

**Business Services for Small Enterprises in Asia: Developing
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**Marketing and Development
An Effective Strategy for Poverty alleviation with and through the private sector
Draft of a study of 5 SDC projects in Asia and Latin America**

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Swiss Agency for Development and Cooperation

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Marketing and Development

An effective strategy for poverty

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By Urs Heierli, 14th January 2000

Abstract

The market creation approach to development is a strategy which combines two aims:

- To supply to poor people useful and affordable products with a high poverty alleviation impact and
- To create a viable business as a private delivery channel, preferably run by poor people.

In the market creation approach to development, there are **3 key elements**:

- a) **need-based product development** for products with a high impact on poverty alleviation, putting the accent on affordability and high returns on investment;
- b) **the promotion and marketing** of these products, so that the poor can learn about their existence and
- c) **the creation of a market for these products** to the extent that it becomes viable for the private sector to deliver these products as a business.

This paper contains an analysis of 5 programmes of SDC; it looks at their impact and at the profitability of their respective delivery channels. The methodology followed is to scrutinise these projects with the eyes of a marketing professional and to discuss the 4 Ps of marketing.

In the study „do’s and don’ts“ of donors in supporting the market creation approach to development are presented as well as the main roles and guiding principles for funding such programmes.

Possible improvements for marketing strategies are also presented, showing especially how one can increase the presently low profits in the supply channel.

Finally, institutional issues are discussed, including how the market creation approach to development can be replicated on a larger scale and how partnership between governments, NGOs and the corporate sector can emerge.

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The market creation approach to development

Introduction: Poverty alleviation as a business for the poor

The market creation approach to development is a strategy which combines two aims:

- To supply to poor people useful and affordable products with a high poverty alleviation impact and
- To create a viable business as a private delivery channel, preferably run by poor people.

In development co-operation, other approaches are also dealing with opening markets, but they are quite different:

Trade and export promotion seeks to open up markets for existing products in new regions; Transportation projects (feeder roads, suspension bridges, road construction in general) aim at stimulating trade and opening up markets – again for existing products – in new regions.

Focus of the study:

The topic of this study is not export marketing or fair trade: this study is focused on the **creation of a market for products which are useful to the poor and allow them to get out of the poverty trap.**

The study considers six such examples and shows how trees, treadle pumps, rope pumps, maize silos, roofing tiles and latrines can make a difference to the poor.

In this sense, it is a **“product” approach**, and marketing is used to achieve large-scale dissemination and a big reach-out.

In the market creation approach to development there are **3 key elements**:

- **need-based product development**, for products with a high impact on poverty alleviation, stressing on affordability and high returns on investment;
- **the promotion and marketing** of these products so that the poor can learn about their existence; and
- **the creation of a market for these products** to the extent that it becomes viable for the private sector to deliver these products as a business.

The conventional development approach

Conventional development approaches aim at partnerships with government departments or NGOs (or a combination of both), with the objective to deliver a good or service to the “target population”. Funds from a donor are channelled to the beneficiaries through these partnerships. Many of these approaches focus on the delivery of inputs or non-tangible services through public infrastructure,



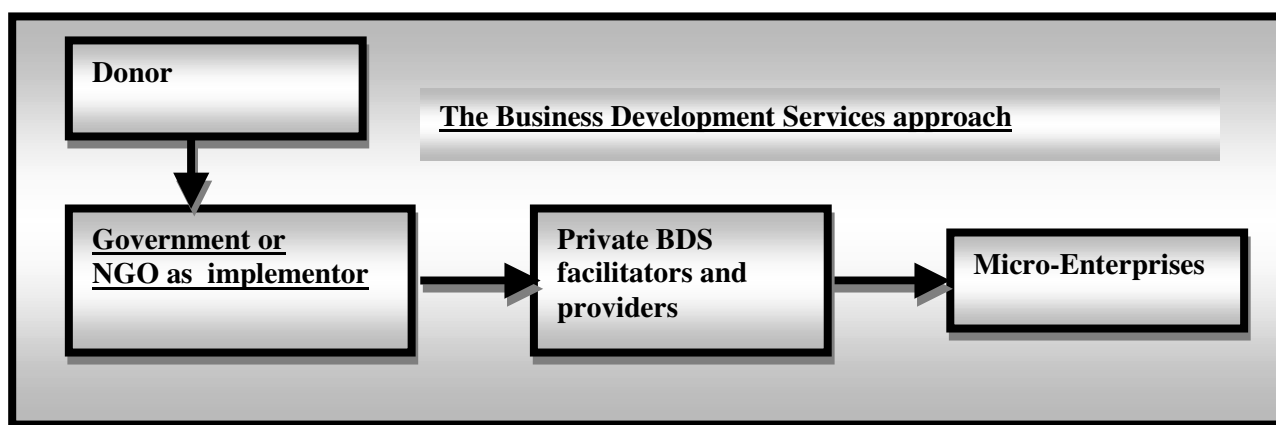
rather than on their provision directly to individual persons, thus these inputs are spread out more evenly among the population.

Very often, this delivery channel is highly subsidised: the “beneficiaries” may be asked to contribute in terms of fees, but in reality, it is often not possible to recover the cost from the “target population”.

The BDS approach for micro-enterprise promotion

“Donors and governments view the growth of small enterprises as critical to coping with the challenges posed by rising unemployment. For at least two decades, therefore, donors have been supporting the provision of non-financial services, or ‘Business Development Services’ (BDS), for small enterprise development. These services include training and counselling, as well as services to improve access to appropriate technology, information and markets.

In most cases, the services have been delivered with large subsidies, and cost recovery has only been a secondary issue. Recently, however, it has been acknowledged that this situation is unsustainable; small enterprises require continued support to meet changing and ongoing business development needs, while donor funds are finite. There is, therefore, increasing interest now in how BDS might be provided on a sustainable basis.”¹



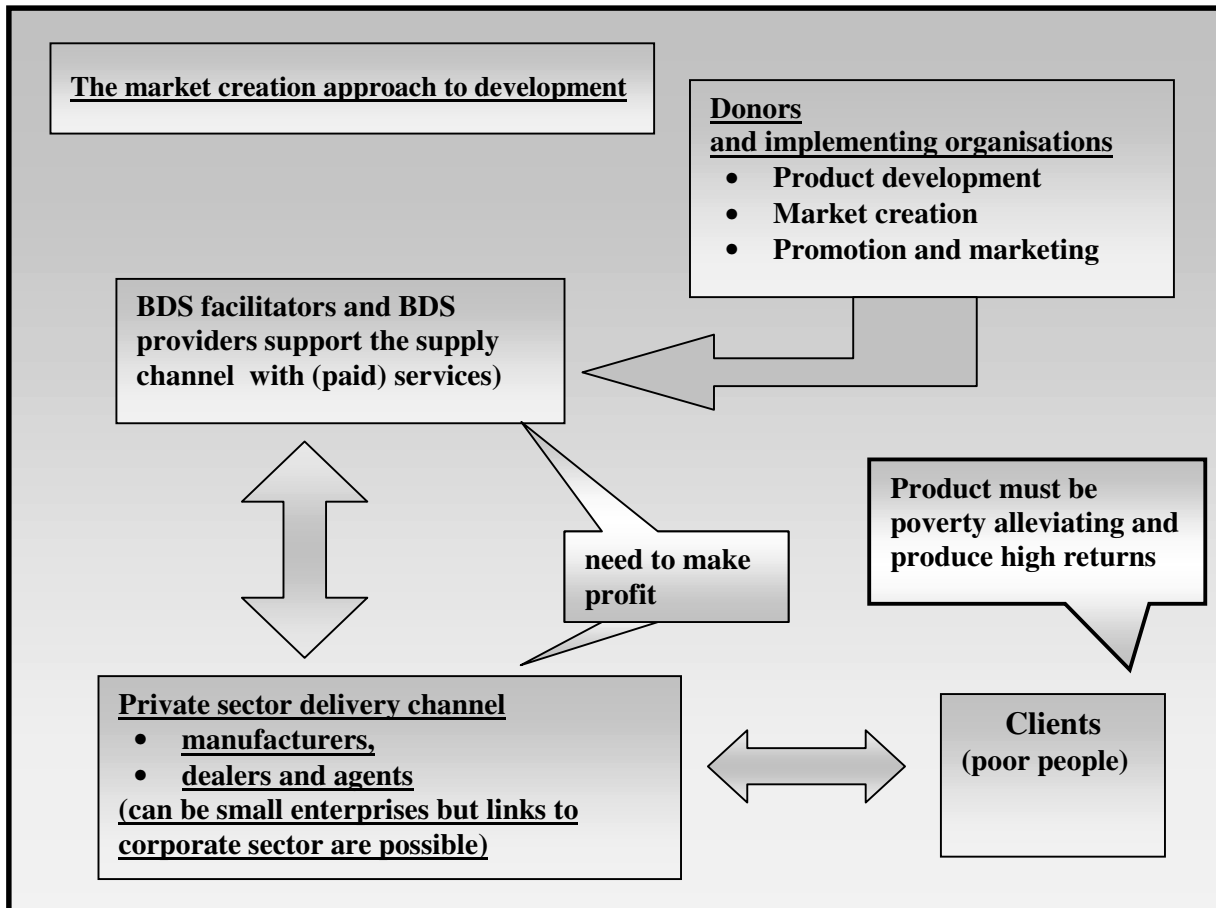
The BDS approach is focusing on setting up a private market for BDS providers who would deliver training, counselling and technology. They would recover their costs by charging fees to the micro-enterprises for their services.

The market creation approach: poverty alleviating products made and sold as a private business

The market creation approach to development observes the BDS principles but goes beyond that. Whereas a BDS concept would let the “market” or micro-enterprises choose their products, the market creation approach emphasises on specific products which have a high poverty alleviation impact.

One of the weaknesses of small enterprises in developing countries is the lack of capacity to innovate and the technology dualism of micro-enterprises.² The focus of the market creation approach to development is therefore on the following 3 areas:

- Need-based product development
- Marketing and promotion.
- The creation of a sustainable market



The delivery of goods and services is taken care of by a private delivery channel, comprising ideally of micro-enterprises; however, some activities in the channel may be linked to the corporate sector. In this paper, the involvement of the corporate sector in so-called “public-private partnerships” is even advocated for.

Marketing is the key strategy of this approach, it is thus quite logical to follow some basic principles, orientations and experiences from the world of marketing, especially the 4 Ps, as described in detail in the next chapter.

The 4 Ps of marketing

We are using the well-known 4 Ps of marketing as an analytical tool: ³

P roduct	what is the product or service exactly?
P rice	how much does it cost?
P lace	where can I buy it?
P romotion	how do I make the product known?

Product: more than just “hardware”

To understand what the product is may not be so trivial as it looks at first glance. Classical development co-operation has been long dominated by a “supply side” approach: Times may have changed now, but in the early days of development co-operation, it was even suspicious to promote a product which looked good: products for the poor should look poor, they should be simple, very much in line with Henry Ford’s saying: “you can have it in all colours, provided it is black”. I think, we must learn that people, and especially poor people, have aspirations and feelings which we should take seriously. When the director of a samba school in Rio de Janeiro was asked: “why do (poor) people spend so much money on these costumes for the Carnival?”, he replied: “you know, you rich people may adore poverty, but we poor people, we love luxury!”.

What is the difference between a watch and a Rolex, or between a computer and an „I-Mac“?

Good products are not only rational and useful tools to do something; good products stand for a lifestyle, they translate feelings and values.

The definition of the product is highly relevant in the 5 examples given below: for example, is the product a tree which gives fodder, fuel or fruits? Or is it before everything an asset, a savings scheme, a social insurance? These are crucial questions: it is still the same tree, but consists of an entirely different product as it is perceived by the customer.

In addition, and as mentioned already before, the products must be affordable and have high returns on investment and a significant impact on poverty alleviation.

Price: the art of pricing

Pricing is an art and needs a lot of intuition.

The price can be too high	=	no sales
The price can be too low	=	no profit

For the poor, products are extremely price elastic, i.e. a relatively low price increase can have a considerable impact on the reduction of sales. This sensitivity to prices means that quality (connected to higher prices) is not a universal criteria for purchase by the poor. In the case of the treadle pump, farmer often prefer to buy cheaper pumps even if they are of lower quality and durability. This is by no means an argument for giving a low priority to quality: to the contrary, the poor deserve the best quality. However, one needs to consider the price elasticity as well, and it is finally the customer which sets the quality standards.

In order to make the supply channel profitable despite the described reality, price differentiation is very important: As we can see from one of the examples below, a red micro-concrete tile can fetch 7 \$, whereas a grey tile may only be sold at the break-even price of 4 \$. Increased quality and value addition may rise prices considerably as we shall see in the example of village forestry.

With respect to the market of the poor, another intricacy is the “entry-price” which needs to be low. For poor people, cash is such a precious good that they often buy in very small quantities, although they pay more in the long run. The art of marketing to the poor is to pack the goods in very small units: a rural retail shop will sell cigarettes by the piece, shampoo by the “sachet” and beer by the glass.

Place: The supply channel

Even professional marketers sometimes ask themselves why intermediaries are needed. An intermediary is a cost factor and needs a profit margin or a commission. However, sales through a

local dealer or representative are often more effective and even more cost-effective than direct sales. Distributors and dealers are closer to the clients than the manufacturer, and their marketing costs may be lower. A strong supply channel is one of the best assets, a company can have, and investing in the loyalty of dealers is a very crucial task of marketing.

Additionally, many people involved in development co-operation have an ideological problem with intermediaries, since many initiatives are targeting middlemen as potential sources of exploitation. The role of dealers and agents needs to be revised, especially under the criteria of effectiveness and justice. A good supply channel needs profit margins to sustain itself and be effective.

Quite often, a dealer provides additional services to the customer such as after sales service, stocking of spare parts, etc. Sometimes, dealers also provide credit to their customers because they know the people in the village.

Promotion: Creating awareness about the product

Promotion is more than advertising, it implies a two-way communication with the customers. Mass media play an important role in promotion. Rural customers, especially, need to see what they want to buy. They never buy anything which they have not seen in operation, or – even better – which their neighbour has not yet already bought. For this reason, demonstrations represent the most important tool for promotion.

Early adopters belong to the village elite and the poor are late followers, since they want to avoid all risks. Often, the poor are late buyers, because they are short of cash and must have more time to collect enough funds.

Promotion is very difficult in rural areas: on the one hand, attending a farmers' fair ("mela") may reach ten thousand farmers at the same time, on the other hand, geographical distance and lower population density may make it a costly affair.

One issue is how to sustain promotion. Development co-operation can and should support good promotional efforts with mass media, films, posters, etc. It is difficult to sustain it, but promotion that is not continuously repeated fades out; Coca Cola is nowadays known to everybody, but if it were not continuously advertised, customers would even forget Coca Cola and remember the brand of the competitors better.

Another intricacy is the difficulty to include promotional costs in the price of investment goods; it seems easier to promote consumer goods. To add a few cents for promotion on each bottle or each sachet is less visible than adding a hefty amount to the cost of an investment good. If the price of an investment good were to become much higher than its cost, the incentive to copy would be increased. Moreover, the nature of investment goods does not allow for repeat sales.

In order to finance promotion on a sustainable basis, development co-operation should seek links to the corporate sector and tie up the products to their supply channel: These companies may have a long-term interest in promotion if they can sell preferably small amounts on a regular basis to new customers (like cement companies with roofing tiles, agro-input companies with micro-irrigation, etc.).

Market creation and donor funding

Obstacles in creating a market in favor of the poor

There are several obstacles which make the market development in favour of the poor a tricky and cumbersome task:

Many attitudes of the poor are such that they are not attractive customers in the short run: they **turn their penny** many times before they spend it; they buy only in small quantities, and it may be quite tough and harsh to develop these markets.

Poor customers **are very conservative** and – by nature – risk-avoiding. Conservatism, especially in rural areas, is notorious: a market is only created after some early adopters have taken it up, and after many followers have seen and tested it... Then only, will the whole mindset change and the critical mass will be there to allow the private sector to supply products profitably. We shall elaborate further on this phenomenon when we discuss the AIDA model (see below). But one has to distinguish between a few early adopters and the many followers.

Quite often, there are also **cultural and other barriers** which hamper the development of markets for innovative products. In many regions, for example, it is culturally not accepted that women would use bicycles or go to the market. Or, the absence of a regular electricity supply is one of the constraints for marketing electric appliances.

Another reason why these markets are underserved is the **urban bias of many marketing efforts**. This may start with the fact that marketing managers prefer to live and work in an environment which they know, where they can send their children to good schools, etc. There is a strong bias towards urban mainstream marketing ⁴ and there is also a strong bias towards “marketing to the affluent”: One can find several best-sellers with this title ⁵, but I could not trace one single book about “marketing to the poor”.

The poor can **not afford to buy big quantities**. The most revolutionary marketing idea for rural markets is **the “sachet”**, a tiny portion packaging, which allows selling small quantities for an affordable price. It is an irony that a poor person may pay several times more when buying small quantities rather than the “jumbo pack” which rich people can afford. This reflects the fact that it is more expensive to market to the rural poor, smaller quantities make the products accessible to people who have little cash.

Why does the private sector not create the markets on their own?

The private sector will only step in, if the volume of goods sold allow a profitable supply chain. **Initially, it is therefore justified to subsidise market development**. Market development is even a good investment for development co-operation agencies, provided they do it correctly. But, why does the private sector not invest in market development on its own? Individual enterprises may invest in products for the poor, but generally only once the market has reached a significant size.

The examples given below show how one can create a market for products – latrines and trees are typical for this – which were not accepted before, even when given free of cost. The efforts necessary to create a market for such products, such as latrines, trees, treadle pumps, silos and roofing tiles or rope pumps, should not be underestimated. It may require 5 to 10 years, but once there is a significant demand, the private sector develops almost on its own.

Market creation is a typical task of marketing, and the corporate sector does it all the time. However, the small private sector does not invest in activities such as:

- research and product development;
- setting-up of marketing and supply channels;
- large-scale promotion activities leading to the creation of a market.

The reason is that the private sector cannot recover these costs, because it is difficult to defend the exclusivity of the product.

This is especially so if we talk about simple **investment goods or durable goods**, because they may be immediately copied by others. The market provides little protection against copying: the patent protection is not effective and the brand protection may not be existent either.

Of course, copying is also a danger for any product, be it sweets, beer, soft drinks or even investment goods. The conventional strategy against copying is to distinguish the product from others by branding, but also by applying high-tech features. In our cases, this is neither possible nor desirable. In our examples, the success comes exactly from being copied and from giving opportunities to small enterprises to produce and sell them.

For consumables, the situation is different: branded products like soft-drinks, cigarettes, sweets, chips, etc. are all very well marketed and the corporate sector has managed to create a market for them. Consumer goods can be **sold in small quantities but regularly**; this makes it easier to add a tiny percentage on each “sachet” to recover the promotion and marketing cost. For investment goods which are more costly and where repeat sales are not possible, this is much more difficult: if one adds a percentage to an investment good for promotion cost, it is an invitation for a competitor to undercut the machine with a cheaper copy. This is the main reason why consumer goods have penetrated rural markets to a larger extent than investment goods.

A good example for this is the promotion of gas and/or electric stoves in Europe and America: both were heavily promoted by the gas and the electricity companies, not by the stove-makers. The gas company has an interest to invest in promotion of a gas stove, because once a household switches to gas, it will remain a customer for many years. Till today, the gas and electricity companies offer very good cooking classes in Switzerland, free of cost. One single household converting to either one of the fuels pays every month a tiny little fee back to the company for this training course. But how could one do this for the promotion of energy saving wood-stoves?

Phases of the product-cycle and effects over market creation

How does a market creation approach work over time? We have introduced different parameters in the following graph⁶:

- the sales curve
- the profit curve
- the number of micro-enterprises that join the supply channel and
- the poverty alleviation effect (in terms of number of clients, income generated, etc.)

In the marketing theory about the **product cycle**, it is well known that all products undergo four different phases:

In the **R&D phase** sales are zero, and only prototypes are produced and tested.

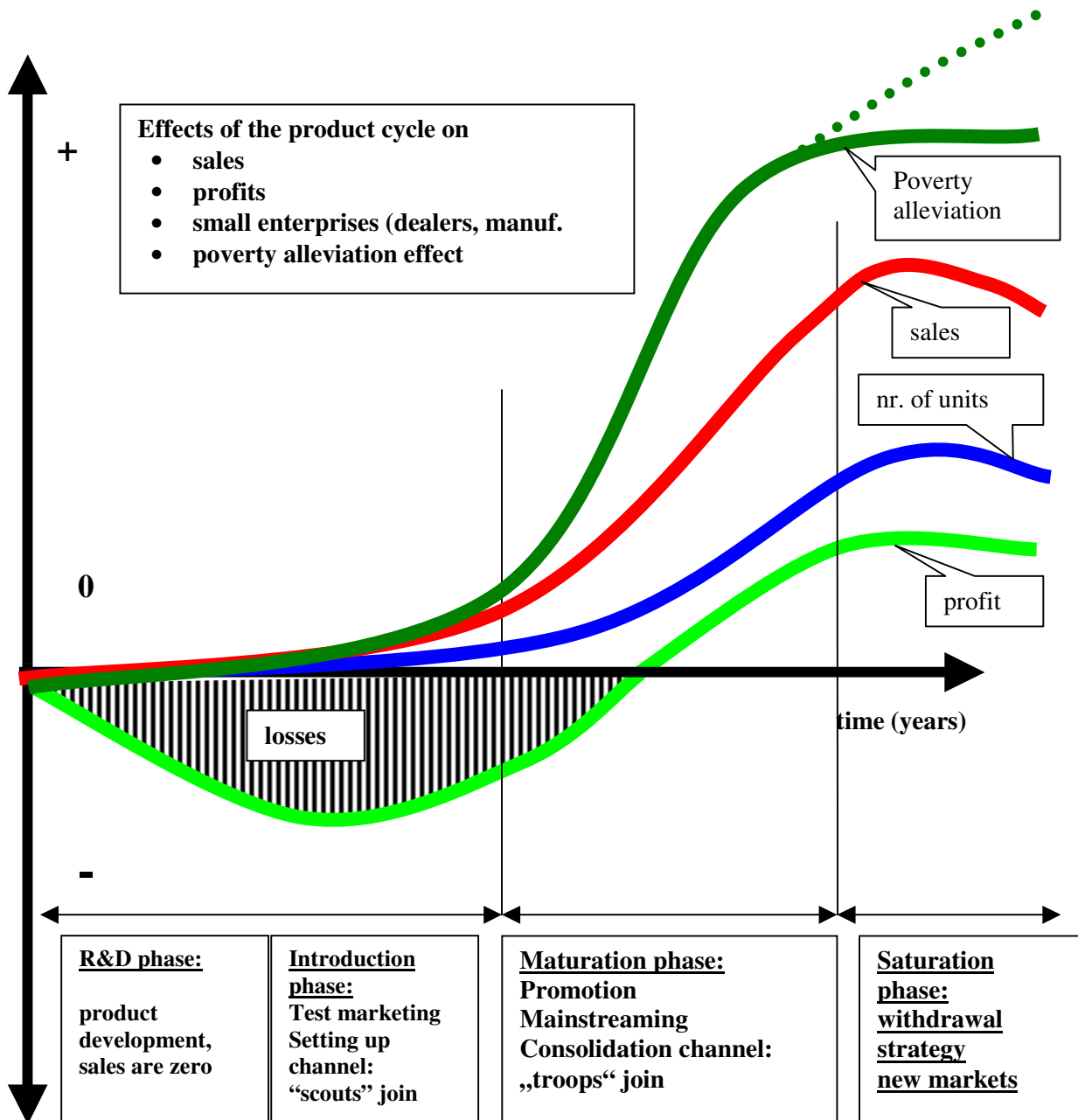
In the **introduction phase** the product needs to be test marketed. During the R&D phase and the introduction phase, even a corporate sector company makes losses. The marketing channel is developing slowly, those who join the channel (as manufacturers or dealers) are the “scouts”, the pathfinders / pioneers. However, some poverty alleviation is already taking place with every product sold.

In the **maturation phase**, the market takes up and demonstration effects lead to higher sales and higher profits; if the market pioneers can recover the introduction cost from the channel, more and more units join the channel; the “troops” of dealers and manufacturers will play safer than the pioneers. The poverty alleviation effect is now reaching its peak (cumulative effects of all adopters).

In the **saturation phase**, the sales of the promoted product are declining, profits too, and some units even withdraw. The withdrawal strategy should now define how to sustain the channel, by introducing

new products or moving to new markets. The poverty alleviation effect remains at the same high level thanks to the cumulative adopters.

Sales usually start very slowly and do not take up in the introductory phase. In our case, since there is a need for thorough R&D and participatory product development, R&D and introductory phase may last between 5 and 10 years. The **losses occurred in this phase may not be recovered** with the product later on, as it is difficult to achieve an exclusivity like a product developed by the corporate



sector. The R&D costs may be borne by development agencies or donors, but it may in future be possible to develop products – for example the solar lantern described below – which may also recover the investments in the introduction phase.

In the maturation phase, sales are going up steadily and the focus is brought on the development of the delivery channel. As the channel development is linked to micro-enterprise promotion, this process may also be a relatively slow one, and it is often worth including poor people with entrepreneurial spirit into the channel. For instance, there is hardly a better target group to be found than “core

farmers” to run nurseries. Dealers and mistries, latrine producers or “artesanos” are preferably poor local people.

In the saturation phase, a withdrawal strategy for the initially promoted product must be applied by introducing new products which make the channel sustainable and which can even take care of the further expansion or at least keep it where it should be. During the withdrawal strategy, one should analyze the market thoroughly and find ways to increase value in the supply channel or to cut the cost of distribution. This can include linking the product to corporate sector marketing channels or trying to organize the producers and dealers in associations. The withdrawal strategy should also look at product diversification and the introduction of new products; moving in to new markets should also be studied.

The time lag of a market creation approach can be extremely long, and sometimes, success occurs long after one has withdrawn: during my field trip in Honduras I met a hardware shop-owner who is supplying chimneys for the “Lorena stove” in the “Yoro” region. Apparently, a market has been created for such chimneys, as they are sold by the thousands. How has this happened? I learnt that the “Lorena stoves” had been introduced by SDCs “integrated rural development project” which is already closed for more than 8 years. I then met a lady who had rebuilt a Lorena stove in her house, just two months ago, and she had learnt the technique in this project.

The big kick which leads from introduction to maturation

In the initial phase, the supply channel is still the responsibility of a few pioneers, and sales are modest. In this phase, the market creation may need a kick to bring it into a more dynamic gear. Without such a “kick”, the channel may well remain “lethargic”. This has again to do with the phenomenon of the scouts and the troops: “Research on the new product diffusion process based on a study of consumer electronics retailers found that there are two types of retailers: scouts (innovators) and troops (followers). The classification is based on the extent to which one retailer influences others. **Scouts** are the first retailers to adopt a new product. They are likely to commit themselves to a new product or commit themselves to a new product through a small order. On the other hands, **troops** purchase a product only when scouts experience satisfactory sales levels.”⁷

There are more than enough examples of development products which have never even reached the “scout stage”, and very few which have really managed to scale up to the stage of maturity and mass dissemination. How have they managed to reach maturation the introductory phase?

For example in the case of the treadle pump, the product received a “big kick” from the “**Bangladesh Tobacco Company**” in Rangpur, which sold the pump to their contract farmers on a loan basis and recovered the money through the purchases of tobacco. In the case of the latrines in Bangladesh, it was the “social mobilization campaign” which led to the critical mass which is necessary for troops to join the market channel.

The performance of the market creation approach:

Impact and reach-out

Market creation programmes can have a very high impact and reach out to an impressive number of beneficiaries or – more precisely – clients. The ultimate success of a market creation approach is a new constellation in the market, which gives room for a viable supply channel for the new products and thus creates both employment on the supply side and consumer satisfaction on the demand side. To create a new market is not an easy task and it may not always happen, even if everything has been planned to perfection.

One of the best examples of a market creation approach with a very large development impact is the AMUL experience in India, the setting up of milk co-operatives which have considerably changed the rural landscape. “Operation Flood” started in 1970 and had the specific target to organise 10 million

Performance indicators for the projects			
Project	Input in \$	Output in \$	Reach-out
Forestry Bangladesh	<u>~ 7 m \$ in 15 years</u>	min 90 m \$ /yr (net present value)	<u>650'000 families</u>
Treadle Pump Bangladesh	~ 7 m \$ in 15 years	min. 100 m \$ / yr (farmers profit)	<u>min. 1 m families</u>
Maize Silos Central Amer.	12 m \$ in 18 years	min. 6 m \$ / yr (savings + profits)	<u>min. 170'000 families</u>
Roofing tiles (global)	7 –10 m \$ in 15 years	12-16 m \$ / yr. Cheaper materials	<u>+ 150'000 new families per year</u>
Latrines Bangladesh	~ 10 m \$ (social mobilisation)	min. 8 m \$ / yr (savings in health)	<u>+ 1,2 m new families per year</u>

farmers in 30'000 villages and to bring them into the supply channel for milk products which were marketed by AMUL throughout the country. The charismatic leader behind this landmark programme, Dr. V. Kurien,⁸ has pursued this market creation with a lot of ingenuity, with the help of a conducive policy environment. Thanks to some protection, the Indian farmers have succeeded despite higher costs than the prevailing prices – also heavily subsidised by the milk producing countries – on the world market.

If the product really meets the needs of the people - which is proven once they start buying it - one can achieve a considerable reach-out. The marketing approach is also relatively cost-effective, since the delivery channel is private and profitable, it is sustainable and does not need direct support.

This study is reviewing 6 projects supported by SDC in Asia and Latin America, where the private sector is used as delivery channel. All of these 6 projects are very effective for poverty alleviation and have high performance records; but they have identical problems, mainly low profit in the supply channel. Each of these projects –except the rope pump, which is a new project – has a reach-out of at least one million people; one million dollars from donors can generate an output of up to 100 million dollars per year. In addition, the delivery channel exists further after withdrawal of donor support.

The above table shows – in a condensed form – the key performance indicators: the input in terms of donor funds, the output in terms of economic performance at the level of the “client” (beneficiary), and the reach-out, the number of beneficiaries.⁹ These indicators are described more precisely in annex 1.

Efficiency: very high returns on donor money

We have seen that the ratio between input and output is very good in all the examples. The reason for this high efficiency is that the donor has only to invest in the creation of a space for the private sector to operate. The delivery channel is working on its own initiative, once it is profitable.

The market creation approach to development uses small and micro-enterprises as a delivery channel. These are very cost-effective for all “local” tasks in the delivery channel, such as manufacturing, selling and installing simple goods. As long as the supply channel makes profit – even modest profit – the activity can go on, after withdrawal of donor’s support as well.

However, this study also shows a common problem in all projects: the supply channels are not very profitable, with the exception of Forestry in Bangladesh, where the nurseries are a really flourishing business. Several recommendations on making the supply channel more profitable will be formulated in chapter 5.2

Effectiveness: Can some products make a difference to the poor?

Useful products for the poor can change their lives. Poor rural women, especially, have not even been considered to be consumers: whereas, for the work of men a lot of technologies have been introduced, such as tractors, ox-carts, bicycles, scooters, diesel pumps, women still carry buckets, walk on their own feet, use sickles and other hand-tools which have a very low productivity. With the introduction of least-cost drip irrigation in the form of “bucket kits” and “drum kits” in India, women can grow vegetables worth 3’000 Rupees out of an investment of less than 1’000 Rupees. Nirmala, a woman from Indore and her neighbour, Sampat Bai, have told me that “the drum kit has changed their lives!”¹⁰

An impact study on the treadle pump in Bangladesh, Nepal and India clearly shows that the owners of a treadle pump make at least 100 \$ net income per year, and 20 % of the farmers make 500-600 \$ per year. This is the difference between being below and above the poverty line.

Of course, poverty is not easy to eradicate: poverty does not only mean a lack of resources, but dependence, indebtedness, isolation and marginalisation. Even a miracle product cannot just wipe out these factors. But a good product like a treadle pump, a bucket kit, a latrine, a tree can provide the physical basis for changing life. There are concrete examples of families who thanks to the use of a treadle pump, have been able to “pedal out of poverty”, and thus could offer a better education to their children and experience other forms of social development.

Market creation approach and poverty alleviation

The market creation approach has a specific advantage of being able to reach out to large numbers: the first five examples reach at least one million people, and some of them have a considerable “mushrooming” effect. For instance the Village Forestry Program in Bangladesh will become every year more performing, provided there is no sudden demand saturation for trees occurring.

This growth is only possible if the supply channel is performing and profitable. For this reason, it is crucial to understand the main characteristics of the market creation approach: the key condition is to have a market. The early adopters are not the poorest, but the village elites, the rich consumers, the rural middle-class, etc. The poor aspire to become like them, and the market will only grow if the “better off” have paved the way for the followers.

The impact study of the treadle pump has confirmed this: the treadle pump has a very significant and large scale poverty alleviation impact, although the first buyers are not the poor.

Many mistakes have been made by targeting “useful” products too closely to the poor alone: so many roofing tiles workshops have been supported by NGOs in areas where there are simply not enough roofs to be built. It may also happen that the products get an attribute of being a “**product for the poor**” which is often translated then as a “poor product” that nobody wants to buy, and certainly not the poor.

Sustainability and promotion: Partnerships with the corporate sector and win-win situations

One problem is difficult to solve: for a development agency or for small enterprises, sustained promotion is hardly possible. In order to enhance the reach-out and to improve sustainability co-operation with the corporate sector seems to be an important aspect of the strategy. Such models of co-operation should be based on synergies and should provide a win-win situation: it should be more cost-effective to use an existing marketing channel (for instance agro-input dealers or cement distributors) rather than building up a separate channel. For the corporate sector, such a co-operation should bring a long-term benefit such as more loyalties from the dealers, a better marketing mix and new clients to the company.

A corporate sector company can develop new markets: for instance the small and marginal farmers, self-constructors in the low-cost housing market. On its own, the company would not have naturally targeted these markets nor would it have had the knowledge – or sometimes the vision – to develop them. Although, it is amazing to see how many thousand of small shops belong to a supply channel of large multinational companies, it is not a common practice in commercial marketing to involve small and micro-enterprises.

Such partnerships are a new field for development co-operation as well as for the corporate sector. They are not yet proven on a large scale, but it is evident that they are a form of co-operation of the next millennium. The World Bank is emphasising such public-private partnerships as a new form of development¹¹. However, for the time being, there are many more frustrations than success stories to be shared. An endeavour by “Hope International” to mobilise the corporate sector for development co-operation in India has been rather disappointing: “Most companies were content with donating money, something that didn’t need too much involvement. Anything that entailed continuous involvement and responsibility was tedious”.¹²

Nevertheless, it seems very interesting and promising to involve the corporate sector and to seek new synergies through their presence on the market:

The first reason is the high existing frustration connected to the “state-driven” delivery approaches and to the failure to eradicate poverty through the public sector programmes.

The second reason is the growing scarcity of available public funds, and

The third reason is the need for the corporate sector – in its own long-term interest – to contribute actively to large scale poverty eradication.¹³

Part 2: Analysis of 5 examples

A detailed description of the case studies will be prepared in a separate publication; for this paper, we concentrate on a summary and the main features of these 5 case studies.

Example Nr. 1: 100 million trees as a social insurance

The VFFP (Village and Farm Forestry Programme) in Bangladesh started in 1986 as an action research programme of SDC. Its aim was to stimulate tree plantation in Northern Bangladesh. With growing population pressure, the forest area in Bangladesh was shrunk further, every year (in 1986 less than 10 % of the total area was still forest land) and there is growing pressure on biomass production for fuel, fodder, fruit and timber. The only space to grow more trees was in the fields and homesteads of the people.

The project started with NGOs and so-called “core farmers” whose role was to convince their peers about the usefulness of planting trees around their house and in the rice-field as inter-cropping. At the beginning they were paid extension workers. The project selected a number of flood-resistant, nitrogen-fixing and fast growing tree species which would carry high yields and, should not lower rice yields significantly if their branches were chopped regularly.

The project has become a major success story because:

At the start of the project, in 1986, one could not even expect people to plant trees if saplings were given “free”. Now, the price of saplings has risen unexpectedly to 5-6 Takas (10 US cents) per sapling, mainly due to the economic value of the trees. After 7-20 years, the value of a tree is between 20 and 100 \$, which results in a net present value of 5-6 \$, depending on the tree species.

At the same time, the free market (roadside plantations by government and NGOs) has also created a very sound demand.

650'000 participating farmers are proud owners of trees as their precious assets; contrary to the initial perception, they buy trees not mainly for short-term income benefits (like fodder, fuel and fruits) – although these are important side-benefits – but for a long term investment. **People plant trees as an inflation-free savings scheme, and as a social insurance.** In case of an emergency (a sick child or a house damaged by floods), the tree can be chopped and sold for cash.

In this sense, it is an extremely good investment for a family: they buy 15 saplings per year for \$ 1.50 and get a net present value (NPV) of 90 \$ per year as a relatively safe deposit (very rarely, trees are washed away by the floods).

This favourable trend in pricing has turned the nurseries of the “core farmers” from a side activity to a very profitable business. Since the “core farmers” have been selected among very poor people with an enterprising spirit, the 2500 nurseries that exist today, have turned into flourishing businesses. They make an average turnover of 5 \$ per day and have sold 105 million trees as of today. Soon, they will deliver **100 million trees every year.**

VFFP is good value for donor money: SDC invests roughly one million dollars per year, but the asset creation with the participating farmers in terms of NPV is already 60 million \$ /year.

Example Nr. 2: pedalling out of poverty with the treadle pump

The treadle pump is a pedal driven irrigation pump, widely used in Bangladesh, Eastern India and Nepal, which costs 15 to 25 dollars and can irrigate half an acre of land, if the groundwater table is not lower than 6 metres.

The main features of the treadle pump (TP) today are as follows:

An average TP user makes an additional **net income of at least 100 \$ per year**; this is a conservative estimate, as a recent impact study¹⁴ shows, that 20 % of the farmers make 500-600 \$ more income on

half an acre of land. The pump is “self-selecting” the target group of the poor: landholdings of up to half an acre are defined as landless people and those who have a little more are marginal farmers. In some areas, farmers grow more rice for home consumption, in other areas they grow very profitable vegetables as a cash crop and for home consumption.

There are **over one million of TP users** in Bangladesh and the social impact of over 100 million dollars additional net income per year is certainly a remarkable achievement. But there are ten million potential users in Eastern India and Nepal, in the so-called “poverty square” which packs 400 m of Asia’s 900 m poor. It is a huge task for IDE and others to raise the sales from the present impressive level (80’000/yr in Bangladesh, 50’000/yr in India) to the desired level to fulfil the task. If a further programme can tap the 10 m TP market, it would pump **1 billion dollar net income per year to the poor in the poorest pocket of the world.**

For this, the supply channel should become **more profitable** and dynamic. Today, the delivery channel in Bangladesh consists of 65 manufacturers, 700 dealers, and 5000 installers. They make and sell the pump with profit, but not to the tune one would like to see. The profit in the supply channel is especially low for the manufacturer (who has less than 50 US cents profit per pump) but grows at every step; dealers make 3 \$, installers 2 – 6 \$ profit: not a bad business, but little compared to what the farmer gets as return.

In order to strengthen the supply channel, it is to be seen if the product range can be expanded (adding several pump types, micro-diesel sets, affordable micro-irrigation technologies and also more knowledge and inputs like better seeds), and if cooperation with existing marketing channels can create synergies.

The treadle pump provides excellent returns for donor money: with an investment of roughly one million dollars per year to IDE (the facilitating NGO), over 100 million dollars of returns have been generated annually by formerly very poor farmers.

Example Nr. 3: 60 kilograms more maize per family with “Postcosecha” silos

The “Postcosecha” silos are made from tin-sheets by “artesanos” and have a storage capacity from 70 kgs to 1350 kgs. The project started already in the 80s in Honduras and is spreading now in Nicaragua, El Salvador and Guatemala.

The main features of Postcosecha are the following:

Over 170’000 silos have been distributed so far in Central America, they can store 1,25 million tons of maize and avoid yearly losses of over 10’000 tons from rats and bugs. This means, each family has 61 kilograms per year more maize to eat.

A silo costs between 12 \$ (for 70 kg) and 63 \$ (for 1350 kg) and pays itself in 4 years (for 70 kg) or in 3 years (for 1350 kg) if one counts the value of the grain losses (8% per year); however, if one adds the earnings made from price fluctuations, the payback remains 4 years for the small silo but becomes only 9 months for the large one.

The silos are manufactured by 620 “artesanos” in small workshops and the average net earning per workshop is 700 \$ per year. This is a nice additional income but not enough for any of the artesanos to live from silos. The people in charge of the project try now to make the channel more responsible by involving the artesanos in the promotion; it is intended to create and support “artesano-cooperatives”. Postcosecha is quite a good investment for donors: One million \$ per year of donor money provides 6.2 million \$ gains per year to all silo owners.

Example Nr. 4: The network of roofing tiles workshops

Around 15 years ago, a technology called “fibre-reinforced roofing sheets” drew the attention of appropriate technologists and initially, everybody loved it: it was simple, ecological and looked as though it was an alternative to asbestos sheets. However, initial failures led to frustrations and SKAT,

the “Swiss Centre for Development Cooperation in Technology Management” was mandated by SDC to study the technology and to set up a network of properly assisted micro-enterprises.

Today, the main features of the “micro-concrete roofing (MCR) tiles” network are the following:

Over 2’000 workshops all over the world produce MCR tiles and sell around 150’000 average sized roofs per year for low cost houses and for the mainstream market.

The tiles – as a rule – are priced cheaper than GI sheets but more expensive than thatched roofs: an MCR roof costs around 4 \$ per m² and is very strong, if properly made.

MCR workshops are – moderately – profitable; if they stand on their own, it may take 2 years to get the initial investment of 5’000 \$ back (for one table, moulds and curing tank). However, if an experienced entrepreneur produces other products as well (cement blocks) and if he can provide installed roofs (instead of tiles only), the business may be more profitable.

The technology is now proven and ready for a truly large scale dissemination. This could be done with a package of technologies for the whole range of materials for cost-effective housing and with targeted and good promotional activities.

In order to make the business flourish, negotiations with cement companies to integrate the workshops into their supply channel are under way and this unleashes very significant synergies. To make cost-effective building materials available through micro-enterprises may be the only answer to the striking housing deficit of several million houses in the world. Many poor people buy building materials as a saving scheme and build their houses “brick by brick” over 10 to 20 years.

Example Nr. 5: Making a business out of latrine production

One of the most amazing examples of a socially relevant business is the story of private latrine producers in Bangladesh. SDC has supported a water and sanitation project in Bangladesh with UNICEF and DANIDA. Whereas the installation of pumps through the government agency DPHE (Department of Public Health Engineering) has been quite successful, it was much tougher to convince people of sanitation and hygiene. A large “social mobilization campaign” for sanitation made latrines popular and created space for a flourishing private sector.

These are the key features of “sanitation by the private sector”:

Today, around 6’000 private workshops produce latrines and sell them despite stiff competition from subsidised government latrines. An average workshop may produce around 200 latrines per year at a sales price of 10 \$. The profit per workshop may be in the order of 200 to 300 \$, not much, but still a welcome additional source of income in rural Bangladesh.

Unfortunately, 900 of the government-owned DPHE sanitation centres still exist and undergo heavy losses; they undermine the market with subsidised latrines and have nevertheless difficulties to sell their stuff.

People are willing to pay for latrines, because of prestige, comfort, privacy and also for health reasons. The health benefits of a latrine which costs 10 \$ (for 5 rings and one slab) are in the order of 8\$ per year. However, the health impact of latrines is visible only if most families of a local community adopt better hygiene practices.

Bangladesh has reached a sanitation-coverage of 40 %, and altogether, the 900 DPHE, the 500 NGO and the 6000 private latrine producers sell around 1.2 million latrines per year. At this rate, it may take another 12 years to reach full coverage. This is a very good record in South Asia.

Neither SDC nor any other donor have considered the private latrine producers as a target for BDS (Business development services); the only input from donors was the creation of a massive demand through the social mobilisation campaign. But this example shows that a private sector can emerge to deliver goods (such as latrines) which were previously not even used when given free of cost.

Open questions and discussion

How to fund market creation projects? Methodological issues for donors

The main roles or “rules of the game” in creating markets

The roles of the involved institutions should be differentiated and the “rules of the game” should clearly be the following:

- The **donors** and implementing organisations are **facilitators only** and must full-heartedly support private enterprises; donors and implementers must understand the needs of the private sector, especially the fact that they need to make profit! As facilitators, they must support marketing efforts through policy dialogue, conducive environments, R&D and promotion;
- The **„doers“** are private enterprises! They should take their responsibility and act as efficient and effective suppliers of the products and services and they should make profit.
- There may be a lot of **other actors** such as BDS providers (training, delivery of raw materials and intermediate goods) and government agencies (for regulation, standards, etc.); they should also primarily be **facilitators**.
- For good and sustainable **promotion**, business associations can be created, if the supply channel is profitable enough; another way is to seek a co-operation with larger companies which have a direct or indirect interest in promoting specific products and are willing to integrate enterprises into their supply channel.

So far, so good. However, this is so in theory, and the **practice** may slightly deviate from these principles. Creating a market means to field as many products into the market until there is a critical mass. Who fields the first products, before any supply channel is in operation? Obviously, the facilitating organisations needs to become a “doer”, initially. This is also not a problem, since there is nothing to be “distorted”, if the supply channel does not exist. However, it requires a lot of wisdom and discipline to withdraw in the right moment and to become a facilitator, once the channel starts to develop.

We must recognise that it may be **psychologically** difficult to limit oneself to the role of facilitator, and that there is a real dilemma between the role of facilitator and that of being a „doer“. It is quite understandable that young and motivated MBA graduates from IDE do not only want to promote the sales of others. It is hard to be in the field and work for the benefit of the dealers; especially since these dealers are not always the incarnation of sympathy.

It was a painful process for IDE and SDC when one group of IDE in Bangladesh split away and created its own “Krishok Bandhu” company. The staff was very motivated to make out of treadle pump dissemination a business of its own. On the one hand, this is a sad development, because the impact on creating supply capacity is higher as a facilitator than as a BDS provider. On the other hand, one has also to admire that “Krishok Bandhu” has survived as a private company until today, despite the low margins with the treadle pump.

Another painful aspect has to do with **profits**. A crucial dimension of a market creation approach is to accept profit as the driving force to create “vibrant” markets. The Village forestry programme in Bangladesh is an illustration of this: forestry is such a dynamic market because it is a really flourishing business for both the nurseries as well as the customers of tree saplings.

At the other end of the spectrum is the DPHE (Department of Health and Public Engineering) in Bangladesh which is still delivering latrines with a subsidy and thus undermines the private sector. But even here remains the question if a market for latrines could have emerged without DPHE fielding many thousands of latrines and creating a “critical mass” of examples.

Do's and Don'ts for donors and facilitators

To create a market is demanding and requires **patience, persistence and understanding**:

- **Patience**: the market creation approach cannot bring fast results, a market must grow and the “doers”, the private sector, need to be motivated to play the major role. A supply channel can emerge only slowly (see the chapter about “scouts” and “troops”) and the channel can only become profitable once there is a critical mass. Any hasted action – such as giving away the goods for free or subsidizing them – may be counterproductive;
- **Persistence**: donors need to facilitate the creation of a conducive environment and may need to invest significant amounts of time in a policy dialogue with all the involved partners. Barriers may consist of missing legal provisions (ownership of trees, building standards, etc.), of over-regulation or of a distorting subsidy culture;
- **Understanding**: donors should understand thoroughly the logics and the economics of their partners, especially the need of small enterprises to make profit. This is not always obvious, as many development workers may be motivated to promote products rather than the supply channel. In some parts of the world, there are still prevailing biases against “profit” and “middlemen”, especially among development workers and NGOs.

Facilitation means to create a space **for others** and refrain from sitting in the driver's seat. This is very difficult and demanding. Whoever has learnt driving a car appreciates the difficult role of a driving instructor: sitting next to the learner, giving him the steering wheel and encouraging him to drive, equipped only with clutch and brakes for emergencies. Such driving lessons are not free of conflicts, specially if the driving instructor is the husband or the father.

Do donors create artificial or sustainable markets?

Donors can have a lot of impact in creating markets, but they can also prevent markets from emerging: there are many examples where interventions of donors, governments or NGOs have been counter-productive. The fact that there is a market for solar water heaters in Nepal but not really in India has more to do with the subsidy policy of the government and some donors than with anything else. Donors have therefore quite a delicate role: they should support and facilitate real market trends and not create artificial conditions for products which are not sustainable in the long run.

It must be stated very clearly that, out of the 6 examples only the roofing tiles network has been designed as a “business promotion” programme. The projects have followed the **guidelines for BDS** (Business development services)¹⁵ even less. All projects started long before the guidelines were developed, and their objectives were slightly different. The BDS guidelines basically advocate for support interventions which are in line with the market forces and which do not distort the market. The emphasis is on services which are really useful for small enterprises, for which they are willing to pay and for which no subsidies are required in the long run.

The **market creation approach to development goes beyond the BDS approach**: it develops technologies and products, opens up the market for them and creates at the same time good opportunities for micro-enterprises. There are more risks involved in this approach, and to judge whether one is on the right track or not is more difficult.

The objectives of the 6 projects are the following – compared to those of BDS::

1. VFFP: to green the landscape with trees on farmers' land – and not to make a business out of nurseries;
2. Treadle pump: to provide access to equitable irrigation to marginal farmers – and not to create a profitable supply channel;
3. Postcosecha: to provide storage capacity and liberate farmers from the monetary losses due to rodents and price fluctuations – and not to make the “artesanos” viable;

4. MCR: to set up at least 1'000 MCR micro-enterprises within 10 years; – this example is the closest one to a small business promotion programme;
5. Sanitation: to stimulate the demand for latrines for the private sector – but not to create a profitable supply channel.
6. Rope pump: to achieve a breakthrough for the rope pump – but only one supplier, “Bombas de Mecate”, has really started a small industry.

What should the donors fund?

Donors can distort the market if they are not careful and not focused in their interventions. As facilitators, they should only finance **„common goods“** which serve many enterprises and not subsidise individual companies. Such non-distorting interventions are in the following areas:

- R&D and product development;
- Test marketing and product adaptation;
- Promotion and market development;
- Training at all levels (subsidised but against fees);
- Policy dialogue, advocacy and creating public awareness.

As the graph on “market creation” shows, there are long periods of losses which even a corporate sector company would have to bear during product development and the introduction phase. For the products we are looking at, these costs may not be recovered easily, unless the promoter produces the products in exclusivity. This, however, would eliminate the possibility of creating a supply channel through micro-enterprises. Therefore, R&D costs, market creation and promotion must as a rule be funded by donor contributions.

However, future market creation approaches may also consider ways and means to recover more of the market creation costs by introducing branding, patenting and quality control mechanisms, etc. This recovery can happen through franchising fees, but more easily by providing some technical inputs which are part of the end-product.

To **collect fees for services** is the main guiding principle of the BDS approach, but it may not always be easy. It is for this reason that the service provider is ideally a private company: People are used to pay fees to a private business, but they would not pay a donor.

Whenever possible, services should be offered against a fee, customer friendly and suited to the needs. This requires to involve as far as possible private sector intermediaries: an agro-input distributor of Novartis in India runs an extension service for farmers and farmers pay the fee without questioning it. Of course, they know what they get and that it is worth their money. A recently set-up private training centre for cost-effective building materials in India plans to collect fees for the training of entrepreneurs; since the training centre belongs to a private manufacturer of block-making machines, nobody expects free services from him.

We should also not forget that in practice we may well operate in a heavily subsidised environment. In India, for instance, there are subsidies for energy, for pumps and for a million of other things. As a result of this and of the bias towards large scale farming, technologies for small farmers are often absent: although three quarters of the farmers in developing countries have less than 5 acres of land, there is no conventional irrigation technology available with less than 5 horse-powers. These inappropriate technologies have been pushed into the market with very high subsidies: in India, one can get a diesel pump for less than 10 % of the cost and the price of diesel was about half the world market price until very recently. These facts should also be taken into consideration when we talk about distortion, and it would be highly unfair to state that small irrigation technologies like the treadle pump and low cost drip irrigation should come into place simply by the market forces. There is no harm if a donor develops technologies for poor people and does promotion of small scale irrigation technologies within such an environment of “mainstream distortion”.

Time frame for support: 10 years and more

It should be recognised that the time frame for all these projects is at least 10 years. They start with action research and undergo lots of changes in the approach and strategy. None of the projects achieved significant numbers very fast. It is even a characteristic of the market creation approach that it requires a lot of time to set up a private delivery channel. As this private sector responds to signals from the demand side of the market, it necessarily takes time till one reaches a critical mass. It is a typical hen and egg problem: if there is no demand, there is no supply, and both need to grow slowly and steadily together.

Keeping this long incubation period of 10 years and more in mind, we should recognise that, if successful, the projects merit a scaling-up, and this requires a different approach than in the gestation period. It would be a big mistake to step out just when the (exponential) growth curve turns into a steep upwards direction.

Understandably, one may be „tired“ after 10 years, but there is a real chance to make a large impact once one has reached such a critical mass. However, we should not do „just more of the same“, but work out specific dissemination strategies which can reach large numbers. This is definitively a different approach than bringing an action research programme into motion.

Marketing has to deal with product cycles and one of the strategic models to explain this cycle is the “AIDA model”:

A	wareness:	it takes time to create awareness (early adopters first come forward)
I	nformation:	it takes more time till a user has all the information he/she needs
D	ecision:	only then, will people take a decision (for instance to buy a pump)
A	ction:	it may take even more time till people (especially the poor) take action (they may for example have no money)

The consequences of this AIDA pattern is that project cycles will be very long-term, even for scaling them up. The AIDA model shows for instance that there is no use to do further promotion in a village where the early adopters have just purchased a pump. For the next one or two years, the late follower group will observe and they will not buy before they have seen the early adopters succeed. Patience is a good companion for a market creation approach. As we have seen in chapter 1.3, the results of a market creation approach come into the open very slowly and very late, but they are even more sustainable and pertaining. The rewards of market creation approaches are only visible after 10 or 20 years of nurturing.

The disliking of marketing in development: why are donors not jumping in?

There seems to be surprisingly little attraction for donors to promote “market creation approaches”. IDE has – despite its phenomenal track record in terms of impact – not managed to get many donors on board. Everybody seems to be interested in the product and IDE should install drip irrigation in all parts of India, in the rest of the world, but very few donors would support the effort of creating a market. It would probably be much easier to get 10 million dollars to give one million bucket kits away to poor families then investing one million in a delivery channel which may supply ten million bucket kits over time.

Why is this so? I have no answer myself. Maybe it has to do with the fact that so little is known about the approach, about its intricacies and especially its long-term effects. Maybe, most of the donor money is either tied up for government programmes or geared up for more short-term results; it is a fact that much more money is available for disaster aid than for extremely long-term indirect programmes, where it is also difficult to get the final credit ascribed to one single organization.

How to improve marketing strategies? Issues for project implementers

Key problem Nr. 1: How to make the supply channel more profitable?

The Village Forestry Programme in Bangladesh (VFFP) is the only project with really financially flourishing micro-enterprises – the nurseries. All the other projects suffer from relatively poor profit in the supply channel. The micro-enterprises delivering the goods survive, but they do not really flourish, and they expand very slowly. This is an issue to be addressed, because better profits would improve the efficiency and effectiveness of the supply channel and also increase the outreach and sustainability.

How can the supply channel increase profit? Basically through two methods, higher sales volumes or higher prices. For increased volumes, it is crucial to improve the **promotion**, for higher prices, the answer may consist of creating a „**product with a plus**“, a product with a higher value added.

- In the **VFFP**, people are already now willing to pay 100 Takas for a grafted high-yielding quality tree sapling, compared to 5 or 6 Takas for an ordinary sapling. Quality saplings will increase the profit of the nurseries and tree growers significantly: there is a very high potential for quality improvement.
- Around 20 % of **treadle pump** owners do not only earn 100 \$ extra income but 500-600 \$ from half an acre land: these are farmers who do not just plant rice but grow high value vegetables. To unleash this big potential, it may be useful to add good inputs such as quality seeds, know-how and good practices; this may increase the yields manifold. It may be a good chance to add value to the delivery channel by selling treadle pumps with good seeds, fertiliser and know-how. This constellation is naturally a good illustration for agro-input companies, showing them why it is a good investment to promote the treadle pump. IDE has been influenced in the design of their marketing channel in Bangladesh by the Ciba Geigy agro-input company there; now, it would be interesting to link up again for the promotion of the pump.
- For Postcosecha **silos**, one could also look at the agro-input companies as potential dealers and promoters, since the farmers buy quite a few agro-inputs. This may not be realistic in Central America for lack of good marketing practices in the agro-input business, but one fertiliser company in India has expressed interest in promoting technologies to avoid post-harvest losses. A good strategy to raise profit for the “artesanos” can consist of product diversification and of the supply of a “product plus”. Already now, some “artesanos” make a range of other products as well; the “rope pump” could be an excellent product companion.
- For **MCR** tiles, a broader product range (colour tiles) is a “must”, but the inclusion of other cost-effective building materials (for floors, walls, doors and windows) and the links to the supply channel of cement companies can effectively make their business more profitable.
- For **latrines**, the manufacturing of other cement products, such as MCR tiles, floors, walls, doors and windows could be a way to improve the returns of the workshops. Moreover, linking up workshops to the marketing network of cement companies could create win-win situations for all partners: the latrine producers in Bangladesh consume 35'000 tons of cement per year, an attractive market for a cement company.

In other words, **R&D and continuous product development are essential elements of a market creation approach** and just as promotion needs to be a continuous process, it is never good enough to think that a product is complete in itself. In this sense, we need to learn a lot more from commercial marketing.

Product ranges and mixes: hardware or software?

Most products in the above examples are typical hardware products (pumps, silos, tiles). For such products, the profit margins are low: in most of the cases, the price cannot be more than production cost plus 10 %, and even then, there is fierce competition.

To improve the profitability of the workshops, it is necessary to look at ways to diversify the supply of these products and to introduce more elements of “software”, by including non-tangible values like services, provision of know-how, etc. This is very much related to the “product plus” concept.

Examples for such developments can be as follows:

- “grafted trees” and know-how about growing of fruit trees;
- micro-irrigation kits with a package of seeds, fertiliser and know-how;
- supply of services to construct roofs and houses, rather than manufacturing only tiles.

Financing: linking up with financial institutions

An important link which cannot be dealt with in this study in detail is the link to financial institutions. For most products mentioned, the initial investment is high, although affordability is in the center of attention. In the case of the treadle pump, links with the “Grameen Bank” and with other micro-credit programmes have been tried successfully. Such links could and should be much more intensified. Wherever access to credit has been available, the creation of a market has been faster. The initial promotion of the treadle pump through the Bangladesh Tobacco Company was critical. For silos, latrines, roofs, pumps and low-cost drip irrigation, the availability of credit will speed up the sales considerably and also extend the reach to poorer customers. Already today, a considerable percentage of Postcosecha silos are purchased with micro-credit. A most promising avenue would also be to develop micro-credit for the self-constructor for low-cost housing.

What kind of institutions are needed? Institutional issues

Who can be a good facilitator?

The market creation approach needs a specific type of institution. Although IDE (International Development Enterprises), a Denver-based international NGO, has been working with the market creation approach for over 15 years, its approach has not been adopted by one single other NGO on a large scale. Why is this so?

Typical NGOs would have problems with the **narrow focus of the market creation approach** and with the promotion of only one product. Even within IDE, there is a constant questioning of the staff whether they should focus on a few products or cater for the entire needs of a farming community. It is understandably a constant challenge to talk to farmers who are asking for all kinds of other things and not only for a pump. In addition, many NGOs have ideological problems with the concept of profit margins. As one consultant brought it to the point: many or rather most NGOs are “too broad-minded and not greedy enough” to do proper marketing.

In the future, large-scale dissemination projects will need NGO inputs in the sense of BDS facilitators, but maybe not in the way, IDE is working at present. I am of the opinion that without involving the commercial private sector and especially without using the marketing channels of the corporate sector, we shall not be able to reach the numbers that are needed. Institutionally, this would require an NGO

(or consultancy organisation) that would be even less of a “doer” than IDE is at present. The primary role of such an NGO would be to facilitate the creation of other BDS facilitators and providers. There is a need for a lot of coordinating, lobbying and training facility activities.

This capacity can be built up and there is no reason why the six examples cannot be replicated on a very large scale. But, for this, it is important to involve other actors such as governments and the private sector, especially some large, open-minded corporate sector companies. It would be too costly to set up separate marketing channels for all the products, the poor deserve to get access to, and it would also take too long.

Partnership with the corporate sector

Neither an NGO nor a donor can sustain promotional efforts over a long period: to spread out a message continuously is very costly and it is not possible to charge any of the products with a good margin to pay for this. Coca-Cola can do so much promotion because nobody notices that, for every bottle, one pays a fraction of a cent for promotion.

Producers’ associations or cooperatives as „driving force“ for the promotion and expansion of these products may be far too weak, dispersed and not profitable enough to be a strong and dynamic promoter. Moreover, it is difficult to organise small and micro-entrepreneurs in an association, where they should contribute for actions which also serve their competitors. Associations are very slow instruments and they need many years of confidence-building till they become strong enough.

More promising – and maybe also very challenging and tricky – are efforts to link the supply channel with the corporate sector or other mainstream institutions. This is a new avenue which is not yet explored but seems very promising. Many open-minded companies do want to make a contribution to society as “corporate citizens”. Sometimes, they do quite a lot, but they are not always very effective: why should a large company set up a hospital or behave like an NGO when they have excellent marketing skills which they could share and bring into large-scale dissemination?

Synthesis and conclusions

To sum up: the market creation approach to development is very promising and powerful, it has a large impact, is relatively cheap but very sustainable. There is a real potential to significantly scale up some of the projects in cooperation with several partners:

- **donors** to initiate replicable models, to undertake a policy dialogue about them and to create the capacity of BDS facilitation;
- **NGOs** as facilitators and coordinators, to set up BDS providers and promote advocacy for the approach and the products;
- **a private supply channel** which will manufacture, sell and install the products profitably and on a large scale;
- and **selected companies from the corporate sector** support promotion and to facilitate the association and integration of micro-enterprises into their supply channels.

Each partner has a role to play, and nobody can do the job in “splendid isolation”. It seems like a dream, but the examples show that the market creation approach can contribute effectively, efficiently and sustainably to poverty alleviation. It is quite understandable that sceptical readers doubt about the possibility to make a business out of poverty alleviation. But if it is possible to sell latrines, trees and pumps, and create jobs for the poor, then let us be surprised and try to work hard to reach out to many million more people. The six examples are sound enough to make us believe that such a dream can come true.

Annex: Supply channel graphs



Marketing Channel for tree saplings
(VFFP, Village and Farm Forestry Program, Bangladesh)

2500 Core Farmers
 produced / sold 105 million seedlings (3 years)

35 mio seedlings/yr
 (will grow to 100 mio by 2001)
 Price/seedling Tk 5 – 6
 (11 US cents)

Turnover of all nurseries

Tk 18 crore

(3,6 mio US \$)

Turnover per nursery:

TK 77'000 (1540 \$) / yr

650'00 farmers have planted
 31 mio seedlings in 2 years

NPV (net present value) /tree is
 approx. **300 Taka (6 \$) /tree**
 (47 seedlings / family)
 ==**~250 \$ assets /family**

Total NPV of all seedlings / year
90'000'000 US \$ /yr

74 million seedlings
 have been sold to
 NGOs and
 contractors for road
 side plantation

SDC Dhaka:

donor input
 1985-2000
 7 mio US \$

VFFP

Project office
 (used to be
 part of SDC
 Dhaka),
 Roles:
 Funds
 Advice
 TA
 Monitoring

RSCs

4 Regional
 Service
 Centres
 in Jessore,
 Rajshahi,
 Bogra and
 Dinajpur

NGOs

34 NGOs with
 financial support
 from SDC;
 80 NGOs without
 financial support
 from SDC

CFs, (nurseries)
Core Farmers

used to be extension
 agents (to convince their
 neighbours to plant trees;
 Today, they are dynamic
 entrepreneurs selling to
 local markets;
 New: organized in Core
 Farmer's Associations

PFs,
Participating
Farmers

plant trees in their
 homestead and in
 their rice fields or in
 woodlots

Free Market

NGOs and
 Contractors buy
 saplings for road
 side tree plantations;
 Farmers from other
 villages buy also.



Marketing Channel for Treadle Pumps in Bangladesh

SDC donors

Donor input in Bangladesh
 ~ 1 Mio \$ / year;
 ~ 6 Mio \$ over the last 12 years

IDE Bangladesh
 IDE's role:
 Channel support
 Training
 Demos
 Media
 Promotion

production/worksh:
1262 pumps /y
 Profit per pump: **0.50 \$**
 Profit/workshop: **681 \$**
 Turnover of all manuf.:
492'000 \$
 Profit all manufacturers:
44'280 \$

Manufacturers
 Out of 80 / 50 actively linked to IDE
approx nr. of manuf.: 65
 Produce different models from Takas 250 - 350 (5 - 7 \$)
 average profit per pump: 25 Taka or 50 US cents

avg. sales per dealer:
116 pumps /y
 Profit per pump: **3.00 \$**
 Profit/dealer: **335 \$**
 Turnover of all dealers.:
1'968'000 \$
 Profit all dealers:
236'160 \$

Dealers
 Out of 850 / 560 actively linked to IDE
approx. number of dealers: 705
Dealers sell pump and pipe for Taka 1200 (24.00 \$);
avg. profit per pump Taka 144 (3.00 \$)

avg. mistry installs:
16 pumps /y
 Installation fee per pump:
2.00 - 6.00 \$
 Income/mistry: **66 \$ / year**
 Income all mistries/year:
328'000 \$

Mistries
 Out of 6'000 / 4'000 actively linked to IDE
approx number of mistries: 5'000
Mistries install the pump and sink the tubewell;
Installation fee (~income) per pump Taka 100 - 300 (2 - 6 \$)

Net income from pump (average):
115 -130 \$ /year
 Net income all farmers:
130'000'000 \$ / year
 additional agricultural GDP
200-400 mio \$ / year

Farmers (1/2 acre)
 Out of 1.3 million pumps sold, one estimates that 650'000 farmers still use TPs and 350'000 have graduated to diesel pumps;
genuine users: 1 million
 A half acre farmer can make a **net profit of US \$ 115 from a pump**; this is the **average figure**;
 The additional agricultural GDP (gross income) may be twice or thrice as much

¹ Jim Tamburn: “Business development services – how sustainable can they be?” ILO, Geneva, 1998

² See Thomas Fischer, Vijay Mahajan: “The forgotten sector – Non-Farm Employment and Enterprises in Rural India”, Oxford and IBH, New Delhi, 1997, page 72 ff

³ Many books have been written on the 4 Ps and it seems that there are many other Ps added (for instance “People”); we refer here to the main 4 Ps and follow the “guru” of marketing, Philip Kotler. See Philip Kotler, Gary Armstrong: “Principles of Marketing”, Prentice Hall, New Delhi, 1999 and many other books of the same author.

⁴ For a World Bank/SDC project on market development for solar photovoltaic products a market study was commissioned which focussed entirely on urban markets, because the market research agency was not capable to send their staff to rural areas.

⁵ see Thomas J. Stanley: “Marketing to the Affluent”, New York 1988; Thomas J. Stanley: “Selling to the Affluent”, New York 1991. Stanley is author of the bestseller: “The millionaire next door”.

⁶ This graph is based on the chapter “product cycle strategies” in Philip Kotler, Gary Armstrong: “Principles of Marketing”, Prentice Hall, New York, New Delhi, 1999, page 288 ff.

⁷ Barry Berman: “Marketing Channels”, John Wiley, New York, 1996, page 342

⁸ See M. V. Kamath: “Milkman from Anand – the story of Verghese Kurien”, New Delhi 1996

⁹ It is very difficult to define comparable figures for “output” and for “reach-out”. The figures are only estimates which give an order of magnitude. Here are some explanations:

Output VFFP: 90 m \$ is the annual net present value created by the trees which are purchased by the participating farmers; the treadle pump output is the 100 \$ net income by a million farmers; the output of the silos is the total savings in grain losses and price gains; the output of MCR is the profit of the suppliers in the channel and for latrines it is the estimated health cost saving by a latrine of 8 \$ / family.

Reach-out: in case of VFFP there are 650'000 participating farmers (families), in the case of treadle pump over 1 million farmers (families), in case of the silos, there are about 150'000 families which have a silo; in the case of MCR, there are over 150'000 new roofs made available (cumulative roofs more than a million); and in the case of latrines, there are over a million latrines per year added.

¹⁰ See Urs Heierli: Report on a visit to Indore and Maikaal Bio Re Ltd. (Bio cotton) for Micro-Irrigation; unpublished report by SDC, New Delhi, October 1998,

¹¹ The World Bank and other agencies have set-up a “Partnership for Poverty Reduction” program and created a databank of case studies (best practices) on partnerships between the public and private sector (see <http://www1.worldbank.org/ppr/>).

¹² See “Profit and Philanthropy”, BusinessWorld, New Delhi, 22 February 1998

¹³ See: Ariel Fiszbein, Pamela Lowden: Working together for a Change”, the EDI (Economic Development Institute) Learning Series, The Worldbank, Washington 1999

¹⁴ See Tushaar Shah et al: “Pedal Pump and the Poor – Social Impact of a manual irrigation technology in South Asia”, not yet published, 1999

¹⁵ See Committee of Donor Agencies for Small Enterprise Development: “Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions, Washington, January 1998