulate longer-term development beyond

⁵ For example, the pioneering matching grant scheme in the UK took place at a time of considerable consultancy growth in the UK. Despite being seen to be successful and influential, one major study concluded that it had not been of “major importance” in contributing to this growth.

⁶ Defence is the most commonly quoted example.

the vouchers period is not clear. Few programmes have been able to “turn off” the subsidy once offered. Whether vouchers programmes do, as their advocates argue, address information constraints impinging on SMEs and providers or, more mundanely (and less positively) merely provide a short-term stimulus by reducing the price of services to SMEs is an ongoing debate.

- Matching grants: in some ways this is the equivalent of vouchers for one-to-one consultancy services. Usually on 50:50 cost-sharing basis - but with a variety of different operational forms - these are aimed at both specifically assisting SMEs and, in the longer-term, with overcoming the information constraints that inhibit the functioning of the market. Matching grants are particularly common in World Bank supported initiatives but many other donors and governments are active. In practice, evaluations of these schemes tend to focus on immediate benefits for participating SMEs. Reporting on the market development objective is usually anecdotal; to date, there has been little hard evidence produced to support the view that matching grants are a means to enhanced and sustainable consultancy markets.
- Product development: in this type of intervention, an initial gap analysis reveals areas where providers’ products (and perhaps their skills) are weak, for example, the quality is poor or the outreach to smaller businesses is low. The focus of interventions here is to develop appropriate products (ideally *with* providers - to cement their ownership), let providers have access to these and let them use these in the market place. IFC have pursued this approach in Vietnam with respect to financial management training products it is too early to assess whether this has brought wider development of the market⁷. At the grassroots end of the providers’ spectrum, FIT Uganda has provided training on two training products – User-Led Innovation and Rapid Market Appraisal – to a number of for-profit providers. They are also assessing quality certification, franchising and group marketing as means of essentially improving the supply-side offer.

This kind of intervention appears to be increasing in popularity. One reason for this may be the perceived advantage in not subsidising directly the delivery of products, an approach where the risk of distortion is likely to be greater than with supply-side inputs such as product development.

- Social venture capital: this rather loose term has been coined for interventions that seek to invest in specific BDS and private sector providers where there appears to be an absence of private sector activity. FIT Uganda are pursuing this idea through a series of joint ventures (6). These ventures are, first and foremost, about providing new commercial services to SMEs and, only in the long-term, could they be said to be about market development beyond the range of one provider. Market development is clearly their objective here although in situations where FIT is supporting only one provider in a market, it monitors the situation to assess whether competition is being “strangled or stimulated” and reserves the right to support a different provider should it be the latter.

Again, it is premature to express judgements here: historically, the record of NGOs in setting up businesses is not good – but lessons are being learned. Critically, the success or failure of this approach will rest on the ability of agencies to operate in a business-like manner within an overall development context.

⁷ This approach is not dissimilar in principle to the “corporate technology” development method (pursued by Approtec among others) where a limited number of manufacturers are empowered with new products and they compete with each other in the market. Market development, however, is not the real objective here, especially on the supply-side.

In addition to the above, of course, a wide range of interventions may enhance market development. For example, interventions that aim to enhance supply-side skills broadly - in skills such as trainer competency, consulting, BDS product idea workshops etc. - or information and physical infrastructure interventions.

Are there lessons that emerge from the above approaches that can guide future efforts towards market development? A number of points can be made:

1. Market analysis: the starting point: in any intervention focused on market development, it is vital that the starting point is a detailed analysis of the existing market conditions. From the outset, a market needs to be defined according to basic criteria such as geographic area, products and customers. Within these parameters, a range of useful data on both the supply and demand-sides may be collected, including supply-side numbers, market cost structures including costs of entry (market contestability), performance data, SME current BDS purchasing patterns, needs etc. The core question being asked here is: why isn't the market working as well as it could? What constraints are preventing it from achieving greater outreach, differentiation, competitiveness, quality etc?

How complex and exhaustive should this initial market analysis be? Certainly, more detailed market assessments are likely to be more useful than cursory overviews, both in relation to designing interventions and eventual assessment. Yet, the reality for many projects is that resources will not permit this kind of analysis. Does this matter? Regrettably, the answer here again cannot be definitive. Two different views can be stated:

- ❑ Pursuing the parallel with business itself, very few entrepreneurs have detailed written market studies to guide them in their market entry and product development decisions. However, they do have *enough* information and sufficient confidence in their own instincts to make a calculated assessment of risk and to test the market by doing something rather than observing only. Entrepreneurial interventions need to make similar judgements and develop similar instincts.
- ❑ Entrepreneurs develop these skills because their livelihood is at risk; ownership is entirely with them. Donors need to have good quality analyses available to them because not only do they need to assess the results of interventions but, sheltered from risk, they don't have the necessary entrepreneurial flair.

Where possible, of course, interventions should use existing data. It is the case that in some countries there are surveys of small businesses in the public domain (such as GEMINI reports) and these can be useful in defining overall populations (potential markets) for BDS. However, it is less clear that they provide sufficient detail on small business behaviour to be useful or that they cover the supply-side in BDS markets. There may be some learning from the microfinance field; CARE, for example, in its "Programme Design Framework", does seek to assess the existing markets (and other stakeholders)⁸. Moreover, there are some overlaps with sub-sector analysis.

2. Develop a "sustainability picture" as a goal for the future: the experience of matching grants and vouchers in particular, is that if there is not, from the outset, a clear commitment to functioning markets as the sustainable end result of a temporary intervention, subsidy dependence is almost inevitable. Without a clear view of what we are trying to create, interventions cannot develop credible objectives.

⁸ Although not to promote or monitor the wider microfinance market development but rather to ensure its intervention is designed properly.

3. Specifying the intervention “instrument”: depending on the constraints identified in the initial market analysis and on the capacity of the intervening organisations, specific instruments should be selected. As indicated above, it is probably too early to make authoritative comment on the efficacy of key instruments on the supply or demand-side. However, there is certainly enough evidence to voice concern over the ability of demand-side interventions (relative to supply-side) to develop rather than distort markets.
4. Selecting providers: rather than selecting organisations from the “development world”, in market development situations, providers should be existing BDS players from the commercial world. These should be self-selected and, following principles of good practice, should have a transactional relationship with facilitators. For example, in product development interventions, private sector partners should *share* significantly in the cost of the process of development. While in situations where there is little apparent private sector activity, it may be necessary to create a new entity, in some cases⁹, there is an active supply-side working with small businesses but this is not recognised by donor agencies.

A more complicated issue is the selection of facilitator. These may be necessary in the long-term, for example, to provide an information providing role, some management and regulation functions (as in vouchers) or as product developers. Often, in demand-side interventions (vouchers, matching grants), this role is played by a government department. The results here have been mixed; in some cases, political interference undermines effectiveness. In supply-side interventions, there is comparatively little experience on which to make an assessment. Usually, these are “development” organisations - donors, NGOs of some kind – rather than in the private sector. However, at the heart of this debate is a much bigger issue of who do we envisage should be responsible for product development in the markets that we are encouraging to develop? We return to this issue in section 6.

Lack of experience in market development interventions cautions against categorical judgements. However, it is clear that in any successful intervention – no matter how formal or informally designed – there needs to be consistency and coherence between its initial market analysis, its picture of sustainability, the instrument it uses and the provider (and facilitator) it works with, all of which need to be implemented within the good practice framework.

5. Measuring Market Development

One of the main problems in market development interventions, cited frequently in the recent virtual conference, is that *we don't know what a successful market looks like*. In response to this we need to establish core indicators that essentially define what we mean by market development. While there is very little hard experience to draw on here the analysis below does build on the practical experiences of many different agencies.

Potential indicators

Before looking at potential indicators that can be used, it is useful to think broadly of what we want to see in a successful market. First, on the demand-side, in a functioning market one would expect increasing numbers of knowledgeable, discerning small business consumers, strategically aware, prepared to pay an appropriate price for relevant products, and including people from a variety of backgrounds, including some from disadvantaged groups. Second, on the supply-side, one would expect increasing numbers of motivated, demand-led and

⁹ When they probed, FIT Uganda found over 100 private sector trainers working with small businesses; conventional wisdom suggested that these did not exist.

knowledgeable providers, aware of sources of new product ideas and innovations, prepared to take calculated risks (such as moving into new product areas) and prepared to adapt product prices and quality in response to consumer pressures. Practical indicators seek to capture the above characteristics.

In bringing definition to a market, the first priority is to define it with respect to:

- A geographical boundary – a town, region, city;
- The small businesses with which we are concerned: this might be defined with respect to size but, more likely, with respect to sector;
- The product: defining products is not an exact science. Ideally, product definitions should be made with respect to the actual activity – training, one-to-one consultancy, information supply, technology provision etc. – and the specific subject of the BDS – financial management, technical skills, markets information, metal processing technologies etc.

The following are the main priority indicators for assessing market development – with some comments on what this tells us for each and on how it might be defined further. In each case, we are seeking to assess change (each indicator should be pre-fixed with “change in”) – and therefore assume that we have sufficient data to permit “before and after” comparisons. For each of the main indicators below, it should also be possible to set achievement targets.

1. Number of suppliers: this provides insight into the competitiveness of the market and providers’ perceptions of the opportunities presented by demand changes. There may be difficulties in defining *supplier* if they are selling other products in addition to the BDS in question; here it might be necessary to agree on a minimum proportion of turnover coming from the particular BDS.
2. Size of the market: this obviously tells us about aggregate trends in the overall volume of transactions in the market. It is most easily collected through the supply-side “window”. While the final figure will not be precise, there are sufficient examples¹⁰ of how to ascertain with reasonable confidence overall sales figures from businesses that it should be possible to gain an overall picture of market scale.
3. Number of customers: along with the financial size of the market, this indicator provides insight into market scale. A healthy market is clearly one that is growing. It should not be necessary to define customer with respect to size of BDS purchase; if there’s a transaction, they are a customer!
4. Number (and proportion) of customers from priority groups: this indicator provides insight into the degree to which the donors’ resources are reaching the groups that they believe to be most important. Most commonly, this is likely to refer to business size and to gender.
5. Number (and proportion) of multiple-user customers: this is a proxy indicator for customer satisfaction and for product quality. The development of a solid base of repeat customers indicates market maturity. For some types of BDS and suppliers – for example, one-off sales of technology or for suppliers who don’t have a menu of related products – this may not be appropriate but in many cases it will be useful.

¹⁰ Jim Tomecko of GTZ Laos in the virtual conference provided details of these approaches

6. Percentage market penetration: this follows directly from 1 above; provided that a base potential market has been established and initial market coverage established, calculating market penetration is straightforward. This might also be done with respect to coverage among priority groups¹¹.
7. General level and spread of prices: these related indicators could be useful in a number of ways. Lower prices might indicate a more competitive market; increased price differentiation may indicate greater quality differentiation; alternatively reduced price spread might indicate greater knowledge among consumers.
8. Costs per “achievements”: given the above set of data and provided that intervention costs are allocated properly – under headings such as direct and indirect and operational and product development - a range of indicators which relate costs to achievements can be developed. These include: cost per new supplier; cost per new customer and costs per increase in market size. Furthermore, if the last of these is known, the ratio of costs to change in value added among suppliers can be calculated with reasonable accuracy.

This set of eight indicators provides a solid basis for assessment. Using them to assess market development interventions should allow a transparent view of performance to emerge. However, there are some situations in which these may not be sufficient to give a clear picture of market development and where additional indicators relating to both customers and suppliers are necessary. A number of possibilities have been suggested in the course of recent discussions:

Customer

1. Awareness (%) of available BDS: borrowing from market research techniques where brand recognition is an important early indicator of market development, a similar approach can be used here. This may be especially important where markets are underdeveloped. SME sample surveys or – for more qualitative data – focus groups could be used here.
2. Reach (%): although similar to market penetration, here we are interested in the extent to which awareness is translated into purchasing decisions for BDS. On a practical basis, this would require that SMEs involved in surveys for 1. above would be tracked.
3. Satisfaction with services: while the priority set of indicators acts as a proxy for satisfaction, this indicator goes one step further and seeks to quantify satisfaction levels and dimensions.
4. Behaviour and performance: again, going one step further, these indicators – only measurable on a small sample basis – would seek to assess change in performance related directly to the purchase of BDS and track final “bottom line” performance.

Supplier

5. Value-added: suppliers are not always willing to disclose profit figures. Value-added – sales minus purchased inputs (equal approximately to profits plus wages – may be a more practical indicator and also more useful in assessing economic impact. Of course, in undeveloped markets, this can merely be an indication of greater monopoly power rather

¹¹ The Paraguay voucher scheme, for example, aims to increase penetration from 2% to 10% in 3 years.

than “healthy” market development. Clearly, as always, this indicator has to be used alongside others - such as number of suppliers – to ensure a balanced view.

6. Awareness of customer needs: this indicator implies that an evaluator will make an assessment of supplier performance against a scale (determined by them) and track this over time. As ever with quantitative scales designed to assess qualitative phenomena, the practicality of this approach is questionable – although a qualitative understanding of trends in suppliers’ views of customers is useful.
7. Awareness of potential sources of new product ideas: the same problem arises with this indicator. Although, once more, this might be useful, it is not clear how it could be meaningfully quantified. Some have suggested that quantifying supply-side networking may also be a useful way of assessing supplier’s broader strategic awareness.

The picture that emerges from the above is of a core set of indicators, measurement of which should provide a good basis for assessing market development and the performance of interventions, including their outreach, impact, cost effectiveness and sustainability. While there may be a number of small gaps in the market profile created by these indicators, there is one very prominent weakness. No indicator directly addresses the providers’ capacity or performance in relation to product development. The market’s ability to develop dynamically and to innovate is left substantially ignored. In practice, how we deal with product development is a major challenge.

Measurement issues: the “how to”

It is beyond the scope of this document to examine the detail of possible measurement techniques that might be used in assessing market development in BDS. Nonetheless, there are a number of brief points which should be borne in mind in considering approaches to measurement:

1. A proxy view (with all its imperfections): the core set of indicators is essentially based around the familiar “profit-demand-impact” proxy¹², where the assumption is made that successful providers can be used as a proxy measure for positive impacts on business. Other indicators seek to provide a more complete picture but there is, without apology, a considered leap of logic inherent in the approach. There are clearly arguments against this; it is known from the microfinance experience that many and varied impacts can take place unnoticed *beneath* this indicator. Intervening organisations that need to know more about changes in SME clients and with the resources and inclination should supplement the core set of indicators with others focused on business change and performance.
2. Getting suppliers to co-operate (why should they?): in practice, providers themselves are the key players in performance measurement. They are in the best position to look at customers and, of course, their own performance. This raises the question of why should they want to co-operate with this performance assessment effort? Two approaches need to be considered:
 - Providers will measure their performance indicators because it is in their own interest to do so. Knowing how many clients one has, their identity, their response to products etc. is useful information for their own operations. It is good business practice let alone good BDS practice; it is not an onerous burden. If necessary, training could be provided to them in how to measure their performance in relation to customers.

¹² A term coined by Rob Hitchins of the Springfield Centre in working with Swisscontact on a benchmarking guide for its business centre interventions.

- Providers will measure because, in addition to a), it is a condition of support. This may not be enforceable in practice but it may help create a habit of measurement.
3. How to deal with costs?: provided that all the key priority indicators mentioned above are captured, it is possible to relate costs to achievements, as described. However, this does not allow the calculation of a net present value or return on investment. If this kind of cost-benefit analysis is deemed to be necessary, the only practicable means of doing it would be to on a sample basis, ascertaining the kind of changes caused in SMEs by purchase and use of BDS (value-added and employment chiefly). Ideally, this should be checked against a control group. Without this methodical approach, assessing final change in businesses – and therefore the cost-benefit ratio of the intervention - can only be made by relying on rather brave assumptions.
 4. Dealing with the big issues: attribution and displacement: one key aspect of the underpinning rationale for market development interventions is that it reduces the scale of displacement. By not favouring one particular organisation at the expense of others, we are deliberating trying to avoid the distorting impacts inherent in creating islands of high cost “excellence” amidst low cost markets. Of course, the act of intervening always displaces something, and generally demand-side interventions (subsidising the provider-SME transaction) are more distorting than those on the supply-side. Indeed, the displacement issue in market development is not so much about one provider being favoured against another but about the extent to which subsidies displace private sector activity *per se*. As with attribution, ideally, comparison should be made with another relevant market for BDS. Yet it is difficult to envisage how control groups could be applied in a practical way here (it is clearly expensive to consider setting up a market as control group!); in reality, it is not going to happen.

What practical steps can be taken to throw light on this issue so that the real additionality of interventions becomes transparent? Clearly, it is always useful for performance measurement to be set within a context of relevant economic and business trends – change in small business populations, growth sectors and aggregate changes in local and national economies – and these data are often available. Ultimately, however, we are only likely to see a significant breakthrough in understanding the real impacts of market development interventions when we develop a body of in-depth cases built around common indicators that permit comparative analysis.

5. Can it be cut down any further?: if resources are limited, is there any way in which the core set of indicators can be further reduced to allow an even more *minimalist* approach to assessment? Of the eight priority indicators, only one – percentage market penetration – needs to have a full market survey (before the intervention) for it to be calculated. If this were deemed to be too expensive or difficult, it could be cut. All the others are essentially calculated through the supply-side and further cost reductions from cutting these would be relatively small. The main drawback in not undertaking a substantial initial market assessment concerns the resulting intervention design and implementation rather than performance measurement.

6. Challenges for the future

This paper has sought to set out where we are in our understanding of market development interventions in BDS and, in doing so, reflect recent debates involving people from BDS organisations throughout the world. It is a young area, replete with questions and possibilities but precious few conclusions cast in stone.

The general challenge for those interested in enhancing knowledge and practice in market development interventions in BDS is two-fold: to implement market development interventions according to good practice principles and to measure performance according to the framework of indicators suggested in this paper. Learning will certainly not take place without these two related course of action being pursued by a greater number of intervening organisations.

In pursuing this general task, a number of specific challenges will need to be addressed. Some of these have been highlighted in earlier sections but it is worthwhile re-iterating five points now:

1. Assessing ourselves against the develop-distort continuum: interventions aimed at market development need to become more overt about the kind of market they are seeking to create and more rigorous in ensuring that the instrument for intervention is consistent with this. Interventions which let the market development objective become subservient to direct delivery concerns (as happens in, for example, many matching grant interventions) allow their efforts to become more distortional than developmental. Always the challenge is to maintain the market development focus.
2. Being transparent over measurement costs: one of the most understandable reservations commonly held by sceptics of market development is that it is too diffuse to allow easy or adequate assessment. Particularly for supply-side measures - it is argued - the expense and difficulty of assessing impact invariably means that it doesn't happen. And without proper assessment, interventions can appear as black holes for large amounts of resource. Compare this with interventions based around organisations where there is a more direct relationship between intervention and impact. This criticism needs to be faced and one immediate step is to calculate accurately the cost of measurement so that this particular debate can at least be conducted in an informed manner.
3. Developing better market assessment tools: initial market assessment provides two functions: assisting in intervention design and providing baseline data for subsequent comparative analysis. From the relatively little experience of market assessment methodologies that exists, there is a clear need to develop improved, ideally quicker and more practical market assessment tools. Investing in these tools' development would provide a spur to other organisations interested in market development but currently pondering how and what to do¹³.
4. Investing in BDS market information: just as donor agencies have invested regularly in producing detailed profiles of the small business sector in many countries there may be a case for similar investment in BDS market information. Typically, small business surveys - while useful in their own right - do not provide enough detailed information for intervention design or measurement purposes. Conceivably, collaboration between agencies could reduce this basic information cost; for example, GTZ in Nepal is considering developing a "Yellow Pages" of BDS providers. More problematically, market information would tend to date quickly in some situations but, along with 3 above, this provides one avenue to encourage interventions.
5. Developing an agreed approach to product development and innovation: in any market situation, the capacity of the supply-side to innovate and develop new products in response to customer needs is a key dimension of market "health". However, thus far, we don't have an acceptable approach to assessing this aspect of markets. There are two issues here:

¹³ There is a parallel here with the development of rapid rural assessment in the 1980s which was prompted by the expense and unwieldiness of traditional survey methods

- Whom do we want to be the main product developers in “our” market? Very different views exist on this question. On the one hand, are those who see product development essentially as something which should be done by the providers themselves; on the other are those who see major constraints (related to risk, skills and knowledge) on the private sector investing in serious product development and therefore that product development is primarily the responsibility of facilitators who might be expected always to be at least partially government/donor funded.
- What indicators can measure the product development effort of providers or facilitators or both? Suggested ideas here include number of new products developed and disseminated and the time from product development to commercialisation. However, one could envisage considerable problems in defining what is meant by a “new” product - especially among providers.

Resolving the issue of which indicators for which actors (provider and facilitator) is a key priority; without progress here, a key aspect of the dynamic nature of functioning markets will not be captured.

Specific actions for the immediate way ahead

How can we encourage the development community to address the above challenges? Three areas of action appear promising immediately:

- Develop a small group to continue the virtual discussion on market development. The agenda for this could be fairly open but would clearly include tightening performance indicators and sharing ideas on market development tools. The group’s importance lies not just in what it achieves in looking at these issues but in simply functioning and thus creating a focus for a new area within BDS;
- Ensure that the Hanoi conference contains a significant number of cases assessing market development interventions. Detailed case studies will be the material for real learning in market development; it is important that this momentum of learning is maintained at the next major international BDS event. This will require that relevant agencies (in Asia) commit themselves to undertaking case studies;
- Consider individual or joint actions to address key problem areas highlighted above, such as market assessment tools and BDS market information.

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