

# Business services in support of farm enterprise development: a review of relevant experiences

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# Preface

This Occasional Paper presents the study findings of approaches to the design and delivery of business services to farmers and rural entrepreneurs. Interventions aimed at business service provision and designed and developed by donors have commonly been termed Business Development Services (BDS). BDS has largely focused on reducing poverty by raising the incomes of farmers and rural entrepreneurs. The term ‘business services’, refers to the range of non financial services provided to micro and small enterprises (MSEs) at various stages in their development. They embody a market development approach to the provision of support services<sup>1</sup>. This Occasional Paper presents findings from a study conducted on approaches to the design and delivery of business services to farmers and rural entrepreneurs. The paper is based upon an extensive literature review of BDS and other business-related service interventions, supported by selected case studies in Asia and Africa.

Business services are aimed at assisting farmers and rural entrepreneurs to overcome internal and external constraints to their farm business start-up, development and performance. Contained within the broad concept are such activities as group training, individual counselling, advice, the development of new commercial entities, technology development and transfer, information provision, business links and policy advocacy.

The paper is intended to provide insight into the provision of business services at the primary production level amongst farmers and rural entrepreneurs; it also reviews the range of services offered and discusses their performance, impact and sustainability. The document provides, a ‘snapshot’ of the state of the art concerning the provision of BDS, an analysis of case studies relating to agricultural and rural development, and the identification of outstanding issues and recommendations for implementation.

This Occasional Paper is divided into three Parts. The introduction includes two chapters that provide the background to the study and outline the setting. It goes on to look at a review of BDS. Part 2 examines rural service provision and performance, as well as identifying the driving factors for success. Part 3 summarizes lessons related to the implementation and design of projects and programmes. It then goes on to present major guidelines and principles for consideration by policy makers and programme managers. The final chapter highlights current issues related to business services and discusses future directions.

This publication is directed at institutions involved in designing policies and projects for farm level and micro-enterprise development, including donors, government institutions and programme/project managers. Some chapters should also be of interest to support service institutions and policy makers engaged in supporting service delivery.

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<sup>1</sup> In this paper the terms ‘business services’ and ‘Business Development Services’ are used interchangeably. The ‘developmental’ title incorporated within BDS, highlights the developmental purpose of donor-driven interventions. However, the term ‘business services’ is kept in the title of this paper to include not only developmental interventions, but also private sector-led initiatives providing business services to farmers and rural entrepreneurs. For all intents and purposes, however, BDS are business services.

*Chapter 1* provides a brief background to the study, and includes the objectives, methodology and structure of the report. It also gives an overview of the changes that have occurred within the rural environment – the development context for donor interventions.

*Chapter 2* looks at the provision of business on a commercial basis. Donor activities in the area of business services are reviewed, BDS models of service delivery described and the principles underlying the market development approach, are summarized. The chapter describes the farmer as manager and entrepreneur in the rural environment and discusses the shift from public towards private sector service provision. It concludes with a description of donor activities in the area of business services.

*Chapter 3* draws heavily upon the case studies in order to discuss modalities of service provision in terms of reaching beneficiaries and creating viable rural enterprises. Using specific case references, the main instruments of service delivery are reviewed in terms of their effects on market development. Patterns of service delivery are analysed and an overview of the range of business services found in the case studies is presented. The chapter ends with a review of markets for services.

*Chapter 4* discusses the extent to which the case studies have ensured satisfactory performance, impact, sustainability and outreach. The evidence from this evaluation is only partial and is not altogether encouraging.

*Chapter 5* uses both the case studies and the broader literature to focus upon five key success factors that past experience indicates are often important – and in the case of certain factors absolutely essential – for the promotion of successful and sustainable business service provision.

*Chapter 6* draws on evidence from the case studies, supported by the literature review, in order to outline the major lessons concerning implementation issues related to the provision of business services in rural areas.

*Chapter 7* discusses the main implications of the study and provides a set of practical guidelines and principles that should be taken into consideration by policymakers and programme managers. The chapter stands back from the individual cases in order to consider the implications for development agencies given by the evidence offered in current thinking and practice.

*Chapter 8* briefly reviews the issues regarding the provision of business services and attempts to indicate future directions.

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# Acronyms

ABC	Agri-Business Corporation Bangladesh
ACDI	Canadian Development Agency
ADB	Asian Development Bank
ADEM	Manica Development Agency
ADEL	Sofala Development Agency
AfDB	African Development Bank
AMIT	Affordable Micro-Irrigation Technology
AT	Appropriate Technology
BDS	Business Development Services
CBO	Community Based Organization
CEFE	Competency base Economics through Formation of Enterprise
CLUSA	The National Cooperative Business Associations' International Programme
CIDA	Canadian International Development Agency
CODAF	Coopérative de Développement Agricole, Elevage et Foresterie
CSO	Civil Society Organization
DCED	Donor Committee for Enterprise Development
DFID	United Kingdom Department For International Development
EPV	Export Production Village programme Sri Lanka
E.U.	European Union
FORWARD	Forum for Rural Welfare and Agricultural Development
GPA	Gami Pubuduwa Scheme
GTZ	German Agency for Technical Cooperation
ICT	Information and Communication Technology
IDB	Islamic Development Bank
IDE	International Development Enterprise India
ILO	International Labour Organization
ISAP	Indian Society for Agribusiness Professionals
ISAL	Indian Agribusiness Systems Pvt. Ltd
MDG	Millennium Development Goals
M & E	Monitoring and Evaluation
MSE	Micro and Small Enterprise
NGCU	Nyakatonzi Growers Cooperative Union
NGO	Non-Governmental Organization



REAP	Rural Enterprise and Agriservices Promotion project
R & D	Research and Development
RDD	Regional Development Department Sri Lanka
SEAN	Seed Enterprise Association Nepal
SFLCP	Small Farmer and Landless Credit Project Sri Lanka
SLEDB	Sri Lanka Export Development Board
SME	Small and Medium Enterprise
TARANGO	Training Assistance for Rural Advancement Bangladesh
UNADA	Uganda National Agro-Input Dealers Association
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAHW	Village Animal Health Workers Nepal
VOCA	Volunteers in Overseas Cooperative Assistance

# Part 1. Introduction

This initial chapter provides a brief background to the study, and includes the objectives, methodology and structure of the report. It also gives an overview of the changes that have occurred within the rural environment – the development context for donor interventions.

## 1. Background to the study

### 1.1 THE IMMEDIATE CONTEXT

Structural adjustment policies of the 1980s, the acceptance of market-led development and more recently globalization have all had a direct effect on the provision of agricultural services. These trends have led to new opportunities opening up for developing countries to participate under more favourable conditions and to tap new sources of earnings. However, globalization and economic liberalization have also produced serious challenges that carry risks for farmers and rural entrepreneurs. The challenge facing farmers is to adjust their farming system to changing market conditions and opportunities (FAO 2002) and this is largely occurring through the commercialization and diversification of on-farm and off-farm enterprises.

Enterprise development has always played a significant role in economic growth, but in recent years it has attracted increased attention, particularly in rural areas, owing to the increasing need to seek ways of diversifying farming systems in an effort to increase farm income. Farm and rural enterprise development is viewed as an important pathway for poverty alleviation in rural areas and constitutes a challenge lying at the heart of the Millennium Development Goals (MDGs). Notwithstanding this increased interest, a range of constraints continue to limit the capacity of farmers and rural entrepreneurs to contribute effectively to sustainable and equitable economic growth. Many of these constraints are well recognized and include inadequate economies of scale, high risks associated with farming, lack of capital assets and infrastructure, limited access to markets, and inadequate technical and managerial skills.

The changes that have occurred require the support of a range of rural services. Whilst the provision of support services is widely recognized as important for rural development, their performance has been disappointing. Services provided by the public sector have had limited outreach and have not been economically sustainable. Publicly funded services have tended to be primarily used by rural elites and have routinely been criticized for their failure to work with the poor (Christopolos 2002). The funds available to support public service delivery have been limited, resulting in dependence on external aid. Evidence from the field has also shown public sector delivery mechanisms to collapse as soon as external aid is withdrawn (Katz 2002).

Under the thrust of structural readjustment policies the public sector has increasingly withdrawn from delivery of services, and the private sector – together with Non-Governmental Organizations (NGOs) – has attempted to take over this role. However, the private sector has in many respects failed to respond effectively. It has tended to serve only those sections of the rural community which are better-off, located closer to markets and in areas with basic physical and economic infrastructure. Smaller farmers and rural communities located in geographically more remote areas have, in particular, been excluded.

The reasons for this limited response remain open to debate. A prevailing view is that the reforms have often been half-hearted and partial in scope, thus undermining the credibility of reform and reducing the incentives for private sector involvement (Jayne et al 2002). Others have argued that insufficient attention has been given to investment in infrastructure and to developing the institutional framework necessary for privatized marketing and service delivery mechanisms to thrive (Smith 1997).

New modes of delivery have evolved for the full provision of support services: finance, marketing, input supplies, extension and business advisory services. In some situations government has pulled back entirely from service provision, whilst in others various forms of shared responsibilities between service providers have evolved. As a result, some services have been modified in range and scope, requiring higher levels of farmer collaboration and the assistance of intermediaries (NGOs, private sector Civil Society Organizations (CSOs)). A common result of these changes has been to improve the cost-effectiveness of government resources.

Privatization, however, implies that support services should be provided through market mechanisms with the consumer paying for services delivered. Against this backdrop – and the trends outlined previously – there has been a shift in donor thinking over the past decade towards the commercial provision of support services, with a focus on farm commercialization and rural enterprise development as the engine for pro-poor growth.<sup>2</sup>

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2 Pro-poor growth is about changing the distribution of relative incomes through the growth process to favour the poor. Growth is considered pro-poor if and only if poor people benefit in absolute terms, as reflected in some agreed measure of poverty. (World Bank 2007)

From the mid-1990s to the early 2000s the Donor Committee for Enterprise Development (DCED) has focused attention on the provision of BDS for small and medium-sized enterprises, as a pathway to their sustainable development. A series of international and regional conferences were organized under the auspices of the Committee in Harare, Zimbabwe (1998), Rio de Janeiro, Brazil (1999), Hanoi, Vietnam (2000) and Copenhagen (2002). Consequently a good deal of information has been gathered on how BDS markets function, on intervention strategies to develop these markets and on methodologies for assessing BDS performance.

Over the last ten years, donors and practitioners have gained significant experience in the organization and delivery of support services for enterprise development in both urban and rural areas. Various approaches have been field tested in a variety of settings and useful lessons have been drawn. To this end a framework for performance measurement for BDS has also been developed (McVay 1999).

A considerable amount of effort has gone into providing commercial services to promote business opportunities amongst small and medium-scale enterprises. This has resulted in the accumulation of a broad base of literature on the subject. However, less research has been carried out on the provision of business services at the farm level and in particular in those rural areas where markets are weak. In particular, there has been a gap in measuring service performance and impact on farmers. (Whereas off-farm activities are by definition business-oriented, farming is both a business and a way of life.) The nature of the farm household as both producer and consumer requires close attention and more in-depth investigation. Recently, however, this topic has gained increasing importance, particularly as enterprise development is one of the interventions necessary to meet the MDG of reducing poverty and hunger.

## 1.2 OBJECTIVES OF THE STUDY

In order to support this new area of interest amongst the donor community, case studies were selected to investigate the BDS offered in a range of rural development programmes in Asia and Africa. The objectives of the study were as follows:

- To highlight interesting examples of innovative service provision intended to promote farm and rural enterprise development in selected countries<sup>3</sup>
- To provide information relating to cost-effective support services designed to improve commercial viability and benefits for farmers and rural entrepreneurs
- To conduct cross-country comparisons of the design, performance and impact of selected cases and summarize the lessons learned
- To provide policy makers and programme managers with strategic recommendations for policy change and programme design.

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3 The terms 'farm and rural enterprise' are used throughout this paper to denote what is commonly referred to as micro-enterprise development. This study focuses on on-farm activities that largely utilize the natural resource base. These cover both market-oriented primary production and post-production, value-adding activities managed by members of the farm family household.

In setting these objectives the study attempted to provide answers to the following issues:

- *Specialization or diversification of services offered:* Do service providers usually offer a range of services, or only one? If a project only focuses on certain services, are there others that should be provided by the private sector or through alternative assistance programmes?
- *Specialization or diversification in sector(s) of activity:* Do most projects work with a particular product (for example, flowers, livestock, apiculture), or with enterprises engaged in a diverse set of activities (for instance, a broad range of rural enterprises in a particular locality)?
- *Scope of services provided:* What support services do farmers really need? Are they willing to pay for these services? How can sustainable service delivery be best promoted?
- *Approach to needs assessment:* How are client needs incorporated into programme design and service selection?
- *Flexibility of service response:* Does service delivery change over time? How do managers modify their approach in response to evolving circumstances or to improved understanding of client needs?
- *The roles that development NGOs and private providers play in service delivery:* Have there been changes in the roles of the major stakeholders and if so what are the reasons?
- *Nature of the business service client groups or individuals?* How do client types affect service design and performance?
- *Organizational effectiveness:* Which service providers are most effective in delivering services and what are the most efficient means of service delivery?
- *Poverty alleviation versus growth orientation:* To what extent do the services address the challenge of poverty alleviation and the overall intervention focus on the potential for growth? How are enterprises with growth potential identified?
- *Issues of scaling-up:* How do the projects studied seek to optimize and broaden their impact? How can large numbers of farmers be reached?

### **1.3 METHODOLOGY**

The methodology followed was to conduct an extensive literature review on the topic of support service delivery. This provided the basis for identification of a number of case studies for more in-depth investigation. The literature review was conducted through library and web-based searches, as well as through contact with relevant networks and associations.

Research commenced in 2003 and an initial set of case studies was carried out in Sri Lanka, India, Nepal, Bangladesh, Uganda, Rwanda, and Burkina Faso. Local consultants were hired in order to document the cases. The case study evidence was used to support the information collected during the literature review. The case study examples are not presented as complete case studies, but serve as additional evidence to support the major findings.<sup>4</sup>

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<sup>4</sup> A full listing of the case studies is contained in Annex II. Also see AGSF Working Document No.13 : Business services in support of farm enterprise development; case studies.



## 2. Business development services

*Chapter 2* looks at the provision of business on a commercial basis. Donor activities in the area of business services are reviewed, BDS models of service delivery and the principles underlying the market development approach are described. The chapter concludes by describing the farmer as manager and entrepreneur in the rural environment and discusses the shift from public towards private sector service provision.

### 2.1 DONOR INTERVENTIONS

Efforts are currently underway to apply the principles of BDS to rural areas and in particular to small farmers. The World Bank (WB), African Development Bank (AfDB), Asian Development Bank (ADB), Islamic Development Bank (IDB), European Union (EU), and the United Nations Development Programme (UNDP) have been major multi-lateral players involved in business enterprise development in rural areas. The United States Agency for International Development (USAID), the Department for International Development (DFID), the German Cooperation Agency (GTZ) are active bilateral donors and CARE, Technoserve, National Cooperative Business Associations' International Programme (CLUSA), Canadian Development Agency (ACDI), Volunteers in Overseas Cooperative Assistance (VOCA) and Action Aid are some of the more visible international NGOs in the field.<sup>5</sup> Support aimed at the creation, sustainability and growth of MSEs has been a priority for many of these donor organizations.

Following NGO-led experiences such as the Grameen Bank scheme in Bangladesh, microcredit emerged by the early 1990s as the most promising pathway towards the incorporation of the rural poor in market-led economic development processes (Duflo 2002). Advocates of microcredit claim that a small financial input repaid at the market interest rate, plus hard work reinforced by social pressure, is enough for rural people to escape from the poverty trap. Empirical evidence of the impact of microcredit, particularly in rural areas and amongst farmers, has not always supported this assumption (Khandkar and Shahidur 1998).

The findings indicate that microfinance programmes are not a panacea for food security and poverty alleviation. Microfinance has traditionally provided small loans that have largely been unrelated to agriculture and the seasonal credit demands of farmers. Moreover, a wave of doubt has occurred concerning its impact on the most vulnerable members of society. The issue facing the protagonists of microfinance has been to identify viable mechanisms to facilitate the scaling-up of enterprises assisted by microcredit so as to generate full-fledged, micro-enterprises. This transition has proved to be extremely difficult.

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<sup>5</sup> Requests for rural enterprise evaluation documents from individual donors proved not to be particularly productive. Consequently, the information is a distillation of secondary documents and reports.



Awareness has now spread concerning the importance of combining microcredit with non-financial enterprise development services, which address the lack of knowledge and skills preventing rural households from engaging in profitable self-employment activities. It is now widely acknowledged that non-financial factors (such as lack of education, inadequate technical skills, poor access to markets, lack of marketing information and unreliable infrastructure) are important constraints to market-led economic development. Against this backdrop, the BDS approach emerged to complement the provision of financial services with appropriate management and marketing assistance.

The BDS platform has been promoted since the late 1990s by the DCED going ‘beyond microcredit’ in supporting rural enterprise development. Emphasis was placed on developing the social and human capital of farmers, enhancing enterprise profitability and creating an enabling environment (DCED 2001: McVay and Mielbradt 2001). BDS have attempted to widen the scope of conventional (microcredit based) enterprise development programmes by:

- promoting the development of technical, managerial and commercial knowledge among small entrepreneurs
- scaling-up ‘survivalist’ income generating activities in order to generate a virtuous process of microcapitalization and re-investment
- creating an enabling environment for MSE development.

The goal pursued has been to create a linkage between demand and supply related to business services in an effort to ensure longer-term sustainability. A major feature is the recognition that enterprise development is best approached through multi-stakeholder involvement including private, public and non-profit organizations. Within this framework, development is seen as the joint responsibility of the private, public and non-profit sectors in promoting and supporting the capacity of micro, small and medium entrepreneurs to develop their businesses.<sup>6</sup>

The support services directly provided under this approach are of general interest for farmers and local entrepreneurs at different scales of business enterprise (on-farm and off-farm). Credit is offered together with a full range of non-financial services. Technical assistance and training are provided for the formulation of business plans and during the start-up and consolidation phases of new enterprises. Market outlets are identified, as well as the necessary storage, processing, and packaging facilities. The facilitation schemes aim at promoting all the services that contribute to save production costs or add commercial value to primary production. These represent the major services provided on a commercial basis to support farm enterprise development.

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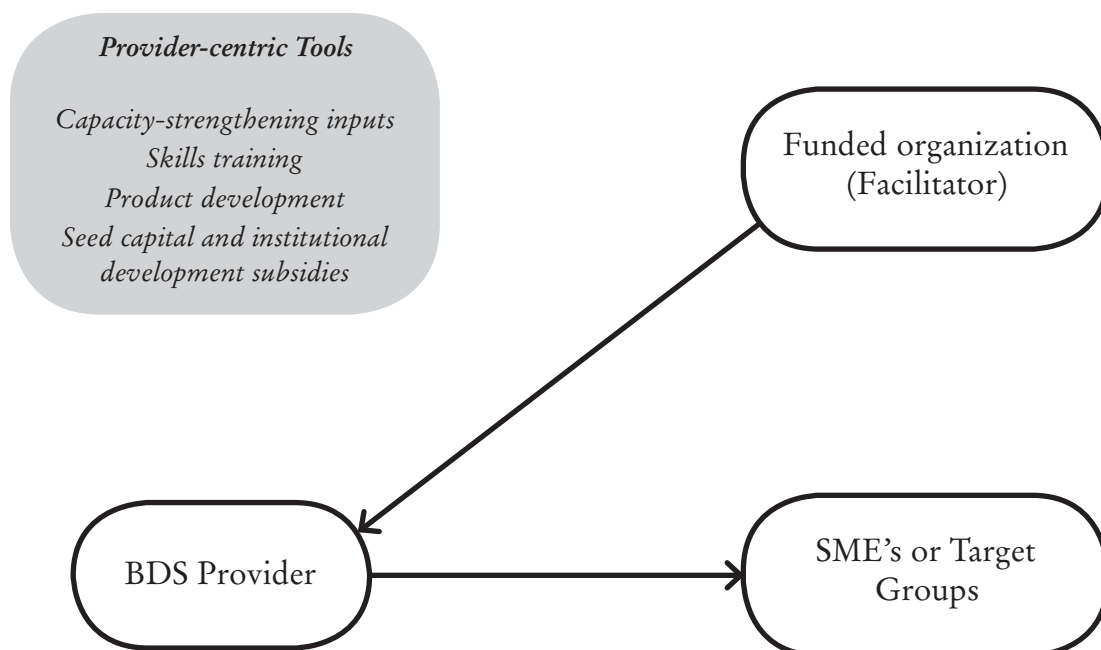
<sup>6</sup> A full listing of the case studies is contained in Annex II. Also see AGSF Working Document No.13 : Business services in support of farm enterprise development; case studies.

## 2.2 BUSINESS MODELS OF SERVICE DELIVERY

Although donors involved with farm enterprise development still largely deliver services directly to farmers, the BDS model proposes the use of support service organizations or business intermediaries for service provision. The objective of this shift has been to enhance the efficiency, effectiveness, and sustainability of service providers. Going back to the early days of BDS provision, the conventional approach took the form of the ‘service delivery model’. Intermediate organizations were allocated the function of determining the needs of farmers and providing services directly to clients – often at subsidized rates. In order to create a nucleus of effective service providers, external investments had to be made. This modality has been termed the classic ‘project driven’ approach. The model was fashionable at a time when there was little concern with a market focus and the culture of entrepreneurship was largely absent. Whilst ensuring broad coverage among target clients this model failed because of lack of concern for sustainability of service provision. The overall effect was a series of short-lived interventions that rarely met the needs of clients.

Even as development thinking evolved, donor support still continued to reflect a supply-side orientation. This was characterized by the provider-centric model. (Knopp 2001). Donor agencies provided funding to strengthen service suppliers – which could be NGOs or even private companies. The provider in turn supplied the ‘needed’ or desired services to farmers. The services identified were largely ‘in the eye of the supplier’. (see Figure 1).

**Figure 1. Provider-centric Model**



The predominately supply-side orientation of these early models produced distorting effects. Service providers became dependent on subsidies and the client was perceived as the donor rather than the farmer. As a result, the services provided did not meet farmers' demands. Many services have also ended-up being overly expensive and ultimately unsustainable. Moreover, this approach has prevented the development of commercial services, which have often been unable to compete against the subsidies. In some cases, donor subsidies have been linked to the achievement of performance targets and service providers have had little incentive to innovate or refine their services. Perhaps of greatest concern has been the lack of feedback between service providers and farm enterprises. Client preferences have been difficult to measure because training services were either free or offered at heavily subsidized rates.

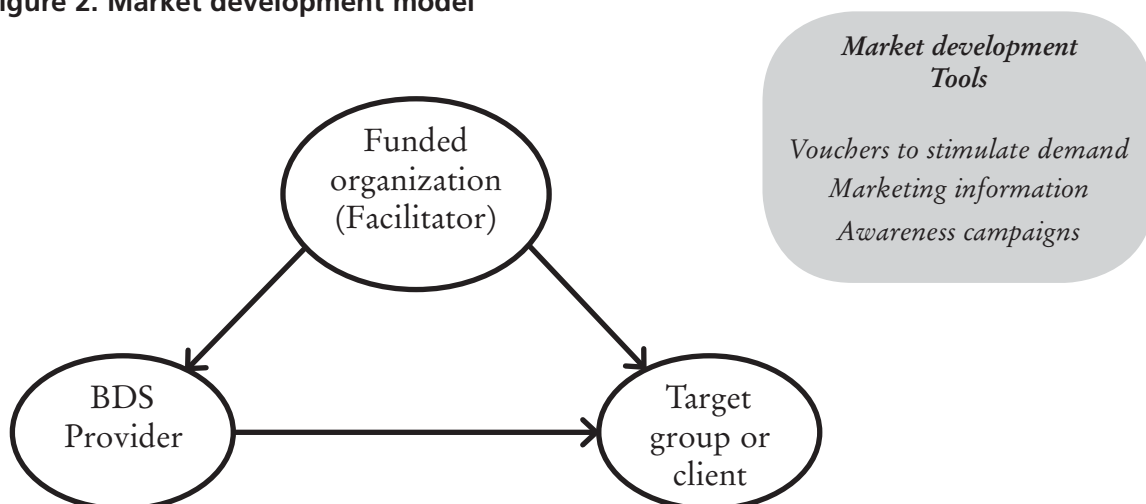
The Provider-centric model did not adequately take into account the development of markets and failed to address some fundamental questions including:

- How can business services be made more affordable and genuinely address the needs of farmers?
- What can be done to ensure quality in service delivery, as well as outreach?
- How can business services be made sustainable in a post-donor environment?
- How can donor distortion be avoided?

Over the past decade, questions such as these have prompted the development community to innovate with new approaches to the promotion of BDS

In response to these problems, a shift was made towards a more ambitious private-sector approach, with an emphasis on the market. This led to the evolution of the market development model, where the goal of the intervention was the creation, development, and continued evolution of a well-functioning market for service provision. The model, which is shown in Figure 2, stresses the importance of commercial transactions between suppliers and consumers, with an emphasis on demand-side interventions to stimulate market development. Under this approach the funded organization acts as facilitator, providing support to both the service providers and target clients. Tools such as vouchers, market information and market awareness campaigns have been used to generate market demand.

**Figure 2. Market development model**



The shift has been away from tightly defined and controlled supplier interventions towards a purely market transaction orientation. The models currently being promoted are demand driven. The past evolution of intervention models is summarized in Table 1. The process of learning, testing and developing appropriate levels and methods of BDS intervention is, however, still continuing.

**Table 1. Changes in understanding Business Development Services**

Traditional view of BDS	New thinking on BDS
<ul style="list-style-type: none"> <li>• Emphasis on supply side interventions</li> <li>• Focus on training and advisory services</li> <li>• Beneficiary focus</li> <li>• Government and NGOs key providers</li> <li>• Attention on primarily public goods</li> <li>• Financing primarily by the state</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasis on demand side perspective</li> <li>• Broad range of service provision</li> <li>• Customer focus</li> <li>• Private sector involvement in functioning markets</li> <li>• Private goods</li> <li>• Financing through the use of customer-provided transactions</li> </ul>

### 2.3 PRINCIPLES OF THE MARKET DEVELOPMENT APPROACH

The argument has been made within BDS circles that achieving improved farm enterprise profitability and competitiveness, job creation and poverty alleviation, is possible through reliance on the private sector to provide services, viewing clients as customers and limiting the use of subsidies (Gibson 1999). Markets lie at the core of BDS provision and the relationship with the rural entrepreneur (the client) is a transactional one in which farmers are considered to be customers who are willing to pay for services that they demand.

But why do markets need to be developed? The prevailing view is that markets for services with a diversity of suppliers are more likely to offer a broader range of services required by the rural population. Moreover, competition acts as a driving force for the development of new innovations adapted to local conditions.

The BDS market development paradigm is based on three key-assumptions:

- a fundamental belief in the principles of a market economy, where the state has a role in creating an enabling environment, correcting or compensating for market failures and providing public goods. In parallel with these inputs, the private sector generates private goods that can be provided efficiently by the market
- a conviction that there is a demand for services with the characteristics of private goods and that private service providers exist (although they may be insufficient in number, or not adequately qualified)

- an expectation that with appropriate design, delivery and payment mechanisms, BDS can be provided on a commercial basis even for the lowest income segment of the entrepreneurial sector (i.e. for poor individuals and households endowed with the minimal assets needed to start a micro-enterprise) (Warren 2002).

These assumptions generate a vision of a well-functioning market with a diverse array of privately-delivered business services meeting the needs of a large proportion of small-scale producers in an affordable manner. The realization of this vision within a BDS facilitation scheme is based on the following principles, which have been embodied in the 2001 Edition of the Donor Committee's Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention:

- The need for market assessment to ascertain constraints and opportunities and to identify services in high demand
- The identification of interventions that selectively target critical market development activities
- The belief that subsidies (to service providers and consumers) are normally justified only to a limited extent and only for a short period of time
- The promotion of competition and efficiency within the market
- The need to develop transactional relationships between BDS facilitators and commercial service suppliers
- The creation of flexible programmes that respond to market contingencies.

However, these principles are not always followed by actual BDS facilitation schemes. For instance, many schemes act partially as facilitators of the BDS market and partly as autonomous providers of specific services. This situation highlights the 'transitional' condition of BDS experiences. Most are in the process of shifting from the conventional role of highly-subsidized service providers to that of service market facilitators. Nevertheless, a general consensus amongst the donor community has emerged and is reflected in the above declaration of principles.

While donors and practitioners may have different ideas about how best to develop markets for business services, they generally agree that a more demand-driven and private sector approach is needed in order to reach large numbers of small-scale entrepreneurs with relevant services (Downing 2001). Interventions to develop a market for services should directly target those parts of the market that are weak. While the development of markets for services may require major investments and time, it is expected that once a functioning service market exists, services that truly have the nature of private goods will be offered by private providers. The situation described above implies that cost recovery and sustainability are especially important to the expansion of service provision.

Since the goal of the business service market development is to develop sustainable markets rather than organizations, there is less concern about the situation of any individual service provider. Instead, attention is focused on the sustainability of demand and supply and on the development of a competitive market.<sup>7</sup> Creating dynamic and responsive markets requires clarity regarding the roles of the different actors, clarity concerning the use and design of subsidies and clarity regarding the objectives and focus of interventions. Moreover, where subsidies are needed, they must be viewed as only temporary. This requires clarity with respect to the development of an ‘exit strategy’ to limit subsidies and ensure longer-term sustainability (Downing 2001).

## 2.4 BUSINESS DEVELOPMENT FOR FARMERS AND RURAL ENTREPRENEURS

The special nature of farm enterprise development needs to be appreciated and distinguished from larger, more capital-intensive, urban-centred business ventures. There are two factors which condition the presence of farm-level business development. The first is that farmers have particular characteristics that differ from urban-based entrepreneurs. Farmers tend to be much more locked into the community than their urban counterparts. The second factor that needs to be recognized is that the commercial farmer is often a leader within his or her community and is called upon to add value to rural life in a broader sense than solely through the business (Vyakarnam, 1990). An entrepreneur working in an urban context is usually more self-centred with respect to the requirements of the business. In rural areas this possibility is absent. Indeed, the farmer is deeply rooted within the community and farm business development has a direct impact on other members of the community. The environment within which farming operates is affected by: i) population density; ii) degree of urbanization; iii) the development of infrastructure, and subsequently; iv) access to markets.

The business aspects of the farm are riskier than those within the traditional urban environment. Agriculture is extremely open to the vagaries of weather, markets and changing government policies. Moreover, many of the factors affecting the profitability of the farm enterprise, as well as farmers’ willingness and ability to pay for services, have an impact not only on individual farmers, but on a whole region. The risks of production failure – and/or fluctuations in prices – impact directly on service suppliers operating in rural areas. Moreover, money within the farm household can be used for a variety of productive and consumptive purposes. This entails a further risk in the sense that services may be required for both productive and consumption purposes, while cost recovery can occur through the generation of on-farm and off-farm income.

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7 A market is sustainable where demand for a service continues and is matched by supply at an acceptable cost and of an acceptable quality.

Transaction costs for clients and service providers in rural areas also tend to be higher than amongst their urban counterparts. This is largely a result of the remoteness of the rural areas, the need to travel long distances to reach dispersed rural clientele, and poorly developed rural transport and communications infrastructure. This combination of factors results in increasing the cost of services provided to farmers. Other problems that exist relate to the inability or unwillingness to pay for services provided. All of these factors make service provision in rural areas, and amongst small-scale farmers, a relatively neglected area.

The remoteness of rural areas impacts on accessibility in relation to skilled labour, markets, suppliers, information, technical advice and sources of finance. Remoteness also leads to rural-urban migration which then leaves the rural areas devoid of able young people, reducing the purchasing power of rural communities even further. In between the more remote rural areas and urban centres there are peri-urban zones, where production and marketing linkages between agriculture and the cities are often strong. However, even in these areas there are problems of remoteness. The provision of market-based support services is more challenging in these rural contexts.

## Part 2. Service provision, performance and sustainability

The chapters within Part 2 consist of a discussion of business service provision, performance and sustainability. This discussion is based mainly on the experiences with BDS revealed by a series of project case studies to review field experience. The case study projects are summarized in Annex 2.

### 3. Service provision

This chapter draws heavily upon the case studies in order to discuss modalities of service provision in terms of reaching beneficiaries and creating viable rural enterprises. Using specific case references, the main instruments of service delivery are reviewed in terms of their effects on market development. Patterns of service delivery are analysed and an overview of the range of business service models found in the case studies is presented. The chapter ends with a review of markets for services.

#### 3.1 INSTRUMENTS OF SERVICE DELIVERY

The case study projects have adopted a variety of modalities for service provision in order to reach beneficiaries and support them in creating viable rural enterprises. Though there is often overlap in the roles played by the various organizational entities, on the basis of actual service provision they can be classified into four major categories: i) public sector providers; ii) private providers; iii) NGO providers, and iv) cooperative/membership based organizations. Specific case studies are arranged in Table 2, on the following page, according to these categories. As depicted in the table, there is a range of institutional types engaged in the delivery of business services in rural areas. Each institutional provider has its own characteristic features and rationale for service delivery. This multi-institutional delivery mechanism often poses questions regarding the most appropriate service delivery organization. The following sections review the main instruments of service delivery.



**Table 2. Instruments of service delivery**

Service Delivery Institution	Case Study
Public sector / Gov.	Sri Lanka: Export Production Villages Sri Lanka: Small Farmer and Landless Credit Project of non-financial services to rural enterprises
Private	India: Delivery of information services India: Contract farming India: Supply chain rationalization Sri-Lanka: Microfinance linked rural development scheme Sri Lanka: Cut flower export scheme Bangladesh: ABC corporation Uganda: Rural consultancy practice
NGOs	India: Micro-irrigation Nepal: Animal health services Nepal: Seed entrepreneurship Nepal: Beekeeping enterprise development Uganda: Agro-input dealers Burkina Faso: Organic mango processing
Cooperatives / membership based organizations	India: Decentralized irrigation management Bangladesh: Women farmer's company Uganda: Cotton enterprise development Uganda: Maize producers Rwanda: Coffee farmers cooperative Rwanda: Service delivering cooperative Rwanda: Paddy farmers cooperative

## Government

The most noticeable public sector initiative among the case studies selected was the Small Farmer and Landless Credit Project (SFLCP), in Sri Lanka. This project – following a group lending concept and credit plus approach – was financed and executed by the regional development department (RDD) of the Sri Lankan Government. Whilst many of the project activities were performed by government, NGOs were engaged to assist RDD in conducting training sessions. In the case of the Export Production Villages (EPVs) initiative in Sri Lanka, the public sector provided BDS through the establishment of the Sri Lankan Export Development Board (SLEDB). It was the SLEDB that first conceptualized the initiative and was responsible for implementation of the programme. In the case of the Ugandan and Rwandan projects, the donors played a major role in directly promoting BDS at the outset of the project.

BDS literature suggests that among service delivery organizations, governments are the least successful direct providers of business services. They often suffer from a lack of vision and respond to a mandate imposed from the outside, rather than having a sense of mission that generates internal and external commitment. Even though government was not providing all business services directly, these public-sector/donor programmes have sometimes had the effect of distorting local markets and competing with local providers of business services. Nonetheless, distortions are reduced when government withdraws from direct implementation allowing other service providers a free hand.

### Box 1

#### Government involvement in facilitating business services

Sri Lanka has taken a proactive role in facilitating BDS markets rather than directly providing them. In the EPV programme, the SLEDB played a facilitating role in forging linkages between exporters and rural enterprises. Technical, management, packaging, quality, assurance, and other services were organized by private consultants and public sector agencies: the majority were subsidized by government.

On the other hand, SLEDB's outgrower system for cut-flower development was more commercial in nature and recipients paid for services, either directly or recovery through embedded transactions. Nonetheless, government subsidized 50 percent of the initial investment required to buy source plants. In most cases where government plays a facilitating role, the subsidy component is usually high. The approach is often justified on the basis of working with disadvantaged people in remote areas, or to meet broader national policy objectives.

### Private sector

In the majority of case studies included in this paper, the private sector is the dominant direct provider of business services. In some instances, commercial businesses (rural consultancy in Uganda/information providers in India) provided the required support services – albeit with financial support from donors. The more successful programmes were also private sector led, enjoying government support, but avoiding interference. These private sector service providers were deeply integrated into other aspects of the business and the services provided were largely embedded in regular business transactions. Outgrower schemes/contract farming seem to be a popular and potentially effective way of delivering business services to farmers.

The evidence suggests that private sector suppliers of business services have performed better than the public sector. They are the most successful service providers to rural enterprises and amongst more commercially-minded farmers. The profit motive and the entrepreneurial nature of private providers ensure sustainability and growth potential. As a result of the efficient delivery of such services the profitability of recipient enterprises – as well as that of the private providers – increases.

There are enough incentives and punitive mechanisms in place within markets to support the case for private delivery of business services in most rural areas. However, research by Davidson, Ahmad and Ali (2001) in Pakistan has demonstrated that, because of its primary interest in generating profits, private sector extension often concentrates upon serving the needs of the larger, resource-rich farmers to the exclusion of others. It was also revealed that private providers work mainly in regions where markets are already well-developed. Furthermore, it should be recognized that the market for private service providers can be very limited in some rural areas, and that business services often do not reach the more vulnerable farmers. The challenge is to promote private sector involvement whilst also ensuring that development occurs in more remote rural areas.

## **NGOs**

The twin fears of market failure and government inefficiency have helped to catalyse the emergence of NGOs in the development arena. Provision of business services by NGOs has become one of the dominant modes of service delivery. This model has been embraced by both donors and governments. The export processing project for dried mangoes in Burkina Faso is a good example of an NGO delivering business services to promote crop production and exports. In this instance, it provides support services consisting of input supplies and marketing consultancy. NGOs involved in service delivery demonstrate a much higher level of success than delivery through the public sector – largely because of their decentralized operations and commercial outlook. They often combine a business-like organizational culture with a concrete social welfare agenda. Some have also shown themselves to be efficient in implementing grassroots development projects, as well as delivering specific training programmes. The presence of appropriate types of local intermediaries is extremely useful in reaching a large number of farmers with inexpensive and effective services.

However, there are serious drawbacks to NGO delivery of business services. They are dependent on donor funding for their operations and, in spite of claims of sustainability, they are often not able to continue delivering business services after donor withdrawal. Direct delivery by NGOs also hampers the growth of commercial providers and limits the expansion of service provision. A veterinary service provided by an NGO, (Forum for Rural Welfare and Agricultural Development, FORWARD) in Nepal is a good example of this problem, as uptake and delivery of veterinary services were adversely affected when the donor withdrew its input.

On the other hand, the cases of International Development Enterprise India (IDEI), and Appropriate Technology (AT), Uganda, prove that NGOs can act as effective facilitators and help develop markets for business services – especially in weaker markets. There are large numbers of business services which are not lucrative enough to attract private providers, but at least services can be provided effectively by NGOs in the case that sufficient funding is available.

### **Cooperatives/ membership-based organizations**

In many of the case studies, the better service schemes are organized through membership associations. These offer the advantage of being close to small farmers, thus better representing their interests while effectively delivering business services. Seed producers in Nepal, cotton growers in Uganda, coffee and paddy growers in Rwanda, vegetable growers in Bangladesh and paddy farmers in India, have all organized themselves in this way in order to increase production and market access. They now need to develop a strong sustainable support base to generate more income and manage themselves as a business. They already work effectively to facilitate access to extension services, donor assistance, technical support, financial services, etc., for the benefit of members.

Nevertheless, in actual practice the membership organization model is often far from perfect. Some organizations lack a clear vision regarding their role, and others tend to be dominated by the interests of larger enterprises. The managerial and technical capacity of these organizations in Africa is often weak – especially in comparison to those in Asia. Membership is often not clearly defined and there are low levels of accountability, while conflicts among members frequently exist. Amongst the smaller membership organizations there is a dearth of professional staff and within the larger associations the quality of professional staff, competencies and skills are low. Moreover, the financial basis of the organizations studied is fragile. Members sometimes fail to pay their dues and cost recovering fees are rarely charged. These weaknesses have detracted significantly from their ability to be business-like in their work, so as to ensure longer-term sustainability.

### **3.2 DECENTRALIZED SERVICE PROVISION**

Decentralization can improve the quality of management and enhance the representation of farmers and local entrepreneurs – as well as customers' interests. It also offers the chance to match public services more closely to local demands and preferences, and to build more responsive and accountable governance from the bottom-up. A degree of local level control often makes it easier for service providers to address needs, focus on objectives and manage service provision better. The flexibility associated with decentralized management, and the accompanying mechanisms for resource allocation and service provision, ensures that localized service providers are in a better position to support local initiatives. These factors are also more likely to improve sustainability.

Using the principle of subsidiarity, several forms of decentralization are being promoted in developing countries. Many of the project case studies are area specific and decentralized decision-making is common. Case study findings show the benefits that generally flow from decentralization when it involves both the private sector and civil society, and also incorporates incentive systems based largely on private provision.

One example, in Andhra Pradesh, India, involved the transfer of management and operational responsibility of small irrigation schemes to groups of water users. This led to improved delivery of irrigation services, as well as empowering the local communities. A further example is the decentralized procurement system – managed through ITC's E-chapual – which improved the profitability of ITC, improved the flow of information to farmers, and led to greater control over their produce and sale decisions.

One of the more important factors in favour of decentralization is that the common needs of clients can be identified more clearly. As the size of the catchments for local government services decreases, the demand for particular services can be more easily identified. As the absolute population is reduced it becomes more homogeneous, as does the demand for services (Oates 1972). This effect is even stronger if local provision of services reduces the range of agro-ecological diversity. Moreover, as the size of the community decreases it becomes easier to identify those in the community who are likely to gain – and those who are likely to end up disadvantaged – by the provision of certain types of collective goods. This phenomenon provides a strong rationale for the establishment of member associations with similar demands for support services financed through membership fees and user charges.

### **3.3 PATTERNS OF SERVICE DELIVERY**

#### **Business models**

As seen previously there are many different modes of BDS delivery, involving public and private sector players in varying combinations. It has been further noted that only a few donors are still involved directly in delivering business services to farmers. Donors now prefer to focus their efforts by working through support service organizations as intermediaries. The objective of this shift has been to enhance the efficiency, effectiveness, and sustainability of service delivery. Responsibility is increasingly being divided between the main components of service provision – financing, delivery and assurance.

The case studies cover different forms of intervention. On the one hand there are projects that are area-specific, operating at a decentralized level, and largely supply-driven. Alternatively, there are some private sector commercial initiatives that promote contract farming and that deal with particular sub-sectors. There are also projects that are demand-led, which have the goal of creating and developing a functioning market for service provision. The focus here is on promoting commercial transactions between suppliers and consumers in order to stimulate market development. The donor tends to facilitate this process by providing support to both service providers and target clients. Other programmes are largely service-led, identifying clients in high demand services and providing key functions suitable for replication. Some projects, however, follow a more traditional 'supplier-led' approach that assumes that service providers are in the best position to determine the services demanded by clients. Financial support to these projects is usually minimal and the role of the public sector has been to provide assurance.

It is noticeable that implementers of case study projects have usually chosen to deliver the range of required services themselves rather than enter into relationships with specialist providers. For example, the commercial linkages projects (PepsiCo, India; seed entrepreneurship, Nepal and seed production, Bangladesh) even provided credit themselves. There are, however, exceptions which suggest that this may not be the most effective strategy to follow. The two Sri Lankan projects formed partnerships with local agencies to deliver complementary services and provided them with finance and training. The Agri-Business Corporation (ABC) project in Bangladesh drew on governmental technical assistance for some of its training sessions and arranged credit access through the Bangladesh Agricultural Bank and the retail agro-input dealers. In Uganda the project developed networks of stakeholders.

The finding is important because it contradicts the widely accepted principle that implementing agencies are most effective when they focus narrowly on their core area of specialization. In practice, however, the case studies also reflect some of the difficulties of collaboration between different agencies when bottlenecks need to be unblocked in a coordinated manner. The lead agency generally risks losing control of the process and becoming dependent on the capacity of project partners to deliver.

### **Service facilitation**

The project cases reveal an emerging trend towards the facilitator acting as intermediary. Facilitators are perceived as outside entities that are expected to withdraw from the market at the end of a project. In the case study of Hatton National Bank's Gami Pubuduwa Scheme (GPS) in Sri Lanka, recruits from village communities fulfil the role of facilitator between the bank and clients. In Bangladesh, the ABC itself fulfils this facilitation role. A facilitation role is also commonly filled by farmer associations, as seen in Rwanda's Coopérative de Développement Agricole, Elevage et Foresterie (CODAF) cooperative and Seed Enterprise Association Nepal (SEAN).

#### **Box 2**

##### **NGO facilitation of business development services**

IDEI has played a facilitative role in promoting micro-irrigation facilities for small and marginal farmers. Rather than providing drip irrigation directly to the farmer, IDEI forged a network of private manufacturers, dealers, village-level mechanics, and nursery growers to provide BDS to small and marginal horticulture farmers. IDEI used donor funding to develop markets and generate demand for drip irrigation services among the smallholder farmers. In comparison to subsidized drip irrigation provided by government departments in the same region, IDEI's facilitated drip technology was fully commercial and farmers paid the full cost of the services and equipment.

Similarly, in order to strengthen the supply of necessary farm inputs to farmers in Uganda, AT played the role of an effective facilitator. Rather than providing these farm inputs directly, AT, Uganda helped create the Uganda National Agro-input Dealers Association (UNADA) and facilitated the agro-input delivery through members of this association. AT worked intensively with agro-input dealers to build their capacities to provide agro-inputs to farmers in Uganda.

In many cases, however, the roles of facilitation and service delivery are undifferentiated, and the same organization may perform both the supplier role of offering services directly to farmers, and the facilitator role of encouraging individuals and enterprises to supply services to farmers. This often causes a conflict of interest among competing service providers, as facilitators usually have a development agenda while service providers are commercially minded. Combining these roles can, therefore, lead to ineffective programmes and inefficient use of funds. If facilitators are publicly funded, they should ideally disappear as the market develops and more permanent commercial actors take over their functions. This finding conforms to the 'best practices' experienced by BDS practitioners in other parts of the world, and most evidence suggests that a clear distinction is needed between the two roles.

The issue, however, is rather complex and has two angles: i) whether direct provision is a legitimate step towards facilitating market development, and if so, ii) whether a single institution can do both and how these two roles should be administered? There is also the option of a single institution undertaking direct service provision at a given point in time and subsequently withdrawing to a facilitation role.

In more remote rural areas it is often difficult to find private service providers. In these situations NGOs often take a lead role in service provision; as shown in the case study projects and in the broader literature. The difficulties experienced in finding project partners with whom to collaborate have serious implications. In such a situation, facilitating agencies may engage in direct service provision. Ideally, these agencies should provide the initial stimulus for the commercial provision of BDS. The dynamics of these changes need to be appreciated, as the role of the service provider and facilitator changes in response to client demand. Farm enterprise development, with its concomitant BDS support needs, is part of a sequenced and phased strategy that should ultimately lead towards financial sustainability. Once again, the key is to know: i) when and under what circumstances to exit; ii) how to shift direct services to private providers, and iii) when to focus on facilitation. Defining the role of the facilitator in each service market is a major challenge in providing BDS.

### **The role of the implementer**

A distinctive feature of the case study projects is the leading role that the implementer (government, private sector and NGOs) plays in most phases of project design and execution. In all cases, both the identification of economic opportunities to exploit and project design were almost exclusively the responsibility of the lead implementer. Similarly, most of the key strategic decisions made later – for example, in the case of IDEI in Maharashtra, and Pepsico in Punjab – the shift to drip irrigation and extending it to small farmers, were strongly driven by the implementers themselves.

This is not to say that other stakeholders never play an active role. IDEI, for example, worked with assemblers, agro-input dealers and nursery growers in India. In Sri Lanka and Nepal, farmers' groups were involved in an umbrella organization to take over many of the functions that the implementing agencies played. Nonetheless, the level of participation of these stakeholders was quite low – particularly in more remote rural areas. There are good

reasons for this. The initiatives are often complex and multifaceted and are meant to assist poorer farmers who may have limited education and who live in remote areas with poor infrastructure. These small-scale farmers are often unable either to spot potential economic opportunities, or to initiate the various interventions required to exploit them. In these situations the role of NGOs, as intermediaries, is pivotal in fulfilling these functions.

There is, of course, an attendant danger that NGOs risk being sucked into the role of market players – a role they have traditionally played poorly. However, the case studies suggest that this lesson has been learned. Most NGOs now recognize that their main strength lies in: i) identifying and exploring market opportunities; ii) building the capacity of their clients to exploit them, and iii) linking them to private sector partners. Among these NGOs there are growing numbers of employees with private sector backgrounds. This is important both in permitting NGOs to identify and develop income generating opportunities, and in restraining their involvement in business activities.

The case studies also suggest that there may, on occasion, be an important ongoing role for NGOs and private sector companies, even after the project has formally ended. This is generally the case where further external inputs are required in identifying new economic opportunities. For example, IDEI has an important long term role to play in identifying and developing new micro-irrigation technologies, and acting as an intermediary between private manufacturers and distributors. The long term profitability of these companies is likely to depend, to a significant degree, on the success of ongoing research and development efforts. Similarly, in Sri Lanka, the EPVs coordinated by SLEDB are continuing to explore new market niches on behalf of their farmer clients. These efforts will become progressively more important as government support diminishes. In more remote rural areas there appears to be an ongoing role for support organizations, and this has become a common feature amongst these types of case initiative, where successfully removing one bottleneck frequently reveals the existence of others that need to be addressed.

### **3.4 THE PORTFOLIO OF SERVICES**

#### **Overview**

Service delivery organizations show great variation with respect to the range of services that they provide. The most common business services reflected in the case studies include training, advisory services, marketing, business management advice and technology development. A central role, in addition to service provision, is advocacy and political lobbying. The range of services actually required by farmers however, may be very different from those traditionally provided through BDS. In more remote areas these include pest control, equipment leasing, irrigation maintenance, social organization and information provision – to name only a few. The service choice is ultimately affected by the type of farm enterprise: whether it consists of high-value horticultural products directed towards the domestic market, export commodities or domestic staples.



Most programmes have tended to concentrate on farm enterprises as consumers of BDS but, as already stated, many are service providers themselves. Service delivery organizations can be placed on a continuum from lower to higher levels of specialization. The more multi-sectoral development organizations provide a broader range of assistance that could include community development, agriculture or health, finance and non-financial productive services. Many of the service providers found in rural areas – including paravets, traders, input dealers, and retailers – are informal and even reside there. The most common services found amongst the case studies are described below:

### **Technology development**

The case studies illustrate two competing views of technology development and transfer. On the one hand, technologies have been developed externally, by ‘experts’, emphasizing the importance of professional technical expertise, plus the need for strong marketing skills and systems to ensure its widest possible use. This view is ‘corporate’, in the sense that it mirrors precisely the approach that a commercial organization would take to develop and deliver its product. The overall thrust is towards the delivery of relevant, useful technologies for the benefit of end consumers; and farm enterprises are regarded as a means to this end.

An alternative view is based on indigenous technology development, and emphasizes the importance of farmers themselves in developing technologies grounded in their own capacity to do so. In this approach, efforts by BDS providers have focused on: i) enhancing the ability of farmers to learn from the immediate environment, and ii) providing access to information on technology and product design. The overall thrust is towards an incremental and sustainable development of farmers’ capacity. The case studies reflect the use of both approaches and there is no conclusive evidence pointing towards any given perspective being more effective than the other. Each offers different strengths and weaknesses, and at this stage there is certainly room for both approaches to farm enterprise development.

### **Seed supply**

Seed technology is subtractable, but except in the case of hybrids it is not excludable. Open-pollinated varieties can be reproduced by farmers themselves and are disseminated through active, informal sector seed distribution mechanisms. This makes them common pool goods (Umali and Schwartz 1994). There are clearly no barriers to private companies producing such goods. In some cases, smaller business service providers with low overhead costs, are willing to compete in the market for open pollinated varieties against competition from farmers’ own supplies. The seed production projects in Bangladesh and Nepal show that service providers will only market seed if it is an economically attractive proposition. They need to have clear advantages in terms of quality and reliability of supply in order to capture a significant market share. For this reason, commercialization often results in a focus on the development and provision of hybrids. The full benefit of hybrid seeds is only captured by farmers if new seed is purchased seasonally and it is therefore viewed as a private good.

**Box 3****Seed production: The Women Farmers' Company; Bangladesh**

Women farmers involved in seed production, got together and formed a company under the name, Kishani. A local NGO – TARANGO (Training Assistance for Rural Advancement) – provided subsidized support to the group in management and marketing. As the women farmers' group matured, TARANGO became a partner. The company became fully commercial, providing BDS such as technical and business training, supplies of seed paddy etc. They also bought back seed for sale to other paddy farmers. Cost recovery is assured through embedded services and the buy-back arrangements for seed produced.

**Information**

Information – when customized and provided by appropriate institutions – is one of the services in highest demand by farmers and rural entrepreneurs. Information services include market information and information on market linkages. These provide a variety of information, including selection of market outlets and potential business partners. Other forms of information exchange at the level of the farm community include study tours, the establishment of forums for dialogue exchange, and the development of information flows between farmers.

Technical information, plus information about pests, diseases and weather conditions, is needed for ensuring timely production of the desired quantity and quality of farm produce. Since this information is provided by companies that are buying produce from farmers, their confidence level – and hence information uptake – is higher than with other delivery channels. Companies see information delivery as a business necessity in order to build a reliable supply base. Pepsico and ITC (India) both provide a wide variety of information services to their farmer clientele. The Indian Society for Agribusiness Professionals (ISAP) provides both market and specific technical information through its farm publications. The Indian Agribusiness Systems Pvt. Ltd (ISAL) has been able to establish its credibility as a neutral, relevant and accurate information provider and, as a result, farmers are directly buying these publications. The case studies suggest that market information of a specialized nature is appreciated by commercially-minded farmers and is more likely to be purchased as a private good.

**Veterinary services**

The financial feasibility and longer-term success in the provision of commercial livestock services depends not only on the intrinsic nature of the service, but also on: i) the nature of the livestock system (cattle versus small stock); ii) the size of the herd; iii) the value of the animal in economic and social terms to its owner; iv) the producer concentration in a particular area; v) access by service providers.

The cost of delivering veterinary services in remoter areas is high and farmers are likely to own local species which are in general less susceptible to disease. Moreover, the propensity for small farmers in these areas to take risks is low. In addition, the risk of threat from contagious disease is also lower because of the more extensive production systems and the lower density of livestock. As a result, smaller farmers who are less market-oriented are likely to be deterred from using those services for which they have to pay. The reduced demand amongst these farmers implies that economically efficient levels of service provision might not be achieved. In peri-urban areas, however, where market access is more readily available and support services can be provided efficiently, commercial provision of services is more common.

Much of the attention in the provision of veterinary services on a commercial basis is devoted to cattle and considerably less attention has been paid to small stock (goats, sheep, pigs, and poultry). This is partly because of the fact that small stock tend to dominate amongst poorer, small-scale producers. However, it is not so much the type of livestock raised but the potential income that can be generated from these species that is important. Scavenging poultry, for example, are highly unlikely to be served on a commercial basis, whilst small-scale commercial fattening and breeding operations with market access can more readily generate demand for service support.

#### **Box 4**

##### **Animal health services for small-scale livestock farmers; Nepal**

Initially, the pilot project aimed at provision of animal health care, the introduction of new breeds, and services to increase the production of forage crops. Provision of animal health service was given particular emphasis because of a policy shift by government from direct service provision to facilitation. The initial stage of the project saw the subsidized delivery of public services through NGOs. These NGOs were directly responsible for operating veterinary service centres and training Village Animal Health Workers (VAHWs).

After 2-3 years of operation, the local veterinary clinics were handed over to the Community Based Organisations (CBOs), gradually reducing the subsidized remuneration provided to VAHWs. The role of the NGO changed to that of facilitator with increasing financial support provided by the CBOs. The ultimate goal was for the communities to become capable of undertaking basic veterinary practices by themselves, as well as funding the VAHWs. The availability of veterinary services is well appreciated amongst community members, benefiting them through the provision of animal health services and increased knowledge and skills related to livestock diseases and treatment. The subsidized technical assistance was instrumental in creating a demand for veterinary services in the rural areas and ultimately a willingness to pay for services provided.

One significant issue concerns the relationship between para-veterinarians and fully trained veterinarians. The former tend to be situated within the community and are often supported by NGOs. The latter are usually based in urban areas. It is also important that strong links between the two levels are maintained so that the right type of service support is available when required.

## Services through commercial linkages

The sale of farm produce is at the heart of private sector service provision. The case study findings show that the nature of the product and the market to which it is expected to be sold, are important factors determining the degree of collaboration between small farmers and larger-scale commercial entities. Some primary products are highly perishable (milk, fruits and vegetables) whilst others are also seasonal (vegetables, fruits). Highly perishable crops which do not have alternative markets require a much closer level of collaboration between the two parties. Primary produce, in general, is inherently risky and prices can fluctuate enormously (Thompson 1991, Smith and Thompson 1991).

Even in countries where irrigation is common and basic food crops are harvested two or three times during the year, seasonal price fluctuations are still significant. Production is also dispersed, with segmented markets, and farmers are affected by lack of information. The situation for basic food crops is more complex, as produce tends to be more homogeneous and less perishable and the impact of these risks is more widely felt. Consequently, amongst food crops the potential for commercial sector involvement is limited. This distinction also impacts on the type of farmers considered. Smaller and more marginal farmers are often less able to grow cash crops, because of their lack of access to capital to finance input purchases, and their weak entrepreneurial skills.

Thus, the characteristics of agricultural products directly impact on the potential for the provision of sustainable commercial services. Clearly, financial sustainability of BDS is more likely amongst higher-value cash crop farmers, particularly when market outlets are secured. The cases studies indicate situations where contract farming and agribusiness linkages have been developed. In the majority of cases a private commercial entity has initiated the linkage and provides a broad range of commercial services to outgrowers (input supplies, technology and finance). In some cases, formal contracts are made to capture the interaction between small farmers and commercial entities. However, it should be pointed out that the existence of contracts does not automatically guarantee the development of successful linkages.

### Box 5

#### Success factors for "interlocking market" schemes

- The nature of the product
- The extent of alternative diversification opportunities and market outlets available to farmers
- The degree of competition between service providers
- Investment in specific assets by the service provider
- The availability of information at the farm-gate
- The presence of an 'honest broker' facilitator
- The relationship between input supplier, rural finance and the farmer

The case study evidence suggests that this ‘interlocking market’ model works well in the provision of business services. When farmers are well informed and have other choices – and service suppliers or traders are competing to purchase outputs – then interlocking markets through service providers are more likely to benefit farmers. Although the model appears to be effective and is likely to be sustainable, it is still too early to determine from the case studies whether this will happen in practice.

### Advisory (extension) services

The most common form of business service is management training and extension. Case studies show that farm enterprise development requires skilled and experienced extension workers trained in business management. However, findings suggest that staff available to NGOs and newly established business service providers generally lack the practical experience and specialized expertise necessary to provide effective management advice. Moreover, there tends to be a gap between extension workers and market-oriented farmers: this situation is commonly found in the more remote rural areas. Advisory services have traditionally been technology/production-oriented, with inadequate attention given to commercial, market-oriented farming. The main facilitation role of some of the projects studied was to provide farmers with information sources and key informants, useful resource people, potential customers, suppliers and collaborators – and instruction on how to deal with them.

#### Box 6

##### Comparative study of private and public extension services in Pakistan

A study was conducted among cotton farmers in the Punjab province of Pakistan to determine the comparative effectiveness of public and private sector extension as perceived by stakeholders. Data were collected from contact farmers and extension personnel from both extension systems, as well as from non-contact farmers. A number of biases were identified in both systems. Overall, neither system appears to be working for the benefit of the wider farming community. Some of the major research findings includes:

- Public and private extension systems offer competing, conflicting and overlapping programmes;
- Both private and public extension rely on a strategy of using contact farmers, which severely limits the diffusion of information;
- Private sector extension is more concerned with serving the needs of larger, resource-rich farmers to the exclusion of others because of its primary interest in generating profits;
- Public sector extension is biased towards better-educated farmers, although not necessarily towards those with large landholdings.

##### Policy implications

1. A simple strategy of privatizing agricultural extension will not be sufficient to provide the technology and support required by the majority of farmers;
2. Policymakers should be aware that those farmers who are excluded from public or private extension are forced to seek information from input dealers who may not be well informed or properly motivated to provide appropriate assistance;
3. Urgent attention is required for rethinking extension strategies in Pakistan so as not to exacerbate the growing information gap between rich and poor farmers.

Source: Davidson, Ahmad & Ali (2001), *Dilemmas of agricultural extension in Pakistan: Food For Thought Agricultural Research & Extension Network*, Network Paper No. 116, July 2001.

Another shortcoming was that a majority of the projects promoted one-on-one extension methods which are resource intensive and expensive. The findings also reveal that agricultural extension which focuses mainly on technical issues is largely inappropriate. Effective business management schemes require counselling, coaching, mentoring and close follow-up. The extension worker's role should be to assist entrepreneurially-minded farmers to identify their problems, opportunities and resources, define options and select a course of action.

A more innovative line of thinking is for extension capacity to be developed within existing voluntary and membership organizations, or alternatively to create farmer organizations that provide management advice. In this event an extension strategy could focus on capacity-building for group members, with an expectation that the groups themselves could eventually charge members for these services.

## Training

Illiteracy is widespread in rural areas, and training in literacy and numeracy is needed to improve the ability of farmers and other members of the rural community to read, write and use numbers in order to cope with market systems. Basic literacy is an essential prerequisite to enhance business management skills. Farmers also suffer from a lack of functional skills, such as a basic knowledge of finance and marketing, necessary to enable them to deal with financial institutions, civil servants and larger commercial ventures.

The case study evidence shows that training amongst primary producers has been provided in the areas of marketing, management, and in crop and livestock production techniques. In contrast, training in post-production practices, bookkeeping and product development were less common. Farmers were concerned in improving their marketing skills to ensure that premium prices were obtained, along with suitable inputs at a reasonable price.

It should be pointed out that training programmes are often perceived as a 'black hole' consuming resources and infrequently offering evidence of impact. This impression was augmented by discussions with farmers as clients. Some of the criticism of training can be attributed to the difficulty of making a transparent connection between instrument and impact. In some cases, however, where the training was perceived to be both practical and relevant – and involved higher value products – an impact on productivity and income could clearly be seen.

An assessment of the content of the training programmes suggests that many were:

- too generalized and relying on relatively standardized material
- too supply-driven, with impractical subject matter far removed from farmer realities
- delivered in an inappropriate 'top-down' teaching style which failed to understand how farmers learn
- delivered by people who were ill-qualified for the task

- insufficiently aware of cost-control
- insufficiently aware of the need to encourage trainee commitment to learning
- insufficiently concerned with follow-up

In most cases the training tended to be conducted by external trainers, but among the more innovative case studies peer learning was preferred.

### **Box 7**

#### **Constraints and limitations on the capacity and skills of business service providers**

- Inability of BDS providers to identify, design, develop and package a bundle of consultancy services that is well adapted to client demand
- Unrealistic cost estimates of consultancy services offered by providers to clients
- Limited organizational and management ability to provide effective support services
- Limited confidence by clients in the competence, skills, credibility and reliability of BDS providers
- Limited understanding by service providers on how service markets work and how to reach them
- Lack of knowledge about the diversity of the market
- Lack of ability to establish formalized client relationships
- Limited range of services available and offered to clients to meet market demand
- Limited expertise in broadening the range of services on offer
- Low quality of services offered
- Limits to ensuring long-term financial sustainability

*Source: Experience of the support to rural consultancy practices model case study, Uganda*

Training and technical assistance is also required to strengthen the capacity of service providers to: i) analyse the demand for services; ii) design appropriate service-based packages; iii) prepare training programmes to assist service providers to deliver effective services. New ways of conducting training need to be developed, as well as the preparation of demand-responsive materials to guide service providers in service delivery. Information on market prices, grades, quality standards, market trends and production techniques should also be included (Lusby 2004).

With the support of USAID, a pilot project was launched in 2002 in the district of Lira in Uganda, to develop rural consultancy practices through training local consultants. The project was successful in establishing a local BDS consultancy firm and getting it to operate on a sustainable basis. The development of an indigenous rural consultancy industry is a necessary prerequisite for a concerted strategy of developing the market for BDS. However, this was a solitary initiative, and most projects only concentrate on building local capacity amongst project staff.

The challenge facing project interventions is to build capacity without destroying self-reliance. To a large extent, the case studies have shown that this challenge is extremely severe. In some cases, donor interventions designed to build capacity within service delivery organizations have simply resulted in increased dependency on external assistance. Such dependency not only detracts from sustainability, but has also been shown to kill initiatives in membership organizations—self-help and dependency are natural opposites.

### **Hidden services**

As noted in the previous chapter, weak markets for support services are a characteristic of remote rural areas. However, hidden from the view of the donor and the executing agency is a range of indigenous, small-scale, informal and embedded services – albeit often difficult to identify, access or understand. There is evidence to show that, even in rural areas with weak markets, a broad range of services can be found. Often diverse in scope and effective in functioning, these services are largely ‘invisible’ to donors and project designers. Their very ‘invisibility’ is their weakness, leaving them prone to displacement and damage by publicly-funded interventions attempting to promote formal solutions. These informal services tend to be provided in bundles, or are embedded within traditional transactions and relationships. They are often quite basic, rather unsophisticated services of a strategic nature that are, in many cases, delivered and consumed as collective goods.

The case studies reveal no attempt to investigate the availability of hidden services lying within the informal sector. This was a major failing, but a useful reminder that service provision in weaker areas presents an extremely complex challenge. Appropriate procedures are needed to identify these informal services and to incorporate them into any developing business service system (Hitchins 2004; Anderson 1999). Acquiring information on this hidden sector is a precondition for the design of service delivery mechanisms that incorporate these traditional practices. The information is also essential to ensure that the design of new interventions does not damage already fragile market environments.

### **3.5 MARKETS FOR SERVICES**

Some of the projects selected as case studies focus on assisting farmers within a particular sub-sector. These include coffee, paddy, maize, vegetables, cut flowers, cotton, beekeeping, soybean, livestock, and fruit preservation. This approach has been particularly popular since sub-sector analysis was introduced to the rural enterprise development field in the early 1990s. However, the findings of the study suggest that, within any given sub-sector, there is often a mismatch in the demand and supply of BDS. Some projects were largely supply-driven, with an inadequate assessment made of demand. Little effort has been made to study existing service providers, services and clients, or to study what markets have to offer elsewhere under similar conditions. This failure suggests that there is little understanding of the market for rural service provision in general; its limitations or its potential. In particular, a better understanding of potential market failures is necessary so that initiatives to develop a market for services can be effectively designed.



A ‘demand-led’ approach has been followed in the Lira district of Uganda and this has been successful. The portfolio of BDS was identified, based on an assessment of farmers’ ‘willingness to pay’. A similar assessment of farmers’ demand for specific services is an essential prerequisite to predict potential cost recovery. There are indications that where export commodities are produced in the peri-urban periphery, demand for services is usually high and largely unmet. The nature of business services for the development of primary production in more remote rural areas is very different from the services required for cut flower exports and export-oriented cash crops. In the more remote rural areas, the availability of services is low as is the quality of the services provided. The study endorses the belief that clients will only select a service that is relevant and useful to them. In some cases, however, lack of demand may simply stem from ignorance concerning potential services and the contribution they could make to enhancing income.

The successful development of business services depends on a careful assessment of production systems and supply conditions, as these determine likely volumes and patterns of demand for services. Moreover, the market for business services has to be viewed dynamically as it is constantly changing. New service providers emerge and disappear, only to be replaced by others. Technologies also change, providing new opportunities for development. More research is needed to understand the dynamics of business service markets and how they can be better promoted.

### **Box 8**

#### **Limitations on market development**

- In remote rural areas with inadequate physical infrastructure, and sparse population densities, markets are notoriously small and weak with very few, if any, service providers
- Some rural areas have a weak natural resource base resulting in limited micro-enterprise possibilities and a dependence on a small number of economic activities
- In some markets existing providers are large-scale and can reach many farmers – projects choose to work with a large-scale supplier hoping that the success of one will induce others to copy
- In some situations the capacity and skills of providers need to be strengthened
- In some sub-sectors intensive facilitation efforts are needed to develop service delivery up and down the supply chain
- Limited project resources restrict the number of service providers that can be used

## 4. Performance, impact and sustainability

This chapter discusses to what extent the case study projects have ensured satisfactory performance, impact, sustainability and outreach. The evidence from this evaluation is only partial and is not altogether encouraging.

### 4.1 PERFORMANCE

It is important for service providers to measure the profitability of their enterprise, as well as the cost recovery rate for the services being offered. This information can be used to improve performance and financial sustainability. Activities which narrow the overall profit margin must be identified and minimized where necessary, but some standardization of indicators is required. Assessment of performance raises a number of issues concerning the measurement criteria used. It was obvious from the outset of the study that it would be problematic to apply a common standardized set of indicators to the case studies. The approaches followed are diverse, as are the indicators for comparison. The NGOs involved used different definitions of the term 'project' and different methods for assessing costs and benefits. In the comparative analysis of the case study projects, setting benchmarks for performance was particularly problematic because of the diverse client groups and participating NGOs. In several cases, the lack of rigorous data made even simple benefit/cost calculations impossible.

Nonetheless, the case studies were able to trace some achievements resulting from project interventions and to note the process that led to these outcomes. Measurement of performance is complicated by the various definitions of a 'project', and this affects the scope and interpretation of the cost effectiveness calculations. Some case studies only include costs incurred by the NGO itself IDEI, while ISAL (also in India) included the costs of all the partner organizations and clients. Cost effectiveness calculations for some projects were affected by the fact that they were facilitators and not providers. The projects trained fieldworkers from other agencies, but did not work directly with end users. Cost effectiveness analysis for indirect service providers would need to take into account the costs of other field based agencies providing training or giving technical and business management assistance.

Moreover, not all service delivery organizations treated historical costs for predecessor projects in the same way. The coffee project in Rwanda did not count costs incurred by organizations other than themselves, on the grounds that it was concerned with the cost-effectiveness of its own resources. Costs per beneficiary could not be adequately estimated in many cases, owing to the paucity of data collected and the methodological differences with respect to the inclusion and treatment of costs.

## 4.2 IMPACT

The case study evidence indicates some income gains, although there is little evidence of enterprise growth or the generation of hired employment. The limited impact can partly be explained by the tight time horizon of the projects and the focus on farm-family based enterprise development. Some cases suggest that farmers have difficulty in mobilizing sufficient capital to expand their farm enterprises. The growth of an enterprise also depends on the entrepreneurial spirit and qualifications of the farmer, and upon the quality of the business services that can be accessed.

The majority of case studies focus on small-scale farmers with market access. In particular, the ‘interlocking-market’ schemes assure farmers a secure market outlet, input provision and, in some cases, financial assistance. The case studies show that the role of BDS interventions in poverty reduction has largely been indirect. Often the goal has been to facilitate and stimulate more competitive and successful businesses and to develop a more vibrant private sector. In general, the evidence of these initiatives indicates that the more up-market the programme the greater the possibility of it becoming sustainable.

### Box 9

#### Outgrower and linkage schemes

- The EPVs scheme in Sri Lanka offered an interesting model where private sector and public sector interactions facilitated the integration of grass roots producers into an export business. The scheme had significant impact in rural areas at various levels – linking village production with exporters. The project has generated significant employment at village level and thereby contributed to poverty reduction.
- The Nepal beekeeping project has resulted in direct benefits for 1 300 producers through the provision of training in modern beekeeping and the development of more than 700 beekeeping enterprises. Moreover, the contractual linkages with honey suppliers/beekeepers assured regularity of supplies of pure honey through the private sector to international markets in Germany, the Republic of Korea, Singapore, and India.
- The BDS case study in Burkina Faso resulted in the supply of over 3 000 tonnes of fresh mangoes for processing and export, valued at US\$11.5 million. The export of dried mango was valued at US\$342 million, in addition to local sales of dried fruits (US\$31 million).
- Pepsico in Punjab increased the net income of farmers markedly, as well as assisting them to acquire new skills and knowledge. The project raised the prevailing wage rates in the state but this was later countered by an influx of labour from outside. The scheme also opened new opportunities for farmers, although the number of farmers reached was quite limited – involving only a few hundred.
- The ITC e-chaupal project produced direct benefits for farmers through improved information technology, ensuring more accurate weighing, faster processing times, prompt payment, and the provision of better market intelligence. The project impacted directly on those farmers selling to ITC through the e-chaupal system; providing a price on average 2.5 percent higher than the regular market price for crops sold. Other benefits included lower prices for inputs, higher yields and greater empowerment. In mid-2003, the services reached more than one million farmers in nearly 11 000 villages and the system continues to expand rapidly.

The cases also suggest that independent stand-alone business service providers offering a single service are likely to be less effective than those providing a package of services – particularly through the ‘interlocking-market’ linked service models. Beekeepers and seed producers in Nepal, cotton growers in Uganda, potato farmers in the north of Rwanda, and the ABC company working with seed producing farmers in Bangladesh, all offer an integrated range of services to support small businesses in rural areas. In each instance, the service providers had a commercial stake in service delivery and the uptake of services by clients affected their profitability.

Service providers also need to be aware of the benefits that can be generated by controlling costs and providing quality services. In those cases where attempts were made to ensure efficiency and effectiveness of services, many positive effects accrued – more clients were served with the same resources and the cost of services were reduced. The study shows, however, that concerted actions to achieve cost reduction did not occur on a wide scale, although the more successful service providers did improve working procedures. Some services were subcontracted, while others were given to farmers’ groups with a view to simultaneously reducing costs and reaching a larger number of clients.

There is also evidence that interventions did not reach the lowest levels of the income spectrum. In rural areas where markets are weak, the business enterprises promoted tended to be relatively simple and low-cost, with little scope to add value. Often the most critical external support needed is rural finance to ensure enterprise development and growth and to realize economies of scale in buying inputs and marketing produce. However, in many situations rural finance for enterprise expansion is not available.

Those projects that have been designed as part of a broader poverty alleviation strategy have included the provision of BDS together with rural finance. The Small Farmers and Landless Credit Project (SFLCP) in Sri Lanka organized over 1 400 microfinance groups that reached 28 000 households. Under the programme, 79 144 loans were disbursed – achieving a loan recovery rate of 97 percent. Approximately 80 percent of the clients were noted to have crossed the poverty line, with a per capita increase in income of Rs. 5 600 per annum. In short, the combined package generated a noticeable socio-economic impact. Similarly, IDEI (India), also had a strong impact in areas of weak market integration through the development and dissemination of micro-irrigation technologies. The project has served over 21 000 smallholders and has resulted in an average increase in average farm income of \$322.

However, there are also cases where the impact on the most vulnerable farmers – particularly those situated in less favourable areas – has been less significant. In these contexts the provision of BDS cannot be viewed as a substitute for the basic needs of education, social welfare and infrastructure. Any approach aimed at eradicating poverty must focus on its root causes in each particular local environment. The argument raised here is that poverty results from markets that are inherently inequitable, since they are based on unequal resource allocation, skills, education, and power relations. Unless poor farmers are assisted to increase their resources, skills, and bargaining power, it is unlikely that they will benefit from stronger market linkages.

Amongst those projects which have a mandate to ensure that interventions benefit particularly disadvantaged groups, the issue of how to reach these clients has proved to be problematic. There also seems to have been a lack of any systematic attempt to identify their needs with respect to support service provision and design. Support needs to be more comprehensive – including upgrading skills and the development of social capital – and this requires government intervention to assure access and availability. Programmes should also include measures to address empowerment, gender equity, and the other factors that marginalize these populations. A successful programme will include the provision of subsidized services that integrate poor farmers into mainstream markets.

#### **Box 10**

##### **Factors that limit the potential of farm enterprises to grow**

- Fierce competition as a result of low entry barriers
- Easily saturated markets
- Scarcity of local raw materials
- Seasonal or part time nature
- Lack of specialization
- Rudimentary technology
- Modest quality
- Limited profitability due to lack of working capital
- Lack of basic entrepreneurial skills

Few believe that BDS can be provided in exactly the same way for a broad range of clients that includes a mixture of small and medium-scale commercial farmers, rural entrepreneurs and subsistence farmers cultivating small fragmented plots. Initiatives could consist of combinations of private business service providers and public sector support – the balance depending on the ability of the client to pay for services provided. This model encourages cross-subsidization between better-off clients and the more vulnerable. This approach calls for strategies and methods of entrepreneurship development that are both effective and efficient in using scarce public funds.

### **4.3 COST RECOVERY**

#### **Overview**

Cost recovery is critical for the sustainability of business service schemes and the debate in this section addresses this issue, as well as indicating other ways of ensuring longer-term financial sustainability. Some governments still see themselves as the sole ‘motor’ for development and distrust organizations which enter their traditional area of activity. This attitude is shifting, however, largely as a result of fiscal limitations. The overall message is

becoming similar to that now widely applied in the case of microfinance. Although clients are usually poor, it is now generally agreed that if a service allows them to increase their incomes they will be willing to share a portion of this increase with the responsible service provider.

The practical reality, however, is that in rural areas – and in particular where there is a lack of private sector engagement and markets are distorted – subsidies are often provided in order to create competition in service provision. In many developing countries, therefore, the market for business services is distorted and farmers have become accustomed to receiving subsidies. It is common to find NGOs that subsidize services to clients, by means of contracts with donors. The African case studies of enterprise-linked services (cotton growers, maize growers, paddy growers) are examples of projects that received considerable donor and government subsidies. Although sometimes necessary at the time of project inception, the provision of free BDS cannot be sustained in the long-term. Furthermore, a non-profit supplier is always likely to ‘crowd out’ any private sector suppliers who are forced to charge for their services. In such situations, supply becomes a monopoly and this opens up opportunities for the exploitation or neglect of clients.

A market development approach is always needed to encourage the development of multiple service providers and to create competition. However, it should be realized that the provision of BDS for farm enterprise development is part of a process that requires improvement and upgrading over time. Time is always necessary for enterprises to grow and to introduce new and innovative methods to farmers who are reluctant to pay for such services.

The case studies include projects that have been heavily subsidized and others with varying degrees of cost recovery. In general, however, the findings show that direct payment for business services by small farmers is not yet an established practice. Many farmers, particularly in low income settings, have considerable difficulty paying for business services. The viability of BDS depends largely on the profitability of the farm enterprise concerned and the type of service provided. Marketing services, technology services and veterinary services have tended to be in greatest demand and clients for these services have shown greater willingness to pay. At the other end of the spectrum, individualized technical assistance services and training seem to be the least attractive. Farmers tend to be more willing to pay for tangible services (e.g. new post-production technologies, market access, and rural finance) than for those providing a more general knowledge and information input – probably because the added value from tangible services is more direct and visible.

Small horticulturalists in India have paid for drip irrigation services directly; however in other cases indirect means of payment are involved. A common practice is to pay for extension/advisory services through the sale of produce assured through contract farming or covered by voluntary member associations.<sup>8</sup> Potato growers and small livestock farmers in Rwanda paid for services through sales to CODAF. These experiences confirm that even the smallest farmers will agree to pay for services once they are convinced that they can increase income.

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8 Ex. Cotton producers in Uganda, Seed producers in Nepal, CODAF- potatoes and animal products marketing in Rwanda, cut flowers in Sri Lanka, etc.

In many cases, a service may be demand-driven and valuable both to the client and as a social good, but the cost may be too high and the time involved for service pay-off too long, to achieve full cost recovery. Those services which are not viable may exhibit the characteristics of public goods (e.g. information) which make them less viable at every level of business size. Others may suffer from market imperfections characteristic of the environments in which commercial farmers operate – such as lack of reliable information about the quality and benefits of services. The case study experience indicates that it is unlikely that training, technical assistance, or information services will achieve total cost recovery through the payment of user fees. Some types of services, however, have a greater potential to be financially viable, and these have been used to finance a number of less viable, complementary services considered to have a beneficial impact.

The issue is further complicated by the degree of accessibility of services to different types of farmers (subsistence, emerging commercial and fully commercial). In rural areas closer to markets there is broad recognition of the importance of the payment principle. There is, however, no consensus as to what an appropriate cost for training and extension should be – nor what proportion can be expected to be covered by farmers.

Some of the mechanisms through which non-profitable services are subsidized by other services are discussed below:

### **Embedded services**

A common strategy is to embed the cost of service provision within activities that generate income – this occurred in 14 out of the 22 case studies. In many cases, enterprises have buy-back arrangements that permit them to recover the cost of services through sales. Where interventions were initiated by private firms it is usual for the full project cost to be recovered through embedded transactions.

Literature suggests that businesses engaged in procurement of farm produce or input supply can cover the cost of non-profitable services through price mark-ups. Service providers that supply inputs or technology to rural enterprises often provide training or advice as part of the sale. Farm produce procurement companies provide technical advice, weather information and input advice to ensure regular procurement of quality produce from farmers.

Proponents of the sub-sector approach suggest that rural poor who cannot pay for services would be able to access embedded services available through sector market chains. The evidence of formal and informal linkages between farmers and larger commercial operations supports this view. However, it is only the growth-oriented, better skilled and more capitalized farmers who are able to take advantage of the high-value market opportunities presented by sub-sector development initiatives.

Contract farming calls for the forging of ‘interlocking linkages’ between farmer/rural entrepreneur and commercial entities, and it is a prominent mechanism for providing embedded business services. This is particularly effective for the service buyer when placed in a monopoly position, but runs counter to the need to promote competition. The main reason the strategy works is that farm enterprises do not have to pay up front for the services provided. Instead, the transaction is part of a regular business operation.

Programmes have been noted to promote ‘embedded services’ in a number of ways, including:

- Generating income from a viable service to cover the costs of non-viable services. That is to say cross subsidizing using income from more profitable services;
- Facilitating business links between the micro-enterprise and rural finance. In this case the costs of management services are embedded in the conditions of loan repayment (piggy-backing off microfinance);
- Supplying business services to larger more commercial farming, and rural enterprise ventures that can afford to pay the ‘real rates’, and using the profits to supply the service to smaller farmers and enterprises. In other words cross-subsidizing from larger to smaller clients;
- Obtaining income for services through the development of commercial operations that cover the real costs.

The rationale for these strategies is to continue providing an unprofitable service in order to build or keep a client base for more profitable services. The advantage of these approaches is that the provision of business services can remain sustainable even if individual services are not. Subsidies can be provided, therefore, without the long term commitment of governments or donors. A disadvantage, however, is that there may be few sector suppliers that could enter the market with subsidized services and these may ‘crowd out’ other legitimate private sector entities. Moreover, market signals may be distorted if farmers pay subsidized fees for services. If a non-profit business service provider is subsidized, then there are risks that some services may not be demand driven. It is important for non-profit suppliers to be held accountable to the same market pressures as with-profit suppliers.

### **Finance related aspects**

Several of the case studies show strong synergies between finance and business services. In Sri Lanka the agricultural production activities (paddy, cash crops, livestock, fish drying) that farmers adopted – as a result of the training provided to them – were essential to enable them to repay loans received. In the Sri Lankan EPVs, ornamental plants, cut flowers and credit were seen as necessary elements of the package of assistance required for producers to move into new areas of activity. Indeed, a core reason for creating a BDS unit within the Sri Lankan projects was to increase the outreach and repayment rates of the credit component of its programme.



**Box 11**  
**The advantages and disadvantages;**  
**“piggy backing” on Microfinance**

**Advantages**

Promotion costs are minimal because there is a captive audience in credit meetings who can hear and spread the word about available services

Clients have access to finance to pay the fees for business management services

For training services in many cases, costs for both supplier and entrepreneur can be kept to a minimum because training is delivered during a loan committee meeting or using microfinance facilities during off-peak hours

Overhead costs are minimized because costs are shared and, in general, cross subsidized by the microfinance programme

**Disadvantages**

Clients may feel compelled to purchase the service, thinking their loans will be considered favourably if they do so

There is some evidence that the primary clients for training are not the same as microfinance clients

Staff may become distracted with too many activities, and skills may be diluted if the same staff members are required to be loan officers and trainers. For example, there is a danger of cross subsidizing low demand services with lucrative microfinance services, thus compromising institutional profitability.

Also, business services which are delivered by financial institutions are often focused on loan recovery rather than on business development, and may not be relevant to farmers for that reason.

BDS as a supplement to financial support were provided to agro-based, micro- enterprises under the SFLCP project promoting cut flower production. The commercial banks in Sri Lanka initiated a combined programme for the provision of bundles of financial and non-financial services to support rural development. The programme aimed at establishing income generating activities in rural areas through financial and non-financial support from the Hatton National Bank in Sri Lanka, which has increased the loan portfolio of the Bank.<sup>10</sup> In this programme, the linkage between business services and rural finance is a necessary prerequisite for cost recovery. The fee for services is not directly paid and the service charge is included indirectly through the loan scheme. Such systems can only be advocated if there is evidence that high repayment rates can be maintained and this depends on the profitability of the enterprise, and the monitoring and supervisory systems introduced.

<sup>10</sup> The microfinance linked rural enterprise development support scheme by a private Bank – Hatton National Bank ‘Gami Pubuduwa Scheme’ – GPS.

In sum, the projects documented in this report suggest that many new market opportunities cannot be exploited without access to the financial resources required for purchasing equipment and raw materials. The availability of credit enables small enterprises to take advantage of identified market opportunities. On the other hand, achieving the mass outreach required for credit providing organizations to cover their costs, when working with poor producers, generally requires some mix of BDS to enhance clients' productive capacity. If business services are to be promoted as distinct commercial products, it is useful to consider ways of complementing them with access to credit.

### **Groupings to create economies of scale**

Another strategy for achieving cost recovery and sustainable impact has been to form smaller farmers and more vulnerable members of the rural community into groups, associations, clusters or networks in order to create economies of scale and reduce costs. This is particularly relevant amongst potential clients neglected because of gender, ethnic or other social barriers. The same argument applies to small-farmers resident in remote rural areas where markets are weak. The field evidence suggests that there is considerable scope for commercially-viable services tailored to groups of farmers or clusters of rural enterprises. This potential is more pronounced when these services lead to relatively quick and perceptible improvements in income and performance.

### **Phasing**

The findings also show that in areas where markets were weak, all of the projects involved some form of subsidization of business services. However, an incremental stepwise approach to cost recovery was adopted in some of the projects. In many cases the degree of subsidy was deliberately reduced over time. One reason for this strategy is that farmers need time to adjust to paying for services that were previously provided free. In some cases, particularly with respect to management training, a demand for the service often needs to be created before farmers are ready to pay for it. While farmers may feel that they need a service – or may even use a service if it is provided free of charge – this does not represent an effective demand for that service.

As noted above, in some cases certain services were cross-subsidized by activities that generated a profit – sometimes involving commercial transactions downstream in marketing the final product. In several cases the full cost of purchased inputs was charged to the client enterprises, but the full distribution costs were not levied during the initial period, and promotional and demonstration activity costs were not recovered. In cases where private enterprises had been established by the public sector and/or NGOs, companies continued to operate despite several years of initial losses that were absorbed by the former bodies. Absorption of losses for extended periods is quite common.

It should also be pointed out that the extent of cost recovery may in fact fluctuate considerably. A BDS operating in a new market as sole provider may expect a linearly increasing percentage recovery on costs, but as new entrants into the market create competition, the rate of cost recovery might decline. This is likely to occur if indicators of market development consistently improve. While phased cost recovery is an important strategy, it should be used with caution and may not be the most appropriate indicator for phasing-out subsidies.

**Box 12**  
**Phasing of cost recovery**

**Small farmer and landless credit project: Sri Lanka**

The project is aimed at poverty alleviation through the provision of financial and non-financial business services. The project targets over 32 000 farmers and landless in creating rural micro-income generating activities. Subsidized services were originally introduced to develop these income-generating activities. Demand for services has now developed and mechanisms have been introduced to initiate a fee-based service system. It has now been proposed that a phased system of recovery is introduced.

**Enterprise linked services provision for cotton farmers: Uganda**

This project was initially kick-started with USAID assistance. The main objective was to increase the capacity of selected cotton sector enterprises and to improve cotton productivity and farm incomes. Initially the project received very heavy donor support with full subsidization of services. At a later stage, once the project had matured, the service charges became embedded in the fees for processing the cotton – as well as in the price paid for products. However, because the local farmer cooperatives benefited for a long time from subsidized support, there is some concern about whether full financial sustainability can be achieved.

#### **4.4 SUSTAINABILITY**

Projects differ as to how sustainability should be defined and measured. Some projects emphasize the sustainability of the enterprise being supported by both the client and the service provider; others focus on the sustainability of impact. In seven of the case studies, sustainability was pursued primarily through market mechanisms. In only two of the studies, no clear long term role for the market was highlighted, as in neither case could the market sustain the services provided. In the SFLCP in Sri Lanka, full cost recovery was not possible for the training and business advisory services. Similarly, the provision of advisory services in the Rwandan coffee project could not be handled on a commercial basis. Newly created farmers' organizations were seen as the best mechanism for meeting the ongoing need for these services.

Services introduced during the project period by public sector institutions were often turned over to private suppliers after demand for them had been clearly demonstrated. As noted above, most of the projects succeeded in establishing market linkages and so the various players could be expected to continue to interact in profitable ways on termination of project support. For example, in the case of Pepsico in India, the EPVs and cut flower projects in Sri Lanka, and the beekeeping enterprise development in Nepal, the development of marketing services within the projects stimulated other commercial service providers to deliver the similar services.

While business service delivery through NGOs was often subsidized, commercial providers were able to build upon their example. In the Lira district, Uganda, for example, donor support was provided to kick-start the development process and consultants were used to provide supporting services. On the withdrawal of the donor, the consultants continued to deliver services, but on a cost-fee basis. Similarly, amongst the EPVs and cut flower growers in Sri Lanka, the public sector initially provided both technical assistance and subsidies. Later, however, direct linkages were developed between farmers and commercial market agents. The same picture exists among seed producers in Nepal, the animal health service programme in the same country, and the agro-input dealers in Uganda – all of which were originally supported by donor subsidies.

Concurrently, all projects paid considerable attention to both the development of human resources and the growth of institutional capacity to sustain the impact of their interventions. Some projects invested considerable effort in building the capacity of cooperatives or farmers' associations, to minimize the cost of service delivery. This modality was adopted in the case study of Nyakatonzi Growers Cooperative Union (NGCU) in Uganda; seed production in Bangladesh; CODAF in Rwanda, and SEAN and animal health services in Nepal.

#### **4.5 OUTREACH AND SCALING-UP**

Positive results were observed within the case studies in relation to outreach and access (i.e. the schemes' capability to attract and involve other farmers). Clients received business services as part of a series of commercial transactions with suppliers and contractors. Although the services received were generally adequate for their immediate needs, they were not always of the highest quality. While it is recognized that high quality services cannot always be made available under the prevailing circumstances, they do however need to generate a positive impact on the farm business. There is some evidence to suggest that this target can be attained by facilitating better networking between service providers and by promoting informal systems of learning.

The broader development literature also shows that programmes promoting market development are better able to reach significant numbers of farmers. Nonetheless – although it can be argued that targeted, subsidized programmes may be required as part of a poverty alleviation strategy in more marginal areas – it should be realized that outreach amongst the overall farming population will be significantly lower, as only those farmers receiving subsidies are likely to participate.

Scaling-up represents a major challenge for support service providers, but can be promoted through a combination of demand-driven measures and learning from experiences in the field. Lessons need to be internalized so that service providers gain the confidence to extend beyond their immediate domain. A pre-requisite to scaling-up is assurance that adequate demand for a service is available. Service providers should also be responsive to the findings of research, evaluations and good practices that have worked in the field.

## 5. Driving factors for success

This chapter draws upon both the case studies and the broader literature in order to focus upon five key success factors that past experience indicates are often important – and in the case of certain factors absolutely essential – for the promotion of successful and sustainable business service provision.

### 5.1 ENABLING ENVIRONMENT

Governments are responsible for formulating a macro-economic policy that is conducive to the provision of commercial services. This policy includes the following elements: i) fiscal and monetary control; ii) a regulatory framework supportive of enterprise development; iii) the basic infrastructure for service provision; iv) delivery of public services such as education and health; v) a liberal economic system that encourages competition and standards. This requires that a number of reforms are put in place and conditions met. Among the most important of these are:

- legal reforms to allow the private sector to operate efficiently and effectively;
- development and introduction of regulations which are clear and transparent to private investors and that ensure public services are accountable;
- removal of restrictions on the ability of private enterprises to compete in the market;
- provision of opportunities for local private enterprises to develop management capabilities;
- redefining the role of government to bring about a shift from direct production and delivery of services to facilitating and regulating private sector service provision.

These reforms are important prerequisites for successful public-private sector collaboration in service delivery. Service delivery organizations need to know and understand the implications of government regulations related to business service provision. Actions may be needed to simplify registration formalities, especially for membership organizations such as small-farmer groups. These groups may need special assistance in enhancing their skills so that they can interact more effectively with higher-level service providers.

## 5.2 PUBLIC-PRIVATE PARTNERSHIPS FOR SERVICE PROVISION

As noted above, a key role of government lies in creating and supporting an enabling environment. Another function, however, is to promote public-private sector partnerships for the provision of support services. Whilst goods and services of a private nature can be provided through commercial bodies, there are certain services which lend themselves to partnerships, as well as a sharing of responsibilities and roles. Examples are research and development (R&D), skills development, the provision of general information and certification. Government also has an important function to play in dealing with licensing and local regulatory issues. In this sense, it can be regarded as a provider of normative services.

In areas with weak markets, where infrastructure is limited in range and scope, the input of the public sector is needed more. However, the growing demand for development funds to promote BDS in these rural areas, places a strain on public sector cash requirements. By collaborating with the private sector, authorities can substantially reduce public sector spending. Public-private sector cost sharing arrangements are more likely to allow market forces to govern economic activities. The underlying premise is that both the public and private sectors have their own unique characteristics and strengths which when combined, offer a more efficient and effective means of service delivery.

### Box 13

#### Public-private partnership Agri-Business Corporation (ABC), Bangladesh

ABC is a private company that is operating an enterprise-extension linked programme for seed-producing farmers comprising technical and financial assistance. Production is conducted under a buy-back guarantee. The company provides some services to clients but also sub-contracts services through other providers, both public and private sector. ABC signs contracts with a financial institution and the public sector to encourage the production of maize. It supplies quality seeds, advisory services and other inputs whilst guaranteeing buy-back of production. The public sector institution is responsible for selecting farmers to produce maize seed and linking them through the preparation of contracts with ABC. Finally, the financial institutions provide farmers with working capital for the production of maize. Loans are channelled through ABC. The scheme is an example of joint collaboration between private enterprises, banks and the government.

A close public-private sector relationship, drawing in all the actors involved in service provision, is needed to mitigate the risks of production failure and product price vagaries. The effect of risk is to reduce the expected profitability of the enterprise and to increase the possibility of failure. Risks can be reduced by spreading them between government and the private sector. Risk-sharing benefits might be designed to reduce some of the risks that business service providers face in entering new and untested markets, or areas where market access is weak. Public sector support may be necessary beyond the level normally regarded as acceptable in more favourable contexts.

### Box 14

#### Public-private partnership in agriculture extension; lessons from Chitwan, Nepal

An action-research exercise conducted in Nepal concluded that efforts to transfer agricultural technologies to farmers are more effective when the state, non-governmental, and private sectors work in partnership. This conclusion was based on information obtained from 123 farmers and 17 agency personnel during a 21-month field study. The partner agencies selected research sites, drew up the research agenda, chose appropriate technologies and decided upon a range of partnership patterns.

The study revealed strengths and weaknesses of various strategies:

- When state, NGO or private agencies engage in partnerships, their effectiveness is generally increased
- Various partners exhibit different strengths. NGOs are particularly effective at reaching resource-poor farmers, while states usually have greater technical capacity
- Different partnerships are appropriate for particular goals. States and Private partnerships are better for high-cost technologies with larger farmers, while state and NGO partnerships are better at reaching smaller farmers
- The partnership programmes must be mutually beneficial and continuous dialogue between partners is necessary
- Partnerships are a useful way of increasing extension effectiveness, but only when partners fulfil their obligations
- The formation of partnerships must be based on a clear understanding of the comparative advantages of each agency

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*Source: Ohja, G. P. & Morin, R. S. (2001) Partnership and agriculture extension: lessons from Chitwan ( Nepal), Network Paper no 114, AGREN, 2001.*

Another way to mitigate risk is to ensure that there is greater transparency with respect to contracts and operations, whilst promoting information sharing for service provision. Service delivery could also be closely monitored and information disseminated to clients. The availability of such information will contribute to making better-informed decisions by small farmer recipients. This would also help to create the atmosphere of trust that is critical for a sustained relationship.

Several challenges are encountered in defining and designing public-private partnerships for service provision. These include: i) how best to define the most appropriate roles for public agencies and private companies within a partnership relationship; ii) how to translate this into something tangible. As a starting point, an assessment is needed of the capacity of government agencies to contract, manage and monitor relatively complex arrangements with commercial organizations. A more concerted strategy is required to arrive at the correct balance of public and private funding. As with all publicly funded services, too much 'free money' can both decrease the willingness to pay of the rural enterprise and distort the market for service providers (Hitchins 2004).



The forging of an effective public-private partnership is not likely to occur by itself and in each case there is a need to explore the range and types of potential partnership arrangements. Both donors and practitioners increasingly recognize the potential benefits that can accrue, but partnerships always need to be encouraged through effort and commitment from both sides. In particular, ways need to be examined and tested in order to increase the quality and outreach of public services. So-called, 'kick start' mechanisms to promote the transition of services from the state to the private sector – particularly in rural areas and where markets are weak – cannot be ruled out, and in some contexts may need to be actively promoted.

### **Box 15**

#### **Rural Enterprise and Agriservices Project, Kenya; CARE**

The Rural Enterprise and Agriservices Promotion (REAP) project aims to integrate small-scale farmers into the horticulture export market. It organized farmers into horticulture production units of approximately 40 acres each. The project consists of four farms, each of which is composed of about 35 small-scale farmers. Each consolidated farm enters into legally-binding, production contracts with exporters. The role of the project is to facilitate negotiations between farmers, exporters and other stakeholders responsible for supplying coordinated services. It has organized the consolidation of viable production units that are professionally managed. These larger, consolidated farms can access both term loan and working capital more easily – based on sound business plans. A venture capital model was used to capitalize resource-poor farmers and provide an incentive to share risks. In order to finalize investment contracts, business plans, which included investment requirements were drawn-up.

The advantages of the scheme were:

- Reduction of transaction costs for producers;
- Mobilization of investment funds;
- Provision of business management and technical support services to farmers at full cost;
- Economies of scale for private sector input and service providers;
- Economies of scale and reduced transaction costs of buyers.

The main lesson learned from this experience is that risk management is a fundamental bottleneck to increased investment in farming. Risks can be reduced through contract relations, ensuring a direct link between production and market requirements in terms of quantity, quality and delivery schedules. High levels of farmer participation depend upon the assurance of a satisfactory minimum return. Since this depends upon guaranteed quantities of sales and predictable prices, contracts are in effect the key to risk reduction and project success.

### 5.3 GOOD GOVERNANCE

Just as the regulatory framework establishes the ‘rules of the game’ for the market and its operators, effectiveness of implementation determines the level of transaction costs that service providers and clients face. Bureaucratic red tape, corrupt practices and delays within essential public institutions, increase the level of transaction costs and result in market distortions. These factors might even cause service providers to become non-competitive, leading them to prefer to operate in the informal sector. Good governance is usually even more important for micro-entrepreneurs and small-scale farmers than for the better-off, as they are usually more directly affected. Good governance acts as a powerful stimulant to economic growth and is an essential determinant of the market-oriented approach to service provision.

In terms of private sector development of services good governance is critical, both as an element of the general business environment and for each business enterprise specifically. Accountability, fairness, honesty – and the effectiveness of government functions such as taxation, customs, business licensing authorities and bank inspections – are all vital prerequisites for creating an environment conducive to the provision of business services. Corruption is reflected through favours to friends, associates and political connections. It results in a major distortion of markets, leading to sub-optimal resource allocations and inefficiencies of operation. Corruption needs to be reduced, and eventually eliminated, through: i) capacity building in public institutions; ii) the introduction of measures aimed at eliminating ‘rent seeking’ behaviour and inefficiencies; iii) promoting fairer salaries for public sector bureaucrats and personnel. Effective taxation systems are also a requirement for the emergence of an efficient bureaucracy.

### 5.4 EFFECTIVE DEMAND

Effective demand for agricultural business services in a given area depends on the demand for agricultural produce sold from that area. The demand for agricultural products depends in turn on population growth – particularly in urban centres – and increases in income. These determinants create both the need and the opportunity for service provision. The provision of commercially-oriented services on a sustainable basis depends on clients who are ‘willing to pay’ for services provided. Demand for produce, however, translates into an effective demand for services only if rural enterprises are profitable. This requires fully functioning and integrated markets.

Profitability is best seen as a precondition for making service delivery feasible rather than as an outcome of the provision of support services. Efforts to increase the profitability of farm enterprises can, therefore, be expected to increase effective demand for services to small-scale farmers. Profitability is a driving factor for business service success. It follows therefore, that in more remote areas with weak market integration, opportunities for expanding the provision of business services are severely constrained. While services can sometimes make a difference to household profitability in such areas, the costs of service delivery are high owing to their remoteness.

## **5.5 DECENTRALIZED SERVICE DELIVERY**

Decentralization of service delivery can result in both better quality services and greater effectiveness of delivery. This is usually the result of improved local control and user orientation because of the increased proximity of support providers and farmers. Decentralization also influences both cost recovery and farmers' willingness and ability to pay. It has, therefore, been included as one of the key factors for successful business service provision.

However, there is no automatic mechanism which ensures that decentralization will be more effective than centralized service provision, and there is no blueprint as to how to implement decentralization successfully (Gibson 1997). Decentralization can create problems – particularly when local capacity is low, service providers are absent, and demand is weak. Shifting power to the local level may open the door to interference by influential people. Local authorities may take decisions that are just as contrary to the interests of small farmers as those taken at higher level of governance. Furthermore, those farmers with few resources are just as likely to find it difficult to make their voices heard as in the case of a centralized system.

Therefore, despite its theoretical advantages, unless decentralization is properly introduced and organized, it could result in inadequate and low quality distribution of support services. Successful decentralization requires local knowledge of clients, as well as an understanding of local conditions. It poses a complex challenge – involving high transaction costs and requiring adequate design, transition and phasing. It should not, superficially, be regarded as a panacea. Making decentralization a success requires a range of strategies which can help to make use of the opportunities involved, whilst avoiding the risks.

## **Part 3. Lessons for implementation and design of projects and programmes**

Part 3 summarizes lessons related to the implementation and design of projects and programmes. It then goes on to present major guidelines and principles for consideration by policy makers and programme managers. The final chapter highlights current issues related to business services and discusses future directions.

### **6. Implementation issues**

This chapter draws on evidence from the case studies, supported by the literature review, in order to outline the major lessons concerning implementation issues regarding the provision of business services in rural areas. These issues are described and outlined below.

#### **6.1 DIFFICULTIES IN DEFINING A PROJECT**

Most of the case study projects have, to some extent, built on previous activities undertaken by the current lead development agency. For example, the EPV project in Sri Lanka was established to exploit potential for exporting cashew nuts, coconut fibre, pulses and oil seeds – activities already promoted by a previous government initiative. The veterinary services project for small-scale livestock farmers in Nepal, grew out of a GTZ pilot programme that had created an NGO with expertise in the livestock sector. In several other cases the project concept was also developed from previous work undertaken by government agencies or NGOs. These previous activities, which evolved over a number of years, reduced the marginal cost of undertaking new initiatives, but have had the effect of making it difficult to demarcate precise project boundaries.

In the same vein, previous interventions often evolve into new forms. For example, having promoted a model for the storage of crops, ABC in Bangladesh is now promoting processing activities – including mechanical grain drying. The manufacturing and distribution capacities that the IDEI's AMIT project created in India are being used to produce other small-scale technologies. Moreover, the switch to large-scale manufacture in one central location permits the dissemination of these technologies to other regions and even to neighbouring countries.

The above considerations reveal the unsatisfactory nature of the concept of 'the project' as a means of isolating interventions of a systemic nature, or for measuring their impact, cost effectiveness and sustainability. Some of the main problems are listed:

- Where does one begin to count the costs of interventions that build on previous initiatives, and where does one finish calculating benefits in situations where other related interventions emerge?
- How does one make a judgement on sustainability when, as in the case of the AMIT project, group strengthening and financial support can be seen as only one element of an ongoing process of assistance and development?
- How can benefits be isolated when – as in most of the case studies – farmers with no direct contact with the project adopt its innovations? Or when client farmers use the enhanced capacity they have acquired for purposes other than those directly related to project goals?

These are all important methodological questions to which there are currently no satisfactory answers. Yet until more appropriate impact assessment techniques are developed, we are likely to continue to miscalculate – generally to underestimate – the true impact of systemic, capacity building projects such as some of those described in the case studies.

This discussion poses the question as to whether farm enterprise development can be better promoted solely by creating a conducive policy framework, or alternatively, whether efforts should be focused upon localized project or programme initiatives. However, most practitioners would argue that both strategies are necessary and that they are mutually reinforcing.

## **6.2 HARMONIZING COMMERCIAL AND DEVELOPMENT OBJECTIVES**

Transfer of services to the private sector involves a process of transition from subsidy support to fully commercial operation. In none of the projects studied has this been achieved without serious problems. The EPVs in Sri Lanka, and coffee association in Rwanda, are examples of the confusion that can occur between developmental and commercial interests. Marketing companies needed to serve the interests of government while at the same time playing an independent market role. This confusion of roles has been identified as a key factor in explaining the sub-optimal performance of many of these initiatives. Similar issues arose in the CODAF project, in Rwanda, as functions initially performed by an NGO were shifted to commercial organizations.

Additional problems exist within the organization created through the export enterprise project in Sri Lanka and, on a smaller scale, the beekeeping project in Nepal. Here again, there are difficulties in finding ways to give enterprises full commercial autonomy whilst ensuring that they continue to perform the developmental functions for which they were created. While many projects have demonstrated that farm enterprise development can be profitable, this does not necessarily mean that the activities selected are the most profitable that farmers could be undertaking. This raises the question to what extent the private sector, by itself, is likely to embark on a development agenda or alternatively, to promote commercial interests that are less developmentally focused?

In the AMIT project, IDEI is considering retaining its stake in the development of micro-irrigation technology as a way of ensuring that it continues to perform a developmental function. By engaging commercial business service providers, IDEI has separated the roles of facilitation and service provision. It is yet to be seen how successful these arrangements will prove to be in reconciling commercial and developmental requirements. At present, they should be viewed as exploratory steps in a process that is likely to grow in importance as similar initiatives develop

### **6.3 SCOPE OF BUSINESS SERVICE PROVISION**

There is an ongoing debate concerning the most appropriate scope of BDS programmes. Some practitioners argue that programmes should concentrate on single services in order to stay focused and ensure expertise (Camilleri 2000). A focus on a limited range of specialized services is felt to result in better quality of services and a more effective delivery mechanism. An alternative view is that programmes should be designed around a particular market problem and solutions sought to address this problem. It is felt by advocates of this approach that the only way to have an impact on farm and rural enterprise development is to promote a range of services that provide the client with the flexibility needed to grow and develop. Many sub-sector development programmes, for example, promote several services intended to assist the client in gaining access to better markets.

The trend over the last decade has been to decouple BDS from rural finance in order to create a simple, direct and effective relationship with clients. The limited capacity of service providers – and their frequent inability to deliver a broad range of services effectively – would seem to justify this view. However, the case study evidence suggests that farm enterprise development is likely to be more effective when finance and business management services are delivered together. While rural finance is necessary to stimulate enterprise development, management advice and market information are also needed to ensure success. Moreover, in many rural markets, business and financial services providers are often the same (middlemen / traders/ input dealers). Even in the case of modern contract farming, financial services are often provided through the commercial venture. From the viewpoint of cost recovery through embedded services, the two types of service should not be separated. The fundamental issue is how to re-link the provision of BDS with rural finance in such a way that the advantages of specialization are maintained.

In a number of case study programmes, training enabled farm businesses to expand, but farmers required simultaneous access to finance for further development. Particularly in the peri-urban belt with access to markets, programmes that combine BDS together with financial services were observed to be more successful. One good example is the rural enterprise development support scheme in Sri Lanka implemented by the Hatton National Bank. In practice, there is a demand by farmers for combinations or ‘bundles’ of services, and initiatives that provide this type of support stand the best chance of creating successful, and sustainable farm enterprises.

It is generally agreed that close coordination between services and delivery mechanisms is usually essential. One approach to achieving this is to accommodate both within the same organization – whilst ensuring that the units operate independently. Alternatively, extremely close coordination is needed between separate service delivery organizations. For instance, enterprise development training is usually more effective when linked to finance, as well as to other business services (marketing, quality assurance and technology development). As a general rule, it can be argued that service provision should be provided by those parties that have the greatest incentive to provide the service. This often means dividing responsibility between different service providers within a sub-sector or rural space. For instance, input supply might best be handled by stockists – who could also be encouraged to provide decision-making support. Information on output marketing could best be covered by traders, who could be trained to provide a broader base of information on product quantity and quality. Finally, rural finance might be provided effectively through middlemen and traders, assuming that the environment is such as to promote competition. While the case studies provide a strong justification for the need for multiple services, and also suggest the most appropriate delivery mechanisms under certain circumstances, the jury is still out regarding a clear and specific delineation.

### Box 16

#### Business Support Service Centres

Many rural enterprise development programmes focus on assisting farmers within a particular sub-sector, such as groundnuts, cotton, food processing, etc. Decentralized and locally-managed resources make it easier to address needs, focus on objectives and ensure sustainability. Flexible and decentralized mechanisms need to be promoted for channelling external resources directly to farmers and to create greater relevance, efficiency and sustainability. One such way is to provide decentralized services through a Business Support Service Centre.

The integrated provision of support services can best be facilitated through the establishment of such support centres – essentially a one-stop-shop concept that can address the firm’s constraints in an orchestrated manner. These services include technical assistance on processing, packaging, transport, quality assurance, and business management advisory services. Traditionally, such Business Centres were conceptualized and managed by development professionals and their sustainability was a matter of serious concern. Recently, the private sector in India has started opening different variants of such centres in order to strengthen their supply chains. ITC’s *e-chaupal*, DCM’s *Harilayi*, Godrej’s *Aadhar* and Mahindra’s *Subh Labh* are some of the many initiatives that are currently being developed. Many of them are also linking financial services providers to their business centre clients. The collaboration of financial service providers and support service centres should provide the farmer with a fully-integrated support service package. The system benefits the farmers, who now do not need to go to several different sources of supply.

#### 6.4 INFORMAL SERVICE SECTOR PROVIDERS

As noted in previous chapters, more remote rural areas are characterized by weak markets for support services. However, hidden from the view of the donor and the executing agency, there is a prevalence of indigenous, small-scale, informal and embedded services – often difficult to identify and understand. The challenge facing development practitioners is to map the existence of these informal service mechanisms and design interventions that build upon them. Acquiring information on this ‘hidden’ sector is a precondition for the design of effective service delivery mechanisms. This information is essential to ensure that the design of interventions does not damage the already fragile market environment. A number of practices have been described in the literature on BDS, that can assist in developing the potential of these ‘hidden’ private sector providers (ILO 2003 and 2004). These practices include:

- Incorporating identification of service providers as part of the original market assessments
- Creating forums for public-private sector partnerships
- Promoting trade fairs and a meeting for service providers and clients
- Enhancing awareness through the media.

The informal sector is often overlooked when conducting broad market assessments, but in weaker rural markets, understanding this segment of service provision is essential for effective design of improved BDS. This calls for the use of informal methods of data collection – based on local key informants and observations – rather than the usual reliance on formal studies and analysis. Again, this highlights the necessity to engage all stakeholders in dialogue and to strengthen and mobilize the capacities of local institutions and individuals in order to do so.

The creation of indigenous service provision through membership organizations should also be encouraged. The organization of farmers into groups has been particularly effective in assisting the more vulnerable members of the rural community to negotiate with input suppliers, processing plants and other market outlets. Once local organizations have developed the capacity to manage as independent entities they can be organized into higher-level apex associations. This higher level of organization is very useful in generating economies of scale. Farmers’ organizations are often a necessary prerequisite for attaining better contractual linkages with commercial farm and agriprocessing ventures, and for reducing transaction costs. The organization of farmers into groups and associations also provides a political forum and ‘voice’ that facilitate more effective lobbying in pursuit of common interests.



## **6.5 SEQUENCING OF SERVICES**

The services that are ultimately selected need to be appropriately sequenced and aligned to ensure maximum impact. Individual services could be selected according to a set of criteria which could include: i) the potential contribution of the service to the success of the enterprise; ii) the strength of the demand for the service; iii) its feasibility in terms of service delivery. The most appropriate sequencing of service provision was not adequately investigated through the case studies, but reviews of the appropriate literature suggest that a pattern is emerging. A possible sequence could involve: i) enhancing the quality of produce through improved technologies; ii) conducting market investigations and appraisal; iii) diversifying the farm enterprise combination. These stages can then be followed by collaborative activities on the part of farmers, designed to exploit economies of scale and potential cost efficiencies through group activities and clustering. Ultimately, measures to encourage the formation of social capital can be promoted in order to gain access to longer-term investment financing. Owing to the short duration of the case study projects, there is no clear documentation as to how far along this track farmers have gone, nor any systematic analysis of the obstacles encountered on the way. This indicates a need for further study and investigation.

## **6.6 THE DYNAMIC NATURE OF THE BUSINESS SUPPORT PROCESS**

Most of the projects used as case studies undertook important strategic re-orientations at some point in their life. The Community Management of Irrigation Services project in Andhra Pradesh is a typical example. It was initially heavily subsidized by the state government, but the planned irrigation scheme failed. The project was then handed over to a society owned by the farmers themselves – although ownership of assets remained under the control of the state corporation. Likewise, SLEDB in Sri Lanka initially assisted in importing mother plants for the production of cut flowers, but then started to provide financial assistance to outgrowers for the purchasing of source plants. In Nepal, FORWARD initially provided animal health services, improved the production of forage and organized the multiplication of improved breeds. At a later stage, a policy shift by government-led to the suspension of direct service provision and the adoption of a facilitating role, accompanied by the gradual elimination of subsidies for veterinary services.

Many of the projects expanded their range of services, as well as the number of products addressed. In addition to maize, ABC in Bangladesh now markets several other crops and is planning to diversify further. Each of the case study projects started with only one product, mainly in order to capture the benefits arising from focused specialization. In each case, the impetus to diversify came from a desire to increase turnover – generally with a view to increasing cost-effectiveness and promoting the prospects for financial sustainability. The commercial viability of the service providers all appear, to various extents, to have been dependent on this broadening in the range of their activities.

As pioneering projects, there is clearly a strong element of action research in most of the case study initiatives. Moreover, given the relative complexity of their aims – with interventions on various fronts – it is perhaps not surprising that projects of this type periodically need to be re-orientated. Given the fact that action research and evolutionary design have been so important to the success of the projects reviewed in this report, the obvious question posed is whether and how commercially-delivered BDS can incorporate them into their operations.

## 6.7 THE ROLE OF GOVERNMENT IN DEVELOPING RURAL SERVICES

The guideline advice of the Donor Committee is that governments need to extricate themselves from providing services of a business nature. The omission of governments from service provision, however, begs the question as to what governments should ideally be doing. Current thinking within the donor community emphasises the role of government as the creator of an enabling environment for the planning and management of sound schemes for service provision. Policies aimed at stabilizing currency fluctuations, keeping inflation to a minimum, managing the public deficit, liberalizing imports, and maintaining positive real interest rates, have had a significant impact on the emergence of a strong private sector. When such measures are combined with rational public investments in infrastructure, actions to end public monopolies and the opening up of public services to the private-sector, the conditions for enterprise development are further enhanced. These conditions – supported by a banking system which serves the needs of farmers and rural entrepreneurs – provide the ingredients for a positive macro economic framework conducive to commercialization.

In short, fostering farm enterprise development calls for government to ensure that markets for capital, labour, goods and services are working well and that impediments to enterprise development are removed, while conditions are established which encourage innovation and risk-taking. The role of government, however, has to be defined within a specific country context in order to match national and regional capacities. It is apparent that there is no single, unique role for government in every country, and that different traditions and capacities will influence the optimal pattern of state intervention.

Moreover, evidence from the field suggests that, in many situations, market development is unlikely to occur spontaneously and that there is often a need for public funding support. The rational use of such funds can be assured by dedicating scarce public resources to the provision of support services – and in particular those of a public sector nature – in areas where private markets are not functioning effectively. This would facilitate access to services in remote areas and those directed towards the poor. It would also help to fund services that promote ecologically sound practices.

Within many governments, and increasingly within the donor community, there is widespread recognition of the need for a more proactive role on the part of government – particularly in making markets work for the poor. The findings of this study indicate that the response of the private sector in building upon initial ‘supply side’ initiatives can be somewhat limited. This is particularly noticeable in the African context, and has led to questions being raised concerning the effectiveness of neo-classical approaches in actually achieving large-scale economic growth. This raises a host of questions concerning the appropriate balance between public and private sector development, as well as the best use of public funds. Some of the hazards of inadequate and inappropriate public sector support are well recognized. For instance, public finance support for individual service organizations often distorts market signals and leads to ‘crowding out’ of potential private commercial service providers. These distortions need to be better understood and, over the long-term, avoided.

Evidence suggests that there are no hard and fast rules related to the above issues, and that not all services can or should be provided by the private sector. The optimal approach depends largely on the type of service provided and whether that service is a public or private good. Another question facing government is how best to provide support; whether through supply side or demand side financing. The answer to this dilemma is also inconclusive, although it is apparent that any initiative needs to be carefully considered and well designed, and that mitigating any distortions in price signals is of paramount importance.

### **Box 17**

#### **The role of government in business service provision**

- Organizing platforms for public and private actors to exchange information on bottlenecks and opportunities
- Facilitating private sector investment in rural infrastructure
- Providing incentives for sustainable use of production resources
- Adequately investing in the establishment of private sector service provision, especially through providing capital and credit support
- Offering subsidies or co-financing for the development of high-risk interventions
- Establishing and enforcing a commercial code that ensures fair and expeditious judicial processes for resolving contract disputes
- Ensuring the availability of production, price, information and statistics to facilitate market activity and to monitor market progress
- Assembling a body of knowledge on effective service provision through supporting research and ensuring that records of performance are kept and maintained

## 6.8 INCENTIVES FOR DEVELOPING BUSINESS SERVICE MARKETS

For most donors, subsidies remain one of the most difficult issues associated with commercial support service provision. A general position is that interventions which require a relatively short-term period of external intervention to create capacity – and which then appear to have a realistic chance of being sustainable – are a worthwhile investment. Examples of this kind of intervention include technology development and transfer, and developing new market entities and business linkages. In each case, a market gap or opportunity appears to exist.

Some practitioners feel that, in order to develop very weak markets that serve the poor, it is necessary for market development programmes to subsidize direct service delivery for a time; phasing it out as the market develops. Some market development activities that temporarily subsidize service delivery include:

- Matching grants and vouchers that support service purchases
- Contracting service providers to support farmers
- Operating or ‘deficit’ financing to help service providers get started and/or ‘equity’ investments that are actually never paid back to the development programme
- Providing services to test and develop new business models
- Playing a role in a sub-sector – for example as a wholesaler – in order to demonstrate that the market is viable (ILO 2004).

Supporters of these types of subsidies point out that the short-term nature of many market development initiatives pushes them towards direct services provision in order to achieve impact over a short-time period. Opponents of direct subsidies and service provision are sceptical about this ‘weaning’ process and doubt the effectiveness of development organizations in establishing profitable private enterprises. Instead, they recommend finding private sector solutions right from the start of the project. This would entail providing only training and technical assistance to suppliers, and temporary demand stimulation – in the form of information and linking services – to rural enterprises. Even weak markets, they argue, are best developed by supporting local initiatives.

**Box 18****Veterinary services in Nepal; problems of incentives**

FORWARD, an NGO, started operating veterinary service centres through VAHWs with support from donor grants. These services were subsidized initially to generate demand among poor farmers in remote localities of rural Nepal. In the planned exit strategy, the operation and management of these centres were to be handed over to CBOs.

The programme was successful during the initial project because of cheaper medicines; quick and effective services provided by clinics, service at the farmers' door, awareness created through group training, group contact and personal contact. But, after the handover of clinics to the cooperative/CBOs there was a decline in the services provided.

Previously, VAHWs were salaried employees of the NGO, whereas the new strategy required them to work as entrepreneurs. This transformation of former salaried employees into entrepreneurs were one of the major stumbling blocks for the project. Revenue mechanism for the project was not adequately planned and it was felt that poor farmers would not be willing to pay for veterinary services which they previously were receiving free. The cooperatives were not able to provide extra incentives owed to the lack of resource generating activities, and there was a serious threat to the continuation of veterinary services clinics after the withdrawal of the donor assistance.

Fundamental to the market development paradigm is a shift in thinking about subsidies. No longer is it simply a question of how much subsidy to provide, for how long and how to phase it out.<sup>11</sup> Now, the challenge is how subsidies should be designed in order to develop, rather than distort, business service markets. In the market development paradigm, subsidies are viewed as temporary, yet many aspects of time frames and funding strategies are not yet clearly understood. For example, should subsidies be used for start-up capital to new business service suppliers? Should subsidies be restricted only to product development, supplier identification and monitoring? Or can subsidies be used to train and build the capacity of private sector suppliers? Although the market development paradigm has challenged practitioners to get more out of each public sector dollar and to create sustainable business services, the era of subsidies is far from over and the challenge of how to use them most productively has only begun.

Thus, the issue to be considered is how best to design incentives to achieve maximum impact and sustainable development. Strategies are needed to match the local situation. This requires careful analyses of: i) local conditions; ii) the needs of the target population; iii) the implementing capacity of staff; iv) the organization of the rural community. When designing an incentive strategy, each option and combination of options must be considered in terms of its workability, efficiency and consistency. Consequently, a clear and logical policy on incentives needs to be set that aims at a gradual and sustainable reduction of subsidies, while simultaneously generating greater self-reliance. This is necessarily a long-term vision involving concerted action amongst donors and government agencies. The key issue is the timing and phasing of this paradigm shift.

<sup>11</sup> The guiding principles assert that 'it is not possible to state a specific duration for temporary subsidies for BDS market development, given the wide range of types of services and stages of market development in different countries'. The duration of the phase-out period is likely to be influenced by the nature of the service sector, as well as the institutional strength and maturity of both facilitating organizations and BDS providers. It was also largely agreed that subsidies should be limited in time and duration. Nevertheless views still differ on strategies for the exact use and duration of subsidies. To develop markets, donors in the role of facilitators, might make subsidies available to various providers on a steadily declining basis.

**Box 19**  
**Issues related to subsidies**

- Public sector resources are scarce, thus imposing limits on the scale and longevity of an intervention. The issue raised is who should receive assistance and for how long?
- Subsidies weaken demand signals, which are the strongest indication that services are useful and appropriate to the customer. The issue raised is whether disadvantaged groups are in need of welfare or, alternatively, are they clients with the capacity to decide for themselves?
- Subsidies can distort or discourage private sector service provision. There is a failure to recognize that even disadvantaged groups may already have access to some services, and that these can be damaged by intervention. Moreover, how will clients move from highly subsidized services towards full-cost payment in the future?

There is, however, little consensus on what government needs to do. Defining a 'legitimate' role for government cannot be divorced from the issue of what the state can afford. If there is no significant possibility of government taking on the role of financially supporting business service provision, How can donor support for them be seen as anything more than a short-term palliative, or as one instalment in a series of donor subsidies? This poses other questions as to whether financial subsidies should be totally eliminated, or alternatively whether there are ways of developing cheaper and less distorting ways of offering state support. While it is widely recognized that a supportive policy and regulatory environment is a prerequisite for successful interventions, there is little hard evidence concerning which interventions are most critical, nor information regarding the balance that should be struck between different levels of interventions in any given country.

As previously noted, one strategy that many practitioners continue to explore is linking business service provision with rural finance services. Whilst there are many reasons for rural finance and business management services to remain quite separate (as already discussed previously) the potential for offering mutually beneficial services – using strategies that employ best practices in both fields – needs to further be explored. As business markets develop, appropriate financing strategies may start to become a normal aspect of BDS initiatives.

Another market weakness is the lack of finance for service suppliers. As suppliers are expected to be sustainable – and programmes are increasingly working with private sector suppliers – grants no longer seem to be an appropriate financing instrument. Given the capital constraints in most developing countries, service suppliers also have trouble accessing finance for expansion. Where grants are in use, the trend is to link them to supplier performance in achieving financial sustainability. Few financing mechanisms have been developed, however, for informal, private sector suppliers. This will become one more new challenge in addressing the market development paradigm.



## 7. Practical guidelines and principles

This chapter discusses the main implications of the study and provides a set of practical guidelines and principles that should be taken into consideration by policymakers and programme managers. The chapter stands back from the individual cases in order to consider the implications for development agencies given by evidence offered in current thinking and practice.

### 7.1 SYSTEMATIC APPROACH TO SERVICE DELIVERY

Each of the projects reviewed in this study attempt – some quite successfully – to link up with the private sector to help sustain the effectiveness of their business services interventions after NGO and donor support has come to an end. Sub-sector or value chain analysis has been used in a number of cases as a diagnostic tool to identify weaknesses and opportunities along a given chain. However, within this context, support services of both a private and public nature are also required – at different levels and amongst different players – to act as both service providers and clients. The network of linkages (with input suppliers, agroprocessors, traders, larger-scale commercial farmers, exporters, government institutions, parastatal organizations, informal service providers and donors) needs to be understood, not only for the development of agricultural production, but also for the provision and facilitation of support services. BDS provision should thus be viewed from a broad system perspective that takes into account the market relationships and structures that make up the value chain as well as support markets (markets for support services), infrastructure and enabling environment. There are multiple players operating in any defined sub-sector or value chain and the provision of support services frequently depend on each other, and providers and clients require the participation of the public sector in funding and rule setting.

There is an increasing recognition of the need for a more systemic, market-oriented approach to development. This entails more than just taking into account macro-economic factors. It is concerned with the institutional environment for market development within which all stakeholders operate and it requires a sound understanding of the structure and operation of specific sectors. The premise here is that stand-alone BDS interventions are inadequate for the creation of sustainable and functioning markets over the long-term. By broadening the focus of business development to a systems level, the overlap between different fields of activity can be more easily recognized – as can the need for better interaction between them. In terms of programme development and implementation, the implication of the above thinking is obvious. There is an inescapable need for programmes to design a phased implementation strategy for BDS market development that addresses the demands of all clients within the value chain, whilst broadening the delivery modalities to include private as well as public sector bodies.



The systemic approach is useful in understanding the complexity of the support service system. This includes a number of aspects: i) the type of service; ii) the actors in the service system; iii) the functional relationships within the system; iv) the level and scope of services; v) governance conditions. Within this systemic framework, different types of relationships between actors – both as service providers and consumers – can be found. Commercial service providers usually compete in providing goods and services for a market. However, there are also private service providers that coordinate and cooperate among themselves, particularly after recognizing the potential benefits that can be generated by being part of a value chain. There are also relationships that develop between service users, which are determined by the purchasing behaviour of individuals and households who buy goods and services for personal consumption. Moreover, there is a strong symbiotic relationship between service providers and users. Governance is another functional relationship within the service system.

Within BDS circles the systemic approach is conceptually attractive, but this requires a change of mindset and awareness of the advantages of collaboration amongst service providers. There is a need to understand clients' needs and to recognize that they lie beyond what any individual service provider can deliver by itself. Service providers should find it beneficial to refer clients to competitors or complementary service providers if requested by clients. All actors in the rural space need to recognize the potential mutual benefits from such collaboration. Just as farmers are commonly seen to collaborate and form member associations, there should be an interest among BDS providers to associate amongst themselves to create a more powerful platform that addresses common concerns such as policy issues.

Whilst many BDS practitioners realize that there is a need for broader strategic awareness of service provision within the supply chain, many challenges remain. Answers are required to a series of questions that include: i) how to effectively shift the focus of attention from the enterprise level to macro and meso level support services; ii) how to collaborate effectively with other players in the chain; iii) how to ensure that collaboration is perceived by all players as strategically beneficial; iv) how to translate sub-sector analyses into workable field programmes; v) how all these aims can best be implemented and achieved.

## **7.2 DEVELOPING INNOVATIVE AND FLEXIBLE STRUCTURES AND APPROACHES**

There is no doubt that, in spite of their good intentions, the practices of many development agencies have not lent themselves adequately towards the evolution of a market development approach (SIDA 2003). The experience from the project cases and the literature on BDS, shows that intervention has seldom been straightforward. Market development interventions require time, flexibility and an ability to engage with – and leverage action from – a wide range of potential market players. These challenges are even more severe in rural areas where markets are weak.

The traditional project design is flawed in its scope and methodology in terms of developing markets for service provision. Many of the uncertainties characteristic of these projects are a direct result of limited knowledge related to the service providers and their potential performance, as well as relative ignorance of client needs and demands. The scope of project coverage, the pace of project execution and the inputs and resources required, are all a function of; i) the response of the potential clients, as well as ii) the effects of the policy and economic environment.

Project designers have failed to identify the full range of service providers – in particular ‘hidden services’ – and to specify client needs. Projects generally lack adequate monitoring systems to assess performance and impact, and to enable them to adjust to changes identified in the course of implementation. These design impediments result in implementation problems and a limited long-term impact. Given the unknowns and uncertainties associated with market development projects, the traditional approach has tended to be overly rigid and limited in scope and coverage, focusing on organizational development rather than the broader institutional system within which projects are placed. A more systemic approach, with a greater emphasis on diagnosis and design, is likely to lead to more innovative models of intervention. A number of core principles related to ensuring sustainable impact have been observed in the course of the study and these are discussed below.

### **Flexibility and extension of the project life**

The scope and impact of donor-funded projects are limited by their intrinsically goal driven and time bound nature. Traditionally, project design has followed a ‘blueprint’ approach specifying the character and bounds of the project at the design stage. Decisions on design refer to project objectives, inputs, outputs, phasing, scope, organizational arrangements, financial arrangements, monitoring and evaluation. This approach determines the basic character of the project from inception. Most projects are bound to such a rigid framework and their short duration and limited impact – allied to the narrow scope of project intervention – suggests the need for greater realism about the likely effects of donor-funded interventions.

There is evidence that some agencies are ‘rediscovering themselves’ and have begun to modify their project formulation apparatus, in order to make it more conducive to market development.<sup>12</sup> Examples of innovative project structures and modes of operation include the establishment of trusts, apex organizations and umbrella projects that operate with greater flexibility than primary funding agencies (Hitchins 2004). The approach that is increasingly being followed is to define a limited number of strategic objectives against which performance can be measured. Below this level, more flexible procedures are in-built so that diverse interventions aimed at market development can be funded in order to contribute to overall strategic objectives (DFID 1998 and 2002).<sup>13</sup> These approaches are supported by revised planning and reporting frameworks that emphasize the measurement of impact, whilst focusing to a lesser extent on specific activities and outputs.

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<sup>12</sup> There are some donor projects that operate in a looser mould (DFID, GTZ, CIDA).

<sup>13</sup> DFID projects in South Africa and Nigeria (Commark, Propcom).

In short, systemic approaches require flexibility in design and implementation, with rolling or multi-phase programmes that combine multiple interventions and work with multiple partners over long time periods. These structures should provide sufficient time for a donor project to develop presence and credibility as well as to recycle learning.

The above proposals concerning the need for greater innovation and flexibility, allied to flexible design and implementation, are rooted in a stronger current understanding of the importance and nature of institutional development in economic growth (Dorward et. al. 2002). BDS have to be viewed within a broader economic context – particularly in rural areas – with the focus placed on market development. This requires a good understanding of the institutional context, the different actors, and their roles and interests (Hitchins 2004).

Multi-faceted, flexible interventions, working with multiple partners within longer time frames, are the kind of interventions needed in rural areas. Greater integration is also needed between sub-sectors, services, policy/regulation and governance; together with interaction across different fields and sectors, specifying local coalitions and calling for fuller participation and consultation in the design of project elements. Project or programme design requires adjustments to be introduced as changing conditions arise. It needs to reach a broader range of stakeholders, whilst emphasising ‘learning by doing’ as implementation proceeds. Design should gradually aim at creating an institutional capacity that is able to manage a learning process and ensuring sustainability. This in turn requires flexibility in funding and budget processes that place emphasis on market development rather than simple output delivery.

### **Market focus of development**

The market focus of development is a vital driving factor to ensure the sustainable provision of business services. It requires an ability to diagnose market situations and identify appropriate strategies and interventions aimed at improving the functioning of business service markets and responding to market change. Business services also need to focus on developing demand. Given the importance of these factors, the focus of attention has tended to be placed on more commercially-minded farmers, and particularly those located in proximity to urban centres. These farmers have traditionally been situated in the most favourable locations for generating agricultural surpluses and diversifying farm enterprises. However, there is also a need to encourage the development of commercial services to smaller farmers, located in areas where markets are weak.

There is now a range of market development interventions being used to address the various weaknesses in business markets – both from the demand and supply perspectives. The approach is to get clients to recognize services as a valuable commodity rather than as a public good. In practice, some of these interventions affect both sides of the market, concurrently. Particular market issues can often be addressed from more than a single angle and this flexibility should also be incorporated in programme design.

Some of the techniques that are increasingly being used to promote demand and market development include:

- Using formal education to stimulate awareness and understanding of the need for business services;
- Conducting market assessments prior to project implementation;
- Building-up local capacity to understand the market and possess the skills to respond to market changes;
- Attempting to stimulate demand simultaneously whilst conducting a market assessment (Nussbaum and Miehlebradt 2004);
- Developing local radio and other forms of mass media communication;
- Using existing modern and traditional institutions to reach target populations.

Recent BDS experience has shown these instruments to be effective and increasingly applied. A prerequisite, however, is the encouragement of competition amongst service providers, and to attract them into the sector.

### **7.3 EMPHASIS ON PROMOTING ENTREPRENEURSHIP**

The provision of business services has to be accompanied by a more general development of practices that encourage innovation and engagement with market players, and which facilitate change. Emphasis should be placed on promoting commercialization and entrepreneurship, both amongst farmers and service providers. Service businesses also require training and business strengthening in order to become viable market players. However, it is not clear how the promotion of entrepreneurship should be funded. In some contexts training is provided as a public subsidy, but this is proving to be costly and unsustainable even though cost sharing arrangements are increasingly being made. An alternative is to arrange loans to service providers to cover the costs of training and other establishment activities.

The following is a list of lessons that have been learned from a review of the general literature with respect to entrepreneurial training:

- Firstly, that any training programme should be designed on the basis of client demand. However, since farmers are often unaware of their own training needs, an important aspect of such a programme should involve stimulating demand for the programme's services. Programmes could identify specific training needs by looking at market opportunities and working backwards. By demonstrating the returns to be derived from the training, demand can be stimulated.
- Secondly, the content of training programmes should be kept flexible and broadened in line with trainee demands. New aspects of business management might be introduced to include: i) contract negotiations; ii) food quality and food safety; iii) technology development; iv) niche market penetration. In each specific case these subjects would need to be selected in line with client demand.

- Thirdly, training programmes should be designed for different stages of the farm and enterprise development process. Enterprise development is a process of change that requires different management and entrepreneurial skills at various stages of enterprise growth. More emphasis needs to be placed on existing farmer entrepreneurs – even in the more remote rural areas – rather than on identifying and introducing income generating activities amongst the entire rural population.
- Fourthly, new ways of building local capacities need to be explored. For example, Success Case Replication (FAO) and Competency base Economics through Formation of Enterprise (CEFE) methodologies rely on counseling as the main means of promoting entrepreneurship development (GTZ). This involves guiding individual farmers through processes of self-analysis and problem identification with the objective of enabling participants to solve their own problems. This is ultimately more empowering than traditional ways of building local capacities.
- Fifthly, training should be largely ‘experiential’, practical and problem-oriented, simulating the reality of the situation of the entrepreneur as both farmer and service provider.
- Finally, training should be cost effective and aimed at maximizing outreach. This can be achieved by utilizing local training capacity and organizing farmers into extension groups to reduce the transaction costs involved. Outreach can be assured by bringing the training to the clients in the rural areas and at times of the day convenient to the trainees. This may be done by sub-contracting service providers located close to the clientele, or alternatively by establishing mobile training programmes. This will help to minimize the opportunity costs associated with training (Kahan 2003).

#### 7.4 EXIT STRATEGIES AND SUSTAINABILITY

In addition to a market focus, the development of business services in rural areas requires the creation of a vision for the future, a realistic and explicit assessment of sustainability, and a clear exit strategy. The evidence from the literature suggests that inappropriate actions at the beginning of a programme all too often undermine longer-term sustainability in terms of market development (Dichter 2003). A clear understanding is needed at the outset as to where the interventions are going. Part of this process requires an explicit assessment of sustainability as a guide to the direction of the intervention, and the clarification of roles between the public and private sectors.

Developing a realistic vision of sustainability calls for more than simply financial sustainability through the design of cost recovery mechanisms, it also needs to take into account institutional aspects. This requires pragmatic thinking about the diversity of functions needed to make a specific market work, in terms of who performs those functions (who does what?) and who finances them (who pays?). Such a vision is concerned with a broad range of services – *inter alia* information, skills and product development, standards, regulation and research – which are needed to ensure that markets operate optimally. There is an institutional complexity that underpins market development that needs to be appreciated.

The use of subsidies cannot be ruled out, particularly in areas with weak markets. A distinction, however, needs to be maintained between the temporary, facilitative subsidy of development interventions and that of long-term public funding for core functions by national or local governments. The simple fact is that not all subsidies are the same and failure to recognize this can lead to inappropriate and unsustainable institutions and, ultimately, increased dependency.

An exit strategy will usually involve the phasing-out of subsidies, in particular those directed toward the transaction between service provider and client. While transaction subsidies are often warranted at the beginning of a development project, in most cases they should be quickly removed in order to minimize distortions.

However, a note of caution is due. If the gap between local resources and financing requirements is too pronounced in the short and medium term, the basis of their feasibility should be questioned. Projects should avoid high costs strategies in the first place, and more modest and appropriate alternatives should be sought. This requires obligations on the part of both public sector bodies and private enterprises in order to ensure that planned initiatives: i) have access to a market; ii) address social and environmental concerns; iii) prove financially viable.

## 7.5 MONITORING AND EVALUATION

### System design

Given the importance donors place on adopting a sector-wide, systems approach to service delivery, there is a need to consider an innovative design for monitoring and evaluation (M&E). This should incorporate all stakeholders in the supply chain and track the institutional changes that are needed to create a fully competitive environment for service provision. An understanding of the complex chain of causality between intervention and impact is intrinsic to any move towards a systems perspective for business service development. The systems approach to market development would focus on systemic causes rather than business symptoms. Therefore, it would generate a more complex set of causes and effects than has previously been captured and documented within the BDS literature. As all actors involved in service delivery are engaged as interested and active stakeholders, the design for monitoring and evaluation needs to take into account this new thinking.

Donors, governments, development agencies and the private sector should be informed of the effect that their efforts are having, individually and in combination, at each level of the system (macro, meso and micro). This is necessary for improving operations and ensuring due diligence and accountability, as well as providing a feedback mechanism for learning purposes. As a starting point, the M & E system needs to cover individual interventions separately – while being linked to an ‘umbrella system’ that captures synergies, downstream effects and other externalities. This requires that the complex system of market development is split into discrete parts, with recognizable indicators attributable to specific interventions.

The absence of monitoring and evaluation systems was noted amongst the case studies, as well as a dearth of information on basic costs and on the characteristics of clients and their numbers – all data that are necessary for analysis of cost recovery and general performance of the system. The field of BDS development is still grappling with the development of a common performance measurement system to confirm the overall impact of BDS projects. With an interest towards broadening the system, rethinking is needed concerning an appropriate M&E design that incorporates the standards and indicators needed for different types of programmes in varying contexts.

### **The public sector as monitor**

The public sector has an important role to play in monitoring and supervising the performance of the private sector, enforcing standards and protecting the public interest. This requires donors to set aside the necessary funds to ensure that effective monitoring occurs. Government agencies responsible for implementation should set performance standards as a way of ensuring the provision of quality services. A key requirement is to break down market development into recognizable indicators that can be attributed to specific interventions. The data collected needs to be analysed, and the processed information disseminated at regular intervals to policy makers. The provision of a feedback mechanism allows mistakes to be remedied and lessons incorporated into the next phase of the reform process.

### **Performance and impact**

Stakeholders need to assess jointly the performance and impact of support service initiatives. Evaluation should be a combination of ex-ante and ex-post procedures incorporating impact appraisal with needs assessment, as part of the normal activities of the project or programme. The information gained from these on-going studies should be broadly disseminated amongst stakeholders. Such information should offer a good basis for improving programme design and comparing interventions. It should facilitate decisions on their effectiveness, as well as that of the service delivery modalities. Information of this kind would also be useful for stakeholders as a means by which performance can be enhanced. The information gathered, the documentation of lessons learned and the insights gained, are invaluable to promote and support farm enterprise development. In doing so, it bridges the isolation of potential entrepreneurs in rural areas from access to knowledge and experiences, as well as from links to sources of innovation. These are fundamental issues for the development of BDS markets, particularly when adopting a broad-based systemic approach.

## 7.6 CREATING MECHANISMS FOR STAKEHOLDER COORDINATION

One dilemma facing both donors and public sector agencies is how to accurately identify, target and implement interventions – in partnership with a range of other actors – in ways that are non-distorting, market-oriented and capable of generating the benefits expected over the long-term (Joffe 2003). Greater understanding is required of the institutional system in the broad sense, as well as the roles of different players in the market. There is a need to address development through concerted action of multiple stakeholders and to create mutual trust amongst them.

Concerted actions can prevent conflicts of interest developing between programmes. However, in practice, efforts at active collaboration tend to be rare. A central problem facing donor agencies engaged in the promotion of BDS is how a genuine commitment to greater collaboration, exchange, joint projects and agreements on practices can be turned into a tangible reality. This requires not only liaison to coordinate donors' actions, but also consensus on how they are performing. For example, the existence of another donor-supported BDS initiative in a neighbouring area may not in itself be problematic, but it becomes a major problem if its method of implementation contrasts with agreed 'good practices'.

Failure to make an effort to charge fees for particular services is likely to have a damaging impact on the general market for business services. It is difficult for a donor to pursue a market development approach if the other collaborators subsidize transactions, and offer publicly-funded services in the same market. Service providers will almost always choose to work with a donor who will subsidize transactions rather than an organization that advocates market development. As previously noted, free services dampen the willingness of farmers to pay. In markets with relatively few suppliers, these suppliers can be overloaded, or lose their commercial focus, if they receive significant financial resources from several donors. This type of complexity needs to be avoided and this aim can best be achieved through establishing forums for donor dialogue and sharing of policies, strategies and experience. Hence, in order to promote coordination amongst donors and stakeholders in general – and to share the responsibilities and risks between the public and private sectors – practical mechanisms need to be found at various levels. Some of the ways in which farm level business services can be promoted are described below:

*Joint venture/subcontracting arrangements.* There are nascent signs that joint ventures and subcontracting arrangements are developing between the public and private sectors, and specific organizations within them. This is currently occurring between 'generalist' development agencies and specialist BDS providers. It is a positive sign and offers considerable potential benefits arising from focus and specialization, while maintaining a broad systems perspective. GTZ is particularly active in this field, working closely with private sector companies for a limited time, jointly designing interventions to address market weaknesses and sharing costs.



**Networking and stakeholder involvement.** Partnerships and networking need to be developed between stakeholders involved in developing knowledge systems. This calls for the development of linkages and networks between farmers, service providers, training and research institutions, and other support services. Broad stakeholder involvement should be encouraged to include all service providers and to promote formal and informal learning of the dynamics and challenges of BDS provision. Ultimately, it is important to place the obligation for satisfactory performance on the service providers and to promote the ‘demand led’ approach regularly referred to. Knowledge management can be assured through the organization of business clubs, or other associations which bring together farmers, the private sector, NGOs, and government. In this respect, donors or government could provide a facilitation role, and coordinate action among service providers.

**Local level partnerships.** Partnerships also need to be formed at local level between the private sector, government and donors. In particular there is often the need to organize the informal private sector – which consists of traders, input dealers, and middlemen – to participate in a platform for dialogue and information exchange. This forum should provide them with the political voice that they need in order to be heard. Through mechanisms such as these, donor and public agencies would work together with local government as partners in market development. The success of this initiative has been hampered by lack of capacity at local level to identify, select and work with private business service providers. This process needs to be strengthened in specific locations and will require donor support.

### Box 20

#### Local economic development agencies in Manica (ADEM) and Sofala (ADEL) provinces, Mozambique

Manica Development Agency (ADEM) is a non-profit institution with a membership comprised of local public and private institutions. ADEM was established to promote local economic development in Manica province through productive activities, which include beekeeping, poultry, tea and value adding enterprises such as fruit and vegetable preservation. ADEM has also been involved in promoting entrepreneurship through the provision of business services and microfinance and has established a business forum aimed at promoting dialogue between the public and private sectors. Business advisory services are provided on a fee basis with payment made by group leaders. Capital is generated from payment of entry fees and monthly membership dues.

Sofala Development Agency (ADEL) represents NGOs, public sector and private sector bodies and farmers. Its mission is similar to ADEM. The agency is mandated to expand the range of opportunities for disadvantaged populations in a sustainable manner. Activities focus on promoting the province’s potential in order to attract economic partners, identify new business opportunities, support farmers and small entrepreneurs, and facilitate partnerships among local producers, businesses and firms. The approach assumes that local economic development is best promoted as a multi-stakeholders endeavour, involving private, public and non-profit actors. Within this framework, private enterprise is considered as a generator of important social spillovers, such as employment and welfare. It also recognizes that it is the joint responsibility of the public and private sector to promote and support the capacity of micro, small and medium-scale entrepreneurs.

ADEL also provides rural finance to the private sector for the provision of commercial services, trading and freight within a maximum ceiling of \$23 000. ADEL is expected to act as a catalyst for economic development and facilitates access to services of strategic importance (credit, technical assistance, business development services, marketing, etc). The agency is expected to become financially independent within the next five years. Sources of revenue include recovery of service delivery costs, overheads on specific projects supported by external donors, and the generation of profits through rural enterprise development.

Stakeholder coordination can be promoted by identifying the supporting roles of all actors and efficiently shaping their relationships and links. Negotiations between representatives of public and private bodies are central elements of this process. Platforms and forums for negotiation need to be set up in order to develop a common understanding and vision among the different stakeholders. Stakeholders can be brought together through public sector initiatives inviting the private sector to meetings, trade fairs and other forums.

Meetings could be arranged on a sub-sector, commodity basis with the presence of government, chambers of commerce, private business, NGOs and CSOs. External non-partisan, steering committees could also be formed, with representatives from different interest groups along the supply chain. These committees would be required to agree on development priorities and derive an agenda for business service provision based on these priorities. This implies that the governance of stakeholder partnerships might best be placed outside the partner organizations, and that the success of these partnerships may hinge on the development of appropriate forums for consultation and negotiation. Governments seeking to use public-private partnerships as a tool for the provision of business services need to reflect carefully on the most effective design of these bodies.



## 8. Issues and future directions

This final chapter of the paper briefly reviews the issues regarding the provision of business services and attempts to indicate future directions

### 8.1 MAJOR ISSUES EMERGING FORM THE STUDIES

The key conclusion that emerges from the analysis contained in the previous chapters is that there is an urgent need to develop a better understanding of the wider context related to BDS market development as a whole, as well as to more specific issues concerning the modalities of service delivery, quality, penetration and sustainability.

In chapter 7, it was seen that the underlying factors for the successful promotion of BDS market development were:

- An enabling environment
- Public-private partnerships for service provision
- Good governance
- Decentralized service delivery

The specific issues, which were discussed in the previous chapter, can be summarized as follows:

- Systemic approaches to service delivery
- Developing innovative and flexible structures and approaches
- Emphasis of promoting entrepreneurship
- Exit strategies and sustainability
- Monitoring and evaluation
- Creating mechanisms for stakeholder coordination

A majority of the cases profiled in this report have concentrated on interventions focusing on sub-sectors with growth potential. Sustainable development services are usually found in countries and regions where economies are growing, and there are good opportunities for innovation and entrepreneurship. These opportunities are located mainly among the more commercially-minded farmers and rural entrepreneurs with the capacity and potential to make the best use of farm business support services. In effect this captures the traditional BDS market development philosophy, in that the route to poverty alleviation runs through business enterprises with good growth prospects – usually located in higher potential areas.

However, there is a substantial segment of the economy where the problem is not so much one of localized market failure, but rather a result of the lack of appropriate market structures of any sort. This is particularly true in the case of poorer and more marginal farmers who are often far removed from market opportunities, both geographically and culturally. The essential question is what can be done in disadvantaged areas where markets are weak. The challenge facing the international donor community is to 'make markets work for the poor'. This challenge can only be met by developing a better understanding of the wider context of market development.

Careful consideration is needed of the effect of the whole range of business-related constraints on commercial farming. A more effective approach might be to address constraints such as illiteracy, innumeracy, low access to information and limited levels of awareness of business opportunities. This will require, as an entry point, a diagnosis of local institutions and stakeholders responsible for service provision, together with a better understanding of the market functions they perform. An assessment of the norms and values of the target clients and indigenous service providers might yield alternative entry points, such as an educational focus or the promotion of awareness campaigns through the use of mass media.

For this paradigm shift to occur, more comprehensive and longer term interventions will be required in order to develop business service markets. The identification of interventions that attempt to build such markets poses a formidable challenge. This process will require a concerted effort by a broad base of stakeholders, with NGO's playing a predominant role. It also calls for due consideration of the need to balance the development goals of government and the business goals of commercial suppliers of business services.

## **8.2 FUTURE DIRECTIONS**

Two main reasons lay behind the BDS market development approach:

- The failure by development agencies to provide adequate services to businesses; which pushed these agencies into an unprecedented reassessment of their work. BDS market development emerged from this hard (and sometimes painful) learning process;
- The growing importance of business services, which are now among the highest growth sectors in most economies.

In 'conventional' development interventions related to small and medium enterprises, (SMEs) projects ask: 'What problems do businesses have and how can I help to solve these?' whereas those with a market development perspective ask, 'What problems do businesses have and why isn't the market environment providing solutions to them?' One approach is mainly concerned with asking why the business isn't working, whereas the other is concerned with the underlying development problem; Why the market within which the businesses exist is not working? (Hitchins 2005)

Market development offers the same clarity in terms of conceptual framework, rationale and approach to agricultural BDS, that it does in other sectors. The immediate task of private sector development is given greater focus and consistency, namely to help markets – whether in services, finance or goods – to work more effectively and inclusively. Instead of placing different aspect of sector development into separate boxes – enabling environment, financial services, BDS etc. – they are united by the market development objective.

The market development approach has made notable progress, but in order to ensure that these initial, positive steps are built upon successfully, the field now needs to address a number of key, broad-ranging challenges. These are concerned with:

- reasserting the conceptual rigour that underpins the business services market development approach – especially the flow of logic and the market analysis;
- integrating the poorest strata of rural society into the economies and markets;
- confronting the difficult issues of how to operationalize the approach (flexibility in project design, defining the role of the state, developing facilitation offers) and building the capacity of organizations and personnel to undertake key tasks.

These issues are not unique to business services – the challenges are similar to those that need to be confronted in the wider private sector development field. Indeed, recent literature makes it clear that BDS market development terminology is being replaced in favour of terms that underline this common ground, while explaining how market development can help the poor benefit from economic growth. What was understood as BDS markets are increasingly being called business service markets, commercially viable solutions, or support markets. Thus the terms ‘BDS’ and ‘BDS market development’ are rapidly being subsumed by the wider frameworks of: i) improving the enabling environment for economic growth; ii) developing support markets iii) making markets work better for the poor; iv) value chain development or market linkages whereby small enterprises are integrated into viable markets in ways that benefit the poor (ILO 2005).

It is vitally important that this evolution in terminology does not cause the important lessons of BDS market development to be forgotten. Knowledge of how to stimulate competitive markets – rather than distorting them and creating dependency – should continue to be translated and applied, while relevant insights must still be gathered and disseminated.



## Annex I – Definitions

*Business Development Services (BDS):* services that improve the performance of the enterprise, its access to markets, and its ability to compete. The definition of ‘business development services’ includes a wide array of business services, both strategic and operational. BDS are designed to serve individual businesses, as opposed to the larger business community.

*BDS facilitator:* an international or local institution which has as its primary aim to promote the development of local BDS markets. This may include a range of services to BDS providers (e.g. development of new service products, promoting good practice and building provider capacity) and to BDS consumers (e.g. information, education about the potential for BDS purchase). A BDS facilitator may also perform other important functions, including the external evaluation of the impact of BDS providers, and advocacy for a better policy environment for the local BDS market. Currently, most BDS facilitators are public institutions, NGOs or project offices of donors, and are usually funded by governments or donors.

*BDS provider:* a firm, institution or individual that provides BDS directly to MSEs. They may be private for-profit firms, private not-for-profit firms, NGOs, parastatals, national or sub-national government agencies, industry associations, etc. They may also be firms whose core business is not services, but who provide them as part of a broader transaction or business-to-business relationship.

*Cost effectiveness:* a service (of a given type and quality) is cost effective if it is provided at the lowest possible cost.

*Cost recovery:* refers to the extent to which the costs of providing a good or service are covered by revenues from the consumers. The cost recovery of delivery may be separated from the up-front costs of initial development.

*Impact (sometimes called ‘effectiveness’):* the effect of the service on the performance of MSE client (i.e., that which can be attributed to the service itself, not to outside factors), or the broader economic and/or social effect of the intervention.



*Outreach* (sometimes called ‘coverage’ or ‘scale’): the proportion of the target population that uses the service. This definition is focused on enterprise clients, and is more restrictive than the broader sense of ‘coverage of underprivileged groups’ such as the poor or women, as used by some authors.

*Private good*: a good (or service) is said to be private if the benefits of consuming it are fully appropriable. For example, if the benefits of a business service accrue solely to the MSE purchasing that service, that business service is a private good.

*Public good*: a good (or service) is said to be public if the benefits of consuming it are not fully appropriable. A pure public good has low excludability and low subtractability.

## Annex II – List of case study projects

Project	Services		Income source	Clients	Enterprise focus		Characteristics	
	Financial	Non financial			Primary products	Micro-enterprise	Small enterprise	
India: Creating markets for micro-irrigation technologies		Irrigation services	On farm	Smallholders	Horticulture		Assemblers – input dealers	Commercial delivery of micro-irrigation kits Sustainable supply chain
India: Commercial delivery of information services		Market and technical information	On farm	Marginal farmers Government agencies NGOs	Commodities		Commodity traders Agroprocessors	Customized information Delivery through multiple channels
India: Contract farming by Pepsico	Input credit	Technical advice Buy-back arrangements	On farm	Contract farmers	Tomato			Embedded services
India: Community management of irrigation services		Water supply	On farm	Water user groups	Commodities			Decentralized management Ownership of the users User fee for services
India: Rationalizing the procurement supply chain		Price and Market trend information	On farm	Farmers	Soybean Tobacco Wheat Shrimp			ICT application for farmers Embedded services Provision of alternate markets
Sri Lanka: Experience of small farmers and landless credit project	Savings Microcredit Monitoring of loan repayment	Enterprise development training Financial management skills Self-help group training/ guidance Marketing support Advisory services Market and production information	On farm  Off farm	Women  Small farmers  Landless	Paddy Cash crops Dairying Buffalo Goat farming Poultry farming Pig production Fish drying	Coconut toddy and honey Coconut fibre Copra/ coconut oil Coconut charcoal Cinnamon peeling	Bricks Garments Carpentry Batik Mat weaving Blacksmiths Handloom Bag manufacture Cart/ bicycle repair Cashew processing	Group lending Credit plus

Project	Services		Income source	Clients	Enterprise focus		Characteristics	
	Financial	Non financial			Primary products	Micro-enterprise	Small enterprise	
Sri Lanka: Microfinance linked rural development support scheme	Rural savings Microcredit Preparation of bankable proposals Monitoring of loan repayment	Enterprise development training Advisory services Training in technologies, entrepreneurship and management Information on quality standards and market information	Off farm  On farm	Rural youth	Commodities		Microfinance through private commercial bank  VDAs employed by the bank as facilitators	
Sri Lanka: Export Production Villages	Rural credit	Supply of inputs Packaging of products Training on processing and quality assurance Accounting and small enterprise management Marketing support Formation of companies Linkage formation	On farm  Off farm	Farmers	Fresh fruit Pulses and oil seed Vegetables Cut flowers Ornamental plants	Coconut fiber and other products Palmyra products	Export-oriented production through the development of EPVs  Sub-sector approach Public sector institutions facilitated links with private sector exporters	
Sri Lanka: Cut flower export scheme	Financial assistance	Input provision Technical advice Training Market outlets Mother plant multiplication by tissue culture	On farm	Small-scale growers	Cut flowers		Subsector approach Farmer-exporter contracts SLEDB	
Nepal: Animal health services for small scale livestock farmers		Animal health services Services to introduce new breeds Technical assistance to increase forage production Livestock marketing Establishment of a veterinary clinic Medicines Training in technical and management aspects of livestock production	On farm	Seed growers	Commercial vegetable seed production		Vegetable seed for export Facilitated by the SEAN Facilitate linkages between farmers and private seed companies	

Project	Services		Income source	Clients	Enterprise focus		Characteristics
	Financial	Non financial			Primary products	Micro-enterprise	
Nepal: Seed entrepreneur-ship		Sources of inputs Market study tours Linkage formation among farmers, input suppliers, seed marketing companies Market information and market promotion Group production and marketing training and technical assistance	On farm	Seed growers	Commercial vegetable seed production		Vegetable seed for export Facilitated by the SEAN Facilitate linkages between farmers and private seed companies
Nepal: Beekeeping enterprise development		Input supplies Quality improvements Equipment supplies Marketing services and export promotion Advisory services Training in beekeeping Links with manufacturers Research and development Buy-back arrangements	On farm Off farm	Small-scale farmers	Honey production	Beehive manufacturing Inputs	Sub-sector appraisal GBC is the principal service provider Provides embedded services
Bangladesh: Seed production company		Support to two groups of farmers (to supply foundation seed; to produce seed paddy) Training to contract farmers (production, processing, quality control, marketing) Training in business planning Buy-back arrangements	On farm	Women farmers	Paddy seed Vegetable seed production		Women farmers company supporting farmers for the production of seed paddy Local NGO provides support to farmers groups
Bangladesh: Agri-Business corporation	Linkages for access to finance through Bangladesh Agriculture Bank	Technical assistance in maize and rice production Provide quality maize seeds Advisory services Buy-back of produce	On farm	Small-scale farmers	Maize production Rice production	Small-scale agribusiness development Small-scale agriprocessing	Private sector initiated extension systems Outgrower schemes: Agribusiness Corporation

Project	Services		Income source	Clients	Enterprise focus		Characteristics
	Financial	Non financial			Primary products	Micro-enterprise	
Uganda: Cotton enterprise development		Cotton growers demonstration plots Extension services through NGCU Linkage with cotton buyers Cotton processing services	On farm	Cotton producers	Cotton	Ginnery	Implemented through Nyakatonzi Growers Cooperative Union (62 farmer societies)
Uganda: Intensification of rural maize producers		Establishment of demonstration plots Improved practices and technologies Training workshops Marketing: joint venture agreements		Small-scale farmers	Maize production		Implemented through Nyakatonzi Growers Cooperative Union (62 farmer societies)
Uganda: development of retail agro-input dealers		Training in agro-input retailing and management Advisory services Marketing and market information Input supplies and information on regulations Networking among agro-input dealers Business development training	Off farm	Entrepreneurs		Agro-input supply	Input supply through the organization of retail dealers (UNADA)  AT Uganda is an NGO that supports UNADA
Uganda: Micro and small enterprise development	Linkages with MFIs and commercial banks	Capacity assessments Management Training Market linkage training Feasibility studies Retail trade of books, stationary, etc. Advice on contract preparation		Micro and small rural entrepreneurs			BDS provider was a one owner company known as KULAKULA Management Consultants CBOs and CSOs and business associations are intermediaries for BDS provision.

Project	Services		Income source	Clients	Enterprise focus		Characteristics
	Financial	Non financial			Primary products	Micro-enterprise	
Rwanda: enterprise development-coffee farmers	Negotiated a credit facility	Training to supply quality cherries Training on management and prevention of coffee diseases Quality certification Transport and logistic support Information and buying centres timely supply of inputs Business development plans	On farm Off farm	Coffee farmers	Coffee	Processed and washed coffee	Maraba coffee washing centre, managed by a cooperative "Coffee Producers Association of Maraba"
Rwanda: cooperative for development of agriculture	CODAF finances seed potatoes Supply of pigs on loan to farmers Microfinance for savings and credit	Informal agreement linkages Buy-back of produce Extension services to farmers Provision of pigs (breeding centre) Training and capacity building (production/ marketing) Marketing of produce	Extension services Storage Transport facilities Marketing of seed potatoes and fertilizer to farmers Marketing of potatoes and livestock products	Progressive farmers Farmer	Fruits and vegetables Potatoes Pyrethrum Livestock		Business services embedded into extension services CODAF cooperative offers examples Sub-sector approach
Rwanda: farmer managed processing facilities		Advisory services Supply of inputs Maintenance and protection of paddy fields Technical training	On farm Off farm	Small-scale farmers	Paddy		Cooperative union (consisting of 7 cooperatives) Farmers took over the management of a mill and are shareholders of a processing plant
Burkina Faso: Production of export processing		Development of a package of appropriate technologies Training of producers and processors Advisory services for cultivation and processing Guidance for quality assurance Marketing support Research and development to improve drying equipment	On farm	Emerging commercial farmers	Organic mango for export Dried mango for export	Dried mango for export	Subsector CEAS a consultancy bureau provides services



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