



RESEARCH PLAN
COMPONENT A: CLIENTS AND MARKETS
AMAP BDS KNOWLEDGE AND PRACTICE
(NOVEMBER 18, 2003 – E. DUNN)

INTRODUCTION

This research plan provides a guiding framework for component A of AMAP BDS Knowledge and Practice, also known as the *Clients and Markets Research*. It includes a blueprint for research collaboration between contractors in three AMAP consortia. The collaboration is organized around a number of shared components, including a shared vision, research objectives, conceptual framework, and core hypotheses. In addition, the research plan incorporates structural elements to coordinate the work of the consortia members. Component A will also be closely coordinated with component C, the *Intervention Design and Implementation Research*. The relationship between these two components is described in the research plan for component C.

VISION STATEMENT

The overall vision for the AMAP BDS Knowledge and Practice project is to promote the development of micro and small enterprises (MSEs) and to increase their participation in productive economic sectors at the local, regional, national, and/or global levels:

“AMAP BDS is about creating wealth in poor communities and promoting economic growth by sustainably linking large numbers of MSEs into productive value chains.”

Within this overall context, component A focuses on MSE owners and their decisions to develop their businesses and/or link into broader markets. The component A research is concerned with MSE owners’ willingness and ability to enter new markets and value chains. It is also concerned with clients’ effective demand for business development services (BDS), where effective demand encompasses both willingness and ability to pay. The component A research places primary emphasis on the decisions made by entrepreneurs and the factors that either promote or inhibit MSE business development. The guiding vision for component A is

“To create a better understanding of the factors that promote or inhibit MSE business development, where business development is defined both in terms of entering new markets and value chains and business upgrading through BDS.”

PURPOSE

The purpose of this research is to address the real and pressing problems of economic development faced by governments, USAID missions, and other donors. This will be accomplished through a focused set of research activities that lead to the identification of promising strategies for promoting broad-based economic growth. Moreover, the research will be conducted within the specific contexts within which USAID operates, including post-conflict settings, HIV/AIDS-affected populations, and natural resource management programs.

The research will address several key implementation issues faced by USAID missions. The table below lists four of these implementation issues. Beside each issue is the solution offered by AMAP BDS Knowledge and Practice. The last column in each row indicates how the research outputs under component A will address the implementation issues and help USAID missions formulate strategies for reaching the solutions.

Implementation Issue	AMAP Solution	Research Output
1. How can I promote economic growth, while at the same time addressing the need to reduce poverty?	Broad-based economic growth can be achieved by harnessing the growth potential of large numbers of MSEs and linking them into productive value chains.	Strategies for promoting MSE integration into new markets and value chains by increasing MSE owners' entry incentives and reducing their entry barriers.
2. How can MSEs be integrated into productive value chains, when they lack sufficient skills and capacity to compete in these new markets?	MSE skills and capacity can be upgraded through BDS, financial services, and improvements in the enabling environment.	Strategies for upgrading MSE owners' skills and capacity by increasing their effective demand for BDS.
3. How can programs to integrate MSEs into value chains be cost effective, when such a large number of tiny businesses are involved?	MSEs can be integrated into value chains more cost effectively by promoting inter-firm cooperation, producer groups, clusters, associations, strategic alliances, etc.	Strategies for promoting producer organizations and inter-firm cooperation by reducing risks and transaction costs and encouraging the formation of effective social capital.
4. Can this approach to broad-based economic growth succeed in really difficult situations, such as post-conflict areas, HIV/AIDS-affected areas, and remote regions?	In order to integrate specific groups of MSE owners into more productive markets, it is necessary to understand their unique assets, limitations, and attitudes.	Strategies and tools for identifying specific types (or "segments") of MSE owners and identifying their unique characteristics.

RESEARCH OBJECTIVES

The overall objective of the AMAP BDS Knowledge and Practice project is to generate new knowledge and to draw from existing knowledge in order to improve USAID practice. The activities conducted under the overall BDS Knowledge and Practice project will assist USAID in answering the following key question:

What are the best ways for USAID to promote broad-based economic growth that includes MSEs?

All of the components under the BDS Knowledge and Practice task order will contribute to answering the key question above.

The Clients and Markets Research under component A has four specific objectives:

1. **To develop a conceptual framework** for understanding and analyzing the business development decisions of MSE owners;
2. **To identify the most important factors that promote or inhibit MSE owners' willingness and ability to enter new markets and value chains;**
3. **To identify the most important factors that promote or inhibit MSE owners' effective demand for BDS;** and
4. **To provide USAID missions with information and tools** that will help them design and implement projects that promote economic growth through MSE business development.

These objectives complement the objectives of component C, which will focus primarily on systems-level strategies for enhancing MSE participation in competitive markets. Component C will consider the supply-side constraints to business development and the distribution of rents in value chains by addressing a set of related questions such as the following:

- What are the opportunities for MSEs within competitive value chains?
- Is integration into certain types of value chains (e.g., domestic vs. export, specific commodities) more advantageous to MSEs?
- How do the risks to MSEs differ for different types of value chains?
- How can we identify value chains in which MSEs will benefit over the long term?

Taken together, the results from components A and C will provide information and guidance to USAID missions for developing and implementing projects that remove the constraints to MSE business development and market integration, thus promoting the broader objectives of economic growth and poverty reduction.

CONCEPTUAL FRAMEWORK

The Clients and Markets Research will focus on the factors that influence MSE owners' business development decisions, with an emphasis on 1) their decisions to enter new markets and participate (or not participate) in transactions within a value chain and 2) their **effective demand**¹ for BDS. The research will consider both positive factors that promote business development and negative factors that inhibit or constrain business development. The primary **unit of analysis** for the research will be the entrepreneur who owns and operates an MSE. The research will examine the influence on MSE owners' decisions from three types of factors: risk, transaction costs, and capital.

Risk is defined as an actual loss or the chance of a loss. MSE owners may respond to a spectrum of risks, including **financial risks** related to profits and income. Profits are affected by financial risk if the MSE's costs and/or revenues are uncertain. When profits are uncertain, the entrepreneur may evaluate an alternative by calculating its **expected returns**.² However, even when the expected returns of an alternative are relatively high, an entrepreneur may decide against it because it creates profit volatility, which could lead to fluctuations in household income.³

MSE owners may also consider other types of risks when making business development decisions:

- **business risks** related to the possible loss of autonomy and control over production processes through interlinked (bundled) transactions and expanded contract obligations;
- **social risks** from leaving established networks in which there is sufficient social capital to provide social cohesion and trust among entrepreneurs; and
- **regulatory risks** related to loss of privacy and possible detection by civil authorities of unregistered activities.

Transaction costs may also play an important role in MSE owners' business development decisions. Transaction costs are "the costs associated with gaining knowledge about the economic environment and with reaching and maintaining

¹ Effective demand refers to both 1) the willingness or desire of MSE owners to acquire BDS, and 2) their ability to pay the required acquisition costs, which include both direct (out-of-pocket) costs and the opportunity costs of their time.

² Expected returns are calculated by considering all possible outcomes and the probability that each will occur; it is the sum of net returns from all possible outcomes multiplied by the probability that each will occur. For example, a trader might be considering traveling to a wholesale market to purchase goods for resale, but she is uncertain about the input prices she will find at the new market. Suppose she thinks there is a 60 percent probability that the inputs will cost \$100 and a 40 percent probability that the inputs will cost \$140. In this case, the expected input costs at the new market are $(.6)100 + (.4)140 = \$116$. To calculate her expected return from traveling to the new market, she would subtract the expected input cost of \$116 and her added travel and transportation costs from her expected sales revenues.

³ The MSE owner might reject an uncertain alternative because his/her willingness to accept risk, or **risk tolerance**, is too low. Risk tolerance levels may be associated with certain characteristics, such as gender and income level.

agreements between economic actors” (Dunn 1991, 51). Also defined as all of the non-price costs of engaging in a transaction, transaction costs can be organized into three categories: information costs, contracting costs, and the costs of contract enforcement. A recent review of theoretical and empirical research concluded that the poor enabling environments typically found in developing countries impose a disproportionately high level of transaction costs on MSEs, as compared to larger firms (Ernst 2003).

Certainly, MSE owners’ decisions are affected by the availability of accurate **information** about BDS and market integration opportunities. The high transaction costs associated with acquiring relevant and useful information about business alternatives may help to explain why some MSE owners do not pursue alternatives that, on the surface, appear profitable. This is because an MSE owner considers both the price and non-price (transaction) costs in determining the profitability of an alternative.

Transaction cost theory can also explain why MSEs that are similar in many ways do not select the same business alternatives. While the price-related costs of acquiring BDS may be the same for all MSE owners, the levels of transaction costs may vary across individual business owners. Similarly, the transaction costs associated with integrating into a value chain may differ for MSEs that have different transaction costs, leading them to make different choices about market integration. In summary, by recognizing that similar MSEs can face different levels of transaction costs, we can explain the divergent market decisions of MSE owners.

In addition to highlighting the importance of information costs, the transaction cost literature provides another valuable conceptual insight for the BDS Knowledge and Practice task order. At the systems level and the level of **lead firms**, a transaction cost approach can be used to understand why some transactions are vertically integrated within a single firm, while others are organized as market transactions between separate, but coordinated firms in a value chain. According to this literature, a transaction will be organized within a single firm if the transaction costs of engaging in a market (non-integrated) relationship exceed the management costs of relying on a transaction that is internal to the firm (Coase 1937; Demsetz 1967; North 1977; Cheung 1983; Williamson 1985).

Capital is the third major factor assumed to affect MSE owners’ business development decisions. The alternatives available to the MSE owner may be determined both by the levels of capital that the firm has already accumulated, as well as the costs of acquiring additional capital. There are four categories of capital:

- **fixed capital**—physical installations, furnishings, equipment, tools, machinery, etc.;
- **working capital**—cash, inventory, and goods in process;
- **human capital**—training, skills, health, entrepreneurial ability, and the capacity to innovate; and
- **social capital**—shared values and relationships; “the norms and networks that facilitate collective action” (Woolcock 2001, 13).

In particular, social capital has a role to play in the formation of value chains. In explaining the difference between value chains and supply chains, Milstein highlights the importance of social capital:

“The conversion of supply chains into collaborative learning organisations is a process which sees the metamorphosis of competing elements in a value chain collaborating to their mutual benefit to the point when, through 1) trust [and] 2) information sharing, a competitive advantage is created against other chains competing in the same market.”
(Milstein 2003)

In other words, the level of social capital—in the form of social cohesion and trust—affects the formation of clusters and subcontracting arrangements.

There are also different ways that risk, transaction costs, and capital can interact to affect the business development decisions of MSE owners. Some examples follow:

- risk and transaction costs—MSE owners may lack sufficient information to accurately assess the expected returns of their alternatives.
- risk and capital—MSE owners from households with low levels of capital (assets) may be particularly vulnerable to the harmful effects of risk (Sebstad and Cohen 2001).
- transaction costs and capital—MSE owners face higher transaction costs when they are contracting in an environment of low social capital.

Finally, the conceptual framework for analyzing clients in markets must be based on the assumption that MSE owners are **rational decision makers**, meaning that they consider their alternative opportunities, their resource constraints, and their own objectives and priorities when making decisions. There are some situations, however, when the decision process may not appear rational to the outside observer. For example, MSE owners may

- lack full and accurate **information** about their alternatives;
- make management decisions about an individual MSE within the context of the overall **household economic portfolio**, in which a larger set of household resources and alternatives are considered and intrahousehold bargaining may be occurring (Chen and Dunn 1996); and/or
- consider **multiple criteria** in their decision making, in an attempt to balance, for example, priorities for profits, income security, and capital accumulation.

RESEARCH QUESTIONS AND HYPOTHESES

The key question to be answered under component A is the following:

“What are the most important factors that affect MSE owners’ ability and willingness to upgrade their businesses; enter new

markets; and integrate into local, regional, national, or global value chains?”

The conceptual framework introduced in the previous section provides a context for identifying specific hypotheses that, when tested, will provide useful information about MSE owners’ business development decisions. As a starting point, the conceptual framework suggests working hypotheses related to risk, transaction costs, and capital. These **working hypotheses** are general assumptions about how MSE owners, as rational economic decision makers, will behave:

1. **Risk:** MSE owners will not pursue business development if their expected returns are too low.
2. **Transaction cost:** MSE owners will not pursue business development if their transaction costs are too high.
3. **Capital:** MSE owners will not pursue business development if their levels of **capital** are insufficient to support the transaction.

As expressed above, the emphasis is on the constraints that **inhibit** business development. However, the working hypotheses can also be expressed in terms of positive conditions that **promote** business development:⁴

MSE owners will pursue business development opportunities when their expected returns are high, their transaction costs are low, and they have sufficient levels of capital.

These working hypotheses are consistent not only with the conceptual framework described above, but also with the accumulated experience of the team members. In discussing the question “if business development is beneficial, then why don’t MSE owners pursue it?” team members generally agreed on a number of possible reasons, which apply in different ways to different MSE owners:

- it’s too costly, in terms of both time and money;
- they lack information;
- they have competing household priorities;
- there’s too much risk involved;
- it’s too complex, given their level of knowledge;
- it’s inappropriate to their current business stage;
- their culture isn’t oriented towards profit and wealth accumulation;
- they have a “can’t do” attitude.

⁴ Some of the underlying assumptions to this positive statement of the working hypotheses are that business development opportunities are available and that they are, in fact, beneficial to the MSE owner. These assumptions will be tested under component C, which will focus on the characteristics of markets and industries that provide beneficial opportunities for MSE entry.

This research will seek to deepen our knowledge by identifying and testing specific hypotheses about how risk, transaction costs, and capital influence MSE owners' business development decisions. The development and refinement of a set of core hypotheses is a key deliverable in the first year of the project. Early team discussion has already led to the identification of several potential research questions, many of which examine the interplay between risk, transaction costs, capital, BDS, and market integration:

- How do households and MSE owners manage business-related risk?
- How can social capital be used to promote inter-firm cooperation by reducing risks and transaction costs?
- What is the threshold of capital (social, financial, fixed, working) that MSE owners must have before they are willing to take a business risk?
- What types of BDS do MSE owners need to help reduce the risks and transaction costs of entering into new value chains?
- What is the optimal sequencing between market opportunity, information, delivery of BDS, and market upgrading?
- How does the enabling environment (civil, legal, etc.) affect MSE owners' risks, transaction costs, and capital costs?
- How do the answers to all of the above questions differ for different settings (e.g., remote areas, post-conflict settings) and for MSE owners with different characteristics or "profiles," such as determined by gender, poverty level, education, and stage of business development.

During the first six months of the project, the team will work together to explore these questions in greater detail, transforming them into a set of testable hypotheses. At the same time, we will work to refine the hypotheses through development of a sound conceptual framework and systematic observation of successful business development strategies. The results will be a conceptually grounded, team-identified set of core hypotheses to guide the data collection and analysis.

PRODUCTS AND DELIVERABLES

The products and deliverables are organized into three **product groups**, which are the following: 1) conceptual framework; 2) in-depth country studies; and 3) demand segmentation analysis. In each of these product groups, there are one or more **final products**, which will be delivered in the standard format specified under AMAP Knowledge Management.

Several intermediate products have also been identified in each product group. These **intermediate products** represent significant milestones along the way to completing the final product. The intermediate products also provide important opportunities for team discussion and input. Each product group also includes **secondary products**, which are designed to promote effective and succinct communication with USAID missions and facilitate the successful marketing of the AMAP agenda.

Product Group #1: Conceptual Framework for Understanding Clients and Markets

Final Products:

1. **Research paper**, approximately 20 pages in length, which reviews the theoretical and empirical literature and develops a conceptual framework for understanding how MSEs link into productive value chains and the factors that affect MSE owners' business development decisions. The research paper will explore how risk, transaction costs, and capital interact to affect inter-firm cooperation, the formation of strategic alliances, and the decisions made by MSE owners to link into value chains and upgrade their businesses through BDS.
2. **Report on focused field research** to explore the relationship between risk and business development decisions. This field activity will build on previous risk research (Sebstad and Cohen 2001; Cohen and Sebstad 2003), while focusing more closely on market integration and the use of BDS. It will rely primarily on qualitative techniques and observation to identify successful strategies that MSE owners use to reduce their enterprise risk. The results will provide missions with information for recognizing prevalent types of enterprise risk and strategies for reducing them. Designed as exploratory research, the results will also be used to shape the direction of component A, by providing input to the conceptual framework, hypotheses, and design of the in-depth research.
3. **Synthesis report** interpreting the empirical findings and placing them within the context of the conceptual framework. The synthesis report will a) summarize, using the structure of the conceptual framework, the empirical findings from the country studies and demand segmentation analysis; b) revise the conceptual framework based on the empirical findings; c) provide recommendations for future empirical studies; and d) discuss the significance of the conceptual framework for assessing and reducing demand-side constraints to MSE business development in the implementation of PSD programs to promote broad-based economic growth.

Intermediate Products:

1. Refinement of the research plan for component A, with added emphasis on how research will address USAID missions' key implementation issues.
2. Input to stocktaking exercise (i.e., questions to include in the interview guide).
3. Detailed outline of the research paper, with list of references.
4. Detailed research protocol for field focused research.⁵
5. Revised set of hypotheses for the Clients and Markets Research.
6. Input to questionnaire for the in-depth country studies.
7. Team discussion of the draft research paper, with a written summary of the main points covered in the team discussion.

⁵ A detailed research protocol includes the following elements: statement of hypotheses to be tested, description of data to be collected, sampling plan and rationale, data collection techniques and instruments, data analysis plan, plan for staffing, plan for presentation of findings, budget, and schedule.

8. Team discussion of the planned contents of the synthesis paper and conclusions to be drawn about the significance for USAID missions.
9. Detailed outline of the synthesis report, circulated to team for comment.

Secondary Products:

1. Annotated bibliography of key references for conceptual framework.
2. Brief on client management of enterprise risk, based on findings from the focused field research. Brief will indicate strategies that missions can use to improve program design by identifying and mitigating enterprise risk.
3. PowerPoint presentation of approximately 45 minutes for USAID personnel, presenting the conceptual framework from the research paper.
4. One-page, two-sided brief summarizing the conceptual framework and its most important implications for improving program design.
5. PowerPoint presentation [at EGAT training?] summarizing the synthesis report.
6. One-page, two-sided brief summarizing the synthesis report. Brief will indicate the lessons learned from the Clients and Markets research and provide directions to USAID missions for improving program design and promoting broad-based economic growth.

Rationale: The primary contribution of this product group is to provide a sound conceptual framework for understanding MSE owners' business development decisions, thus achieving objective #1. The conceptual framework also makes an essential contribution to achieving objectives #2 and #3 by identifying, on a theoretical level and on the basis of field observations, the most important factors affecting business development decisions. This provides the basis for formulating well-grounded research hypotheses that can be tested with the survey data collected in the country studies (product group #2) and in conjunction with the demand segmentation results (product group #3). The link between the research hypotheses and the conceptual framework helps to strengthen the validity of the empirical conclusions.

Product group #1 will also contribute to achieving objective #4 by providing USAID missions with a workable conceptual framework for understanding MSE business development decisions. The synthesis paper will illustrate how this conceptual framework can be used to assess and reduce the demand-side constraints to MSE business development in the implementation of PSD programs to promote broad-based economic growth.

A well-developed conceptual framework for understanding the demand for business development may also be useful to the other components in the AMAP BDS Knowledge and Practice project. Such a framework is a necessary first step in moving toward a more market-led approach to BDS. There has been a recent shift in microfinance away from a product-driven approach in favor of a more market-driven approach. A similar shift is needed in the BDS field, leading to a more complete understanding of the nature of the demand for BDS. Our argument is that there are many reasons MSEs choose not to acquire BDS, with some of the most important reasons relating to risk, transactions costs, and capital costs and availability.

Product Group #2: Empirical Evidence from In-Depth Country Studies

Final Product: **Cross-country report on in-depth country studies.** The in-depth country studies will examine the participation of MSEs in successful subsectors and/or value chains that have a comparative advantage in regional or global markets.⁶ Focusing on these “winning” subsectors and/or value chains, the in-depth country studies will include an analysis of the current (existing) conditions, opportunities, and constraints for a) market integration of MSEs into value chains and b) the demand for and provision of BDS to MSEs. The studies will cover a variety of important contexts, including post-conflict settings, HIV/AIDS-affected populations, and value chains that relate to natural resource management programs.

The cross-country report will provide a detailed description of 1) the factors associated with the success of subsectors and/or value chains, 2) the current and potential contribution of MSEs within these successful subsectors and/or value chains, and 3) MSE’s perceived needs for and benefits from BDS within these environments.⁷ The research will consider both those MSEs that upgrade their businesses and participate in market integration and those MSEs that do not participate. The report will describe and analyze the successful strategies used by participants, such as inter-firm cooperation, strategic alliances, producer groups, and subsidies. It will also assess the major constraints cited by non-participants and the implications for designing programs that mitigate these constraints.

Intermediate Products:

1. Presentation to team of results from stock-taking of USAID missions conducted under component C.
2. Team agreement on set of criteria for selecting countries for field research.
3. Team agreement on final selection of the countries for field research.
4. Detailed research protocol for the first in-depth country study.
5. Final version of questionnaire to be used in survey data collection.
6. Memo documenting experience with first in-depth country study and recommending revisions to research protocol and questionnaire.
7. Team meeting to discuss findings from the country studies and generate ideas for the cross-country report.

Secondary Products:

1. Brief paper for missions entitled *Private Sector Development Strategies for Broad-based Economic Growth*. This paper will be based on information gained in the stocktaking exercise (component C), as well as a review of program documents and literature. The paper will compile a set of success stories drawn from USAID programs that have successfully integrated MSEs into private sector

⁶ For more information on selection of the three countries, see later section on “Geographic Locations.”

⁷ For a list of possible questions to be answered by the in-depth country studies, see the appendix to this document.

- development programs. It will include examples from specific contexts, including post-conflict situations, HIV/AIDS-affected areas and populations, and natural resource management challenges. The paper will provide USAID missions with examples of successful strategies for promoting broad-based economic growth and indicate the kinds of problems arose and how these problems were addressed.
2. Fully documented data set collected for the in-depth country studies.
 3. A presentation at each of the USAID host missions describing initial findings for that country.
 4. A one-page, two-sided brief summarizing the findings of the cross-country report. This brief will highlight the major findings and their implications for improving program design.
 5. PowerPoint presentation for USAID personnel [at EGAT training?], presenting the cross-country findings and explaining the implications for designing and implementing programs that promote successful PSD and MSE business development, leading to broad-based economic growth.

Rationale: This product group will contribute to all four objectives. It will contribute directly to achieving objectives #2 and #3 by providing detailed information on MSE owners' business development decisions within specific settings. The data collected in the in-depth country studies will be used to statistically test the research hypotheses, leading to refinement of the conceptual framework, thus contributing to objective #1.

This product group will also make a major contribution to achieving objective #4 by documenting examples of successful PSD programs and analyzing the current or potential contribution of MSEs to the success of these programs. This information will be provided to USAID missions in several formats (i.e., briefs, presentations, and full reports). This will help USAID mission personnel to understand the role of MSE market development in successful PSD programs.

The in-depth country studies are closely linked to other products in both components A and C, so they must be carefully timed to coordinate with these related activities:

- The design of the in-depth country studies will be informed by the conceptual framework, focused field research, and core research hypotheses (product group #1) and the needs of the demand segmentation analysis (product group #3)
- The in-depth country studies will generate the primary survey data needed to test the research hypotheses (product group #1) and conduct the demand segmentation analysis (product group #3).
- The information collected in the in-depth country studies will cover both demand-related (component A) and supply-related (component C) influences on MSE business development.
- Information from the mission stocktaking activity (component C) will feed into the country selection process and provide information for the paper on *Trends in MSE Business Development*.

Product Group #3: Demand Segmentation Analysis

Final Product: **Synthesis paper** entitled *Demand for BDS: Understanding the Drivers and Barriers to Increased Usage*. This paper will present the results from demand segmentation analyses in three (or more) countries and generalize the results to provide recommendations about the best ways to integrate specified groups of MSEs into productive value chains and enhance the effective demand for BDS. The paper will also provide a detailed description of the steps to be followed in a demand segmentation analysis, including a) identification of variables that define consumer behavior (demographic and behavioral variables that clearly identify different segments), b) generation of hypothesis (e.g., stage of business growth might be associated with major differences in current BDS usage and perceptions of risk); c) testing of variables and proxies through the development and application of a standardized questionnaire; d) statistical analysis (i.e., t-tests of differences in means) to see which variables are most meaningful across key behaviors, leading to the creation of segments using selected variables; e) use of interview data to develop qualitative and quantitative hypotheses about current and future behavior of segments (i.e., BDS usage patterns, roles of real and perceived risk, timing needs of products, importance of payment flexibility, and drivers/barriers by segment), and f) use of focus groups to gain further understanding of behavior by customer segment.

Intermediate Products:

1. Outline and description of brief marketing paper (see secondary products below).
2. Input to stocktaking exercise (i.e., questions to include in the interview guide).
3. Detailed research protocol for demand segmentation analysis, including fully developed questionnaire that takes approximately 15-20 minutes to administer, Excel database format for entering the survey data, and instructions for LBI.
4. Team discussion of findings from demand segmentation studies and implications to be included in the synthesis paper.
5. Detailed outline of synthesis paper.

Secondary Products:

1. Brief marketing paper describing a) what demand segmentation is; b) how it can be used to identify MSE subgroups and their characteristics; and c) how to use the information from demand segmentation to improve the design and implementation of programs targeting specific subgroups of MSEs.
2. Quick Tool for USAID missions that would include the application of a 10-15 question survey and comparison with some basic demographic and other characteristics. The results of this quick tool would place respondents into a category, or “demand profile,” established through the study. This tool could be used during program design and implementation, to understand not just the identified constraints as documented by external diagnostic exercises, but the perceived constraints and attitudes towards change held by MSE owners. (Note: The ability to create a quick tool that is relevant for more than one country depends on the availability of cross-country data collected by Louis Berger.)

3. A one-page, two-sided brief summarizing the synthesis paper. This brief will summarize the most important recommendations for integrating specified groups of MSEs into productive value chains and enhancing effective demand for BDS.
4. PowerPoint presentation of findings. A brief PowerPoint presentation highlighting the major findings of the exercise will be prepared and could be shown upon demand at small workshops or larger events. This presentation could serve as a demonstration to missions of what either the full tool or quick tool might be able to do for them, as well as clarifying some aspects of MSE behavior.

Rationale: This product group will play a crucial role in contextualizing the research findings of component A. The advantage of using the demand segmentation technique is that, rather than make generalizations about all MSEs, or speculate about in what contexts the conclusions may be most valid, the technique offers the possibility of creating universally applicable **profiles** based on a combination of demographics, information about business characteristics, and the MSE owners' mental models.

In other words, to relate this to the hypotheses, the component A research may indeed conclude that, say, competing household priorities or lack of ambition are two important factors that impede MSE development. However, these are just two reasons of many which may affect different MSEs in varying degrees in different types of markets. The demand segmentation research will group MSEs by the types of obstacles they perceive. Information about each “segment” will allow us to identify which MSEs (in the same or different markets) hold similar perceptions and exhibit similar behavior. It is this precise, actionable information that will allow mission staff and practitioners to design and implement better programs. It will provide a tool for understanding and/or predicting which types of MSEs are more likely to respond to specific types business development opportunities.

This product group will contribute directly to achieving objectives #2 and #3 by identifying important factors that promote or inhibit MSE owners’ effective demand for BDS and willingness to integrate into markets. It will also contribute to achieving objective #1 by providing empirical evidence that can be used to refine the conceptual framework. This product group will play a major role in achieving objective #4 by providing USAID missions with information and tools for conducting demand segmentation analysis. This type of analysis will contribute to promoting a market-led approach to BDS. The products in this group will set a new technical standard for demand segmentation within the microenterprise development community, leading to better information for designing MSE business development programs.

COORDINATION OF PRODUCTS AND CONSORTIA

The Clients and Markets Research will be conducted by three consortia, with the lead contractors being ACDI/VOCA, DAI, and LBI. Each of the three product groups will be led by a different consortium:

- ACDI/VOCA will lead product group #1—Conceptual Framework;

- LBI will lead product group #2—In-depth Country Studies; and
- DAI will lead product group #3—Demand Segmentation Analysis.

ACDI/VOCA will provide overall leadership for the Clients and Markets Research. Working on behalf of ACDI/VOCA, Elizabeth Dunn will be responsible for the technical direction and management of component A. Her responsibilities will include the following:

- developing and finalizing the research plan;
- coordinating the schedule of deliverables;
- facilitating team meetings and team communications;
- providing technical oversight to products;
- maintaining communication with USAID’s CTO; and
- working with Olaf Kula to coordinate research under components A and C.

It is important that the outputs of each contractor fit together to achieve the component A research objectives and address a common set of hypotheses. This will be accomplished by including the following five elements in the structure of the component:

1. The creation and maintenance of a **core research team**, with representatives from each consortia, who interact regularly throughout the life of the project.
2. Agreement on a **shared research plan**, which includes a statement of the vision, objectives, conceptual framework, hypotheses, and products of the research.
3. **Coordinated product sequencing**, so that later products can build on the foundational results developed in earlier products.
4. **Planned feedback loops** built into each product group, providing opportunities for all core research team members to receive information about and provide input to the products of other consortia. This planned feedback is organized primarily around the intermediate products.
5. **Common field research sites** based on team selection of three countries. The procedures to be followed in selecting the geographic locations for the component A research are described in the next section.

The chart on page 18 summarizes information on the coordination of component A products and consortia. For each final product, the chart indicates which consortia will lead the work, how other team members will have an opportunity to provide input, and additional notes on the relationships to other products.

GEOGRAPHIC LOCATIONS

We recommend that at least five countries be selected for the in-depth country studies under component A: one country in each of LAC, ANE, E&E, West Africa, and East Africa. This would provide representation in all of the major USAID regions. Resources currently identified under component A are sufficient to field three in-depth country studies, although additional resources may become available through other sources, such

as mission buy-in. If no additional resources become available, then the three regions of highest priority to USAID can be selected for inclusion in the research.

The creation of country selection criteria and the final selection of countries will be intermediate products under product group #2. Core team members from all three consortia, as well as key representatives from USAID, are expected to play an active role in establishing the selection criteria and in identifying the countries that best meet the selection criteria.

The most important selection criterion for choosing the countries for the in-depth studies is that we will look for **markets that have been identified as “winners.”** We will work with those USAID missions (regardless of the type of PSD program) that have identified subsectors and/or value chains that they feel have a comparative global and/or regional market advantage. Missions may be in the design or implementation phase. The goal is to work with those identified markets that appear to be dynamic and productive regardless of whether MSEs have been specifically included within the framework of the PSD program.

As a starting point, we will consider the following additional selection criteria (listed here in no particular order):

1. Selection from each of the major USAID geographical regions (i.e., ANE, LAC, Africa, E&E);
2. Strategic choice of missions to involve, for example, those missions with the greatest interest (or potential interest) in BDS research and/or those with active BDS programs;
3. Relevance for providing information on a variety of contexts, including a) conflict and post-conflict settings, b) HIV/AIDS-affected populations and areas, c) areas challenged with natural resource management issues, d) urban and rural contexts, e) a variety of subsectors, including agriculture and light manufacturing, and f) open vs. more controlled economies;
4. Richness of available data in terms of sufficient information and variability to test the core research hypotheses;
5. Experience and existing infrastructure of the implementing contractor(s); and
6. Cost effective overlap with field research for other components of the AMAP BDS Knowledge and Practice Project.

COMMUNICATION STRATEGY

The communication strategy for the Clients and Markets Research will be built around the **timely dissemination of secondary products** in each product group. Careful thought has been placed on disseminating some of these secondary products during the first year in order to spread early information about the project. We envision that the secondary products could be placed in an electronic **toolbox** as they become available. All four components working under AMAP BDS Knowledge and Practice could contribute tools to the toolbox, so that tools would accumulate over the life of the project. Responsibility

for maintaining an effective user interface for the electronic toolbox would rest with Support Services.

Each of the secondary products will be targeted directly to USAID mission personnel, the primary audience for the research. The secondary products are designed to communicate the research findings in a succinct way, usually requiring less than an hour to convey. They will provide USAID missions with clear and meaningful directions for how to improve program design. In addition, the final products in each product group will be targeted to the USAID audience and provide more detailed information on the research findings and their significance for mission programs.

DRAFT TIMELINE

The table on page 19 indicates the proposed timing and sequencing for the products in component A. For each of the three product groups, the table indicates the timing for release of final products (FP), intermediate products (IP), and secondary products (SP). The secondary products have been strategically planned to ensure that they are released every year of the project, beginning with the first year. This will help to bring early information about the component A research to the attention of USAID missions. The draft timeline also includes the release of one or more final products in each year of the project.

Final Product	Lead	Opportunities for Team Input	Relationship to Other Products
1.1: Conceptual Framework	ACDI/ VOCA	<ul style="list-style-type: none"> • comment on detailed outline • comment on refined hypotheses • discussion of rough draft 	<ul style="list-style-type: none"> • provides conceptual framework for all products in component A research • generates conceptually grounded hypotheses for empirical work in product groups #2 and #3 • may be useful to components B, C, and D
1.2: Field Focused Research	ACDI/ VOCA	<ul style="list-style-type: none"> • team presentation on protocol • team discussion of findings 	<ul style="list-style-type: none"> • provides early empirical evidence to improve the conceptual framework and hypotheses and to assist in the design of the cross-country qnre
1.3: Synthesis Report	ACDI/ VOCA	<ul style="list-style-type: none"> • discussion of planned content and conclusions to be drawn • comment on detailed outline 	<ul style="list-style-type: none"> • integrates conceptual framework with empirical results from product groups #2 and #3
2.1: In-depth Country Studies	LBI	<ul style="list-style-type: none"> • discussion of stock-taking results found under component C • agreement on country selection criteria • agreement on countries for field work • coordinated planning of questions to be answered in field work • discussion of cross-country findings 	<ul style="list-style-type: none"> • country selection process determines field sites for product groups #1 and #3 as well as for part of component C • cross-country findings provide contextual information for product groups #1 and #3 • provides statistical tests of hypotheses generated in product group #1 • provides data for product group #3 • results feed into revision of conceptual framework (product group #1)
3.1: Report on Demand Segmentation Findings	DAI	<ul style="list-style-type: none"> • presentation on technique • discussion of findings from three DS studies and conclusions to be drawn • comment on detailed outline 	<ul style="list-style-type: none"> • explores hypotheses generated in product gp #1 • triangulates results with product group #2 • results feed into revision of conceptual framework (product group #1)

DRAFT TIMELINE AND PRODUCT SEQUENCING

Product (FP=final product, IP=intermediate product, SP=secondary product)	Year 1: 1 st half	Year 1: 2 nd half	Year 2	Year 3
FP 1.1: Conceptual framework		X		
FP 1.2: Report on field focused research		X		
FP 1.3: Synthesis report				X
IP 1.1: Refinement of research plan	X			
IP 1.2: Input to stocktaking	X			
IP 1.3: Outline of research paper	X			
IP 1.4: Protocol for field focused research	X			
IP 1.5: Revised set of hypotheses		X		
IP 1.6: Input to qnre. for in-depth studies		X		
IP 1.7: Discussion of draft research paper		X		
IP 1.8: Discussion of planned synthesis			X	
IP 1.9: Outline of synthesis report				X
SP 1.1: Annotated bibliography	X			
SP 1.2: Brief on client mgt of enterprise risk		X		
SP 1.3: Presentation on conceptual framework			X	
SP 1.4: Brief on conceptual framework			X	
SP 1.5: Presentation on synthesis report				X
SP 1.6: Brief on synthesis report				X
FP 2.1: Cross-country rpt on in-depth studies			X	
IP 2.1: Presentation on stocktaking results	X			
IP 2.2: Country selection criteria	X			
IP 2.3: Selection of countries		X		
IP 2.4: Protocol for first country study		X		
IP 2.5: Finalization and testing of qnre		X		
IP 2.6: Memo on experience in first country			X	
IP 2.7: Team mtg on cross-country findings			X	
SP 2.1: Brief on trends in MSE business dev	X			
SP 2.2: Documented data set			X	
SP 2.3: Presentations at individual missions			X	
SP 2.4: Brief on cross-country report				X
SP 2.5: Presentation on cross-country findings				X
FP 3.1: Demand segmentation synthesis paper				X
IP 3.1: Outline/description of marketing paper	X			
IP 3.2: Input to stocktaking of missions	X			
IP 3.3: Protocol for demand segmentation		X		
IP 3.4: Discussion of demand seg. findings			X	
IP 3.5: Outline of synthesis paper			X	
SP 3.1: Marketing paper on demand segment.		X		
SP 3.2: Quick tool for demand segmentation			X	
SP 3.3: Brief on synthesis paper				X
SP 3.4: Presentation on synthesis paper				X

APPENDIX: POSSIBLE QUESTIONS TO BE ANSWERED BY IN-DEPTH COUNTRY STUDIES

MSE owners' perceptions of, needs for, and benefits from BDS

- What services do MSEs report most helpful in managing risk, in undertaking market transactions (as buyers and sellers), and in building capital for operations and production?
- What services appear to be the least important?
- How do MSE business development assistance needs differ from sector to sector (e.g. agriculture, light manufacturing, services, and exports) and among economic and social strata (e.g. urban and rural, poor and very poor, male and female)?
- What the types of services do MSE owners currently use?
- What services are they currently paying for or are willing to pay for?
- What are the sources of BDS (government vs. private; formal and informal)?
- What are the perceived impacts and benefits of BDS services on clients?
- What are the roles of real and perceived risk in MSE decision making regarding BDS?
- What are the patterns and demand of use of BDS?

Determining cost-effectiveness of delivering BDS

- What is working well and why in reaching MSEs with BDS?
- How viable and self-sustaining are those enterprises or organizations that provide BDS to MSEs?
- What characteristics do sustainable and successful BDS providers have?
- What are the constraints faced by BDS providers?
- What role do lead firms see for MSEs within value chains and what risks are lead firms willing to take to integrate MSEs (provision of services)?
- What are gaps between MSEs and providers in their perceptions about BDS?

Identifying MSE participation in growth markets

- What sectors/markets are MSEs currently participating in and what are the perceived benefits they derive from that participation?
- How are MSEs currently integrated into those markets and value chains?
- What are MSE owners' development objectives?
- How does the targeted client group match up with market opportunities?
- What gaps in the service market prevent the realization of market opportunities?
- Within global/regional value chains and subsectors, which MSEs are integrated and which are not? What are the factors that determine participation or non-participation?
- What are the contributing factors to cooperation or non-cooperation among MSEs within markets?
- How are markets valued by MSEs and where do they see themselves within markets?
- What are the market/environment constraints that most affect MSE performance?

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