

BDS In Transition Economies

BDS in the Ukraine: From Concepts to Implementation

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BDS in Transition Economies

This presentation asks key questions: Does a market development approach make sense in transition economies?

Are there minimum environmental conditions?

How does the environment affect choice of interventions?

Should interventions be sequenced differently in transition economies?

Should the provider vs facilitator role be viewed differently?

This presentation addresses these questions with a case study

NewBizNet in the Ukraine: From concepts to implementation

Draws lessons on a market development approach in transition economies

This presentation ends by a Q/A: Does this approach make sense?

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Ukraine represents an over-regulated environment...

- Heavy tax and regulatory burdens.
- Confused and corrupt enforcement of laws
- Frequent and unplanned changes in regulations
- No clear direction of economic reforms.

SME's response in this over-regulated, confusing environment is to....

- Maximize profits in the short term.
- Adopt business practices of hiding revenues and avoiding taxation.
- Limit investments in business expansion.
- Encourages informality in business culture/practices.

BDS market characterized by...

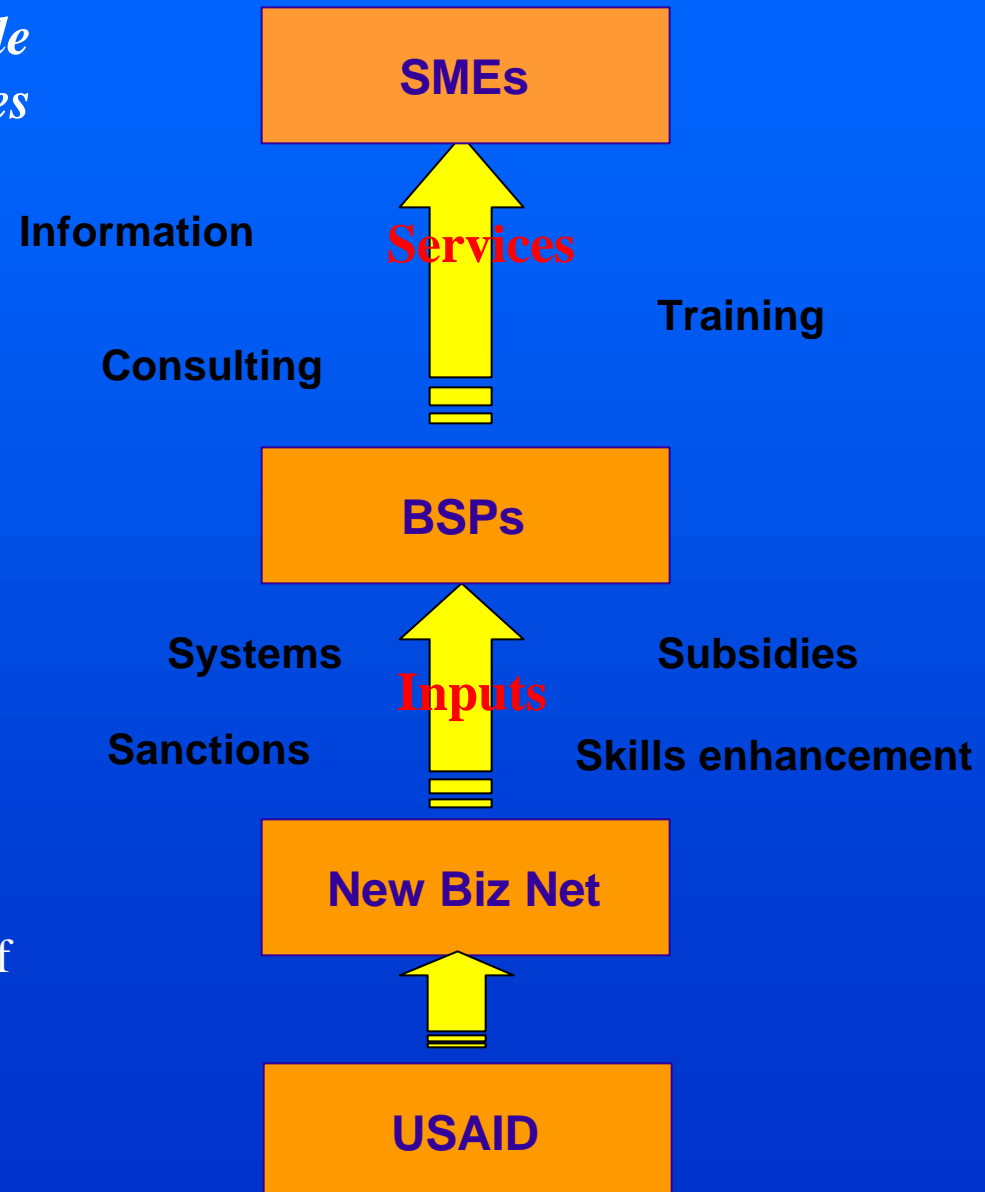
- BDS providers existed based on past donor investments.
- Few commercial entrants beginning to emerge.
- Demand for services weak but exist.

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Donor goals are SME outreach/scale and BDS sustainability but strategies have changed over time.....

Stage 1: Provider Viability led 1995-1997

- OD in BSPs to Deliver Services...
- Consulting, Training, Information mandated using...
- Systems assuming Western practices and supported by.....
- Subsidies to cover expenses and
- Short term TA for capacity building of BSPs.



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Stage 1 Outcomes mixed....

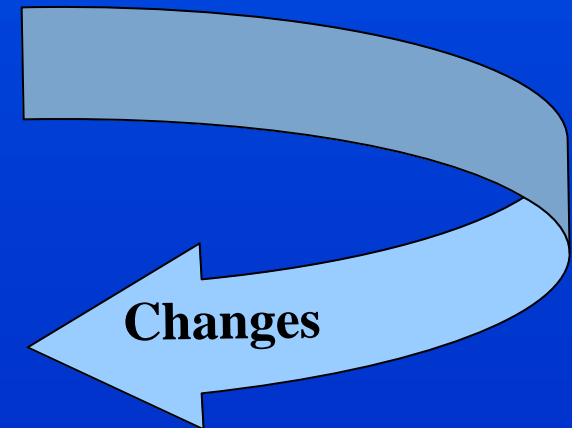
- Services delivered and BSP revenues increased;
- High cost structures relative to fee structure;
- Installed systems not used and seen as a price of donor subsidies.



- OD in BSPs limited impact on SMEs
- Conflict between SME outreach and BSP financial viability;
- Market signals more from donors than SMEs
- Mismatch between products offered and SME needs.

Stage II: Product Viability Led 1998 -99

- Strengthen demand signals for problem solving BDS
- From subsidy to fee for service
- New tools -- work orders, vouchers to strengthen market signals between BSP and consumers
- Competition between BSPs



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Stage II started transition to a market development approach by facilitating commercial transactions between BDS consumers and suppliers as illustrated by these practical examples...

Intron -- a BSP in Donetsk -- turned an environmental negative into a business service product valued by SMEs:

- ***Bundled package*** of tax, accounting and legal services; package included dispute resolution with tax authorities and a satisfaction guarantee to pay any fines in lost dispute;
- ***Knowledge of*** tax and tax law plus aggressive behavior with tax authorities plus public attention drawn to corrupt tax officials = marketable product tailored to SME needs;
- ***Value to SMEs*** -- outsource their relationship with tax authorities to Intron; major cost saving where owners invest 30-60% of their time .

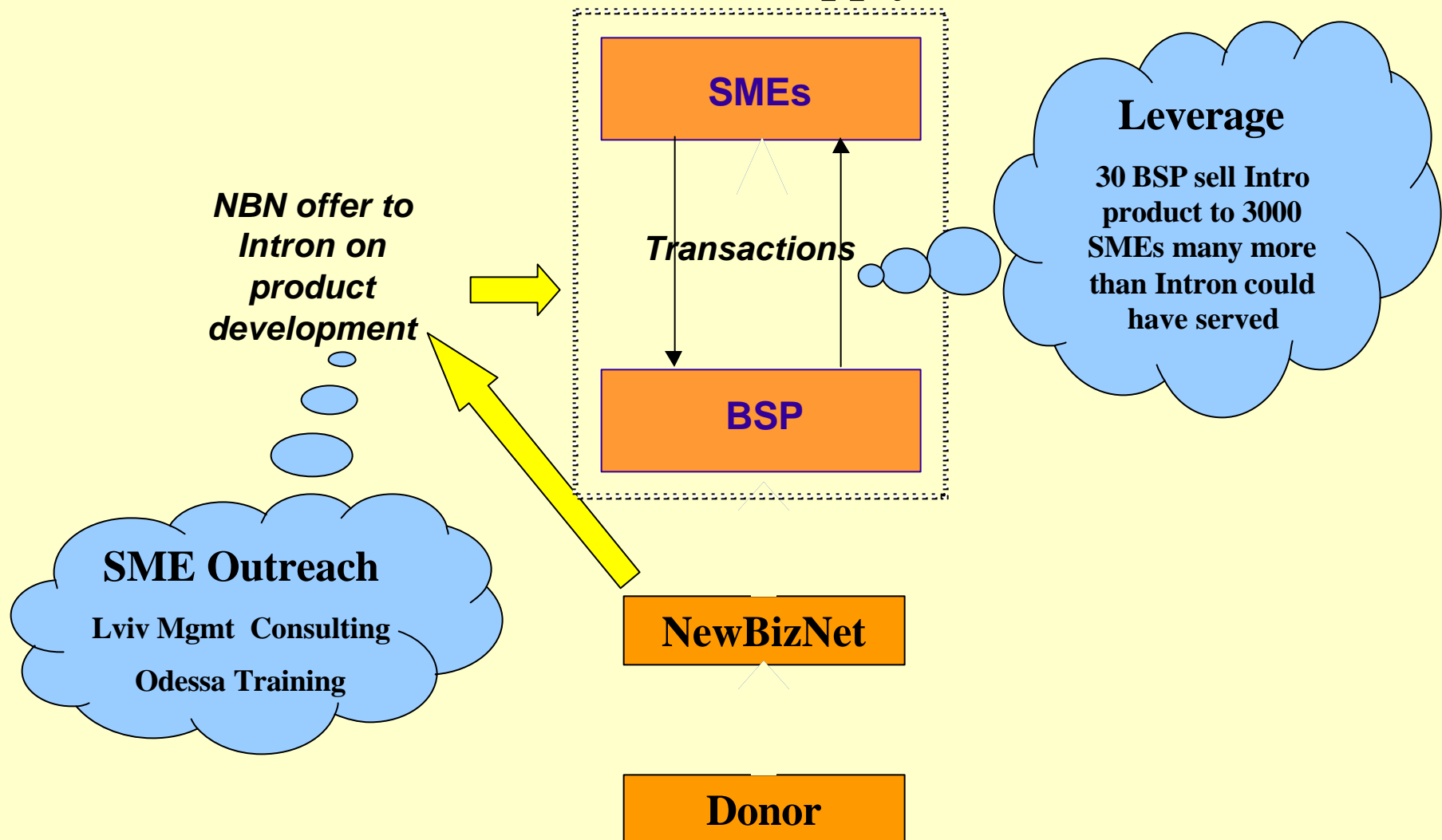
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*NewBizNet facilitates links between a proven product and prospective consumers using **work orders**, a supply side tool...*

- Deal: NBN entered into a fee for service contract with Intron to introduce BSPs to his product.
- Win/Win: NBN partners get access to new product; Intron experiments with new wholesale strategy -- through other BSPs -- for his product.

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Work Orders as Supply Side Tool



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Work Orders as a Supply Side Tool for Market Development

Away From



Towards

- started with vision of what environment should be (eg Western practices);
- reinforce business culture -- duck and cover with formal economy;
- lose credibility with SMEs with service offers not geared to solving immediate problems;
- market signals stays more with donors than SMEs.

- starts with what environment dictated (eg distortions into product);
- change business culture – new relationship with formal economy (more transparent);
- gain credibility with SMEs by solving current problems;
- re-orient BSPs away from donor to SME market signals

Same wine/new bottle?

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NewBizNet used work orders in combination with vouchers, a demand side tool, to strengthen market signals between SMEs and BSPs...

- Short term intervention to spike demand
- Used as means for providers to induce trial of new or existing products.
- Some evidence of training products sold at full cost recovery.
- Primary tool for gathering information on consumer preferences.

Two Women-owned SMEs From Rivne used vouchers to purchase marketing training.....

- Ukrainians value education and training.
- Didn't know about the product -- right size and right time -- to meet their needs.
- Traded-up -- purchased a course greater than voucher.
- Interested in more training in a computer based accounting package.

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Vouchers as a Demand Side Tool for Market Development

Away From



Towards

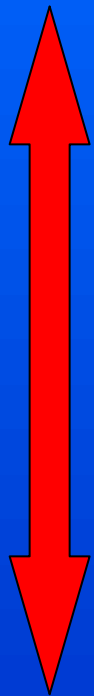
- SME's won't pay for training services.
- No understanding of services demand.
- Focus only on hand picked BSPs

- Re-orient BSPs to SMEs.
- Lower SME resistance to trying new products.
- Full cost recovery pricing.
- Demonstrate promotional tools BSPs can use on their own.
- Induce competition between BSPs.
- Capture information on consumer preferences to show value of BDS for SMEs.

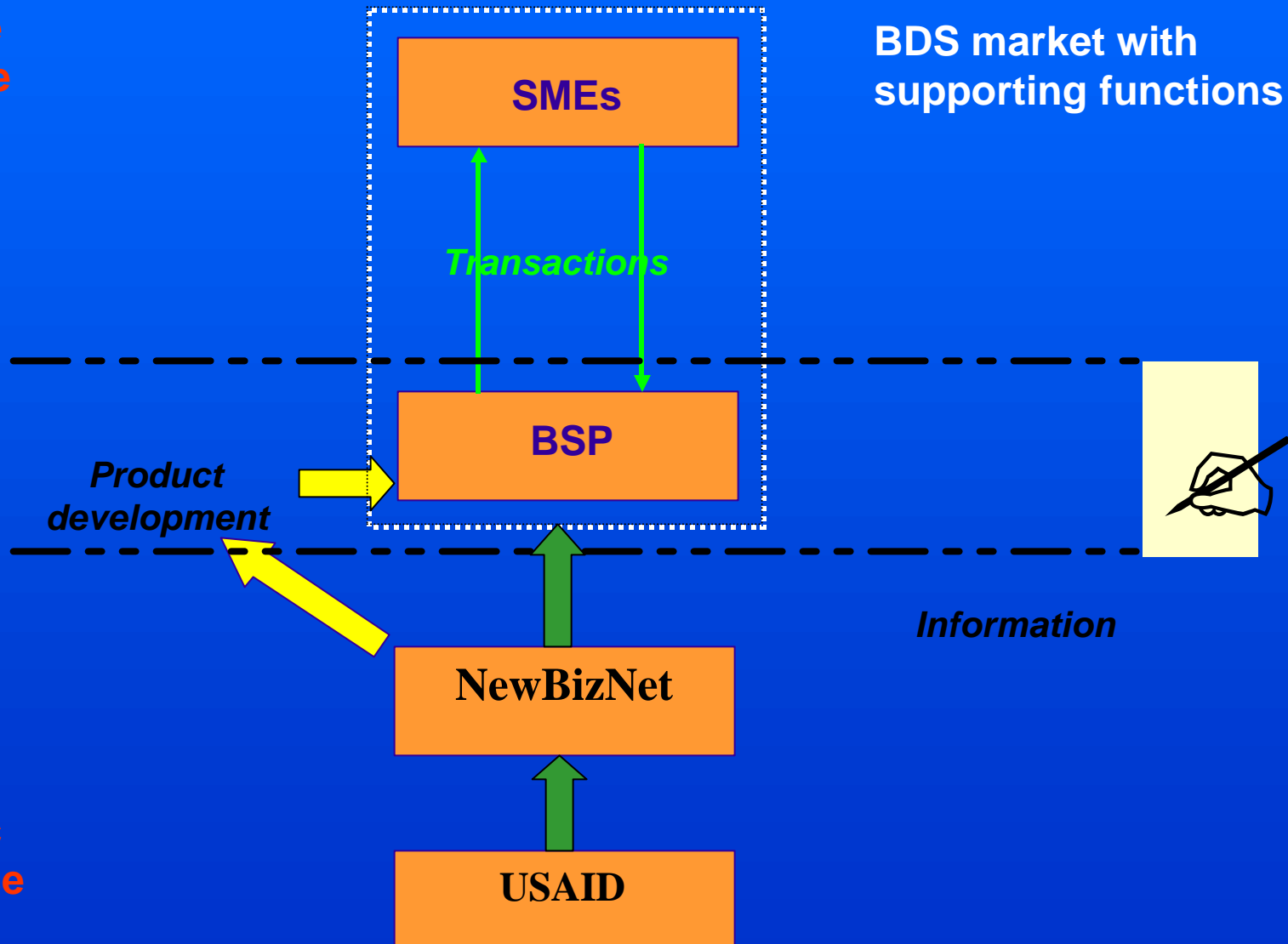
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Same Goals Different Strategies

Private
finance



Public
finance



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Lessons from Ukraine

Are there minimum environmental conditions? No minimum standards rather different responses to conditions

- Continuum of state intervention from excessive to none
- SMEs practices dictated by whatever the environment
- Take advantage of “incentives” that do exist
- Build credibility that market can solve problems
- Can't sell strategic services in a short term environment

How does environment affect choice of interventions? The over-regulated environment in Ukraine suggested a focus on viable products first and viable providers will follow.....

- OD in providers proved ineffective in building markets
- Incentives/subsidies incompatible with business environment
- Combination of work orders and vouchers strengthen market signals from SMEs
- Viable products can lead to product innovation (eg Intro to cash management)

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Sequencing of Interventions: Promising shift from donor support to core market functions to accelerate the strengthening of the market..

- OD to BSPs to achieve outreach and sustainability
- Shift from OD to product viability in line with SME demand
- Emerging shift to support core market functions:
 - Product development
 - Human resources
 - Information

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Still...the key question remains

Does a market development approach make sense in transition economies?