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GOOD PRACTICE GUIDE

INCREASING POOR PEOPLE'S DEMAND FOR ESSENTIAL PRODUCTS AND SERVICES

Practical guidance, examples and tools on how to effectively engage the local private sector to increase people's demand for products and services that can improve their lives.



CZECH REPUBLIC
DEVELOPMENT COOPERATION





WHAT DO YOU WANT TO LEARN ABOUT?

WHY WE SHOULD ENGAGE THE LOCAL PRIVATE SECTOR

HOW TO CONDUCT MARKET ASSESSMENTS

HOW CAN WE ENGAGE THE PRIVATE SECTOR

HOW TO USE MARKET RESEARCH

HOW TO GET PRODUCTS TO THOSE THAT NEED THEM

CAPACITY BUILDING WITH PROMOTION AND MARKETING

KEEPING CUSTOMERS HAPPY

LOWERING FINANCIAL BARRIERS

QUALITY CHECKLIST



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INTRODUCTION TO THE GUIDE

WHAT CAN IT HELP WITH?

This guide was developed by People in Need (PIN) to provide you with practical guidance, examples and tools on how to **increase poor people's demand for products and services that can improve their lives**. This includes, for example, products and services related to **agriculture** (e.g. vegetables, seeds, equipment, veterinary services), **sanitation** (e.g. latrines and soap), **health and nutrition** (e.g. oral rehydration salts, fortified foods) and **energy** (e.g. solar lamps or cookstoves).

The guide has a particular focus on **increasing demand** in low-income countries through effective **engagement of the local private sector**, and the use of a **market systems development approach**. 'Local private sector', refers to for-profit actors active at the local, regional or national level in the targeted countries, such as local sellers and retailers, service providers, community-based enterprises, social enterprises, or national companies. This focus is taken due to the **critical role these actors play (particularly small enterprises) reaching and driving demand amongst low-income consumers**, and for the important and increasingly recognized development impacts to which these actors contribute.¹

The guide also demonstrates how these approaches can strengthen the **sustainability, scale and impact** of development interventions. While the guidance strongly focuses on the agriculture and clean energy sectors, it is also relevant to other program sectors (e.g. nutrition, WASH etc.). 'What works' is highly context-specific. The guidance provided should therefore **always be adapted to the context in which it is being used**.

¹ Wiggins, S., & Keats, S. (2013) Leaping and Learning: Linking smallholders to markets in Africa. Agriculture for Impact, Imperial College and Overseas Development Institute (ODI); CONCORD Europe (2017), [What role for \(which\) private sector in agriculture and food & nutrition security?](#) Department for International Development (DFID) (2018). Business Case for the Commercial Agriculture for Smallholders and Agribusiness Programme.

WHAT IS THIS GOOD PRACTICE GUIDE?

Who is it for?

- Field Officers/Coordinators
- Project/Programme managers
- Technical advisors across sectors
- Proposal writers

Where did the guidance come from?

The guide has been developed by People in Need (PIN) and draws from PIN's programming experience, in-depth interviews with dozens of practitioners, and a review of dozens of written resources, including guidance from Mercy Corps, USAID, Market Links, the Springfield Centre, BEAM Exchange, Business Fights Poverty, the Global Alliance for Clean Cookstoves, and SNV. This is one of a series of guides. The other guides include:



ENABLING POOR PEOPLE'S ACCESS TO ESSENTIAL PRODUCTS AND SERVICES



IMPROVING SMALL PRODUCERS' ACCESS TO PROFITABLE MARKETS



IMPROVING EMPLOYMENT OPPORTUNITIES THROUGH MARKET-DRIVEN VOCATIONAL EDUCATION AND TRAINING



1.

WHY WE SHOULD ENGAGE THE LOCAL PRIVATE SECTOR

COMMON PROBLEMS DEVELOPMENT PROJECTS ENCOUNTER (AND THEIR IMPLICATIONS)

Over the last two decades, a range of commercial products or services have been developed that can provide life-changing benefits to people with very low incomes, such as low-cost latrines, drip irrigation equipment, and solar lighting solutions. Yet, progress in making these available to poorer consumers has been disappointingly slow. Many barriers remain related to awareness, availability, affordability, and sustained adoption. As a result, people miss out on products and services that can significantly improve their lives and livelihoods (and businesses miss out on sales and growth opportunities).

Some causes and examples of these problems include:

- **The sales and marketing approaches** of businesses are not sufficiently effective in motivating customers and meeting their needs, and are not adapted to the needs of poorer households. For example, latrines are promoted for their hygiene benefits, which is not the main motivator for potential customers, or improved seeds that can enhance farming productivity are only sold in town centres and in larger amounts in cans rather than in smaller and more affordable sachets.
- **Households do not know where to purchase** products and services. For example, smallholder farmers are not aware of where they can purchase vaccination and treatment services for their livestock due to limited promotion and marketing capacity of the local veterinary service providers.
- **Households are not aware of the benefits** of a new product or service, or that it even exists. For example, women are not aware of how much time an improved cookstove or water filter can save them and how they can reduce family illness and therefore are not motivated to buy them.
- **People are suspicious of and do not trust a new technology.** For example, a biodigester that converts animal waste into a burnable gas and lighting for cooking, and can save households hundreds of dollars



More than 1.3 billion people still lack access to electricity.



Limited access to agricultural inputs limits productivity for many of the world's 500 million smallholders.



At least 2.7 billion people lack access to modern fuels for cooking and heating.



Worldwide, 1 in 3 people do not have access to a decent toilet.²

a year, may be an intimidating technology when people first hear about it. Technologies or products that have previously been promoted, and failed or functioned poorly, can also significantly impact the mindsets and openness of communities to adopt innovations.

- **The up-front costs are too high** for a household to afford. For example, households may not have sufficient savings or access to a loan in order to afford the up-front cost of a 350 USD solar home system.

HOW CAN A SYSTEMS APPROACH THAT ENGAGES THE LOCAL PRIVATE SECTOR HELP?

The local private sector is often best placed to **stimulate demand and supply the products and services poor people need**. This is due to its nature as a local actor with a permanent role in the market and the financial incentives to continue operating after donor-funded projects end. Compared to traditional 'direct delivery' approaches where products and services are often provided for free, approaches to engage the private sector can **allow projects to reach greater geographic scale**, when successful businesses expand to new customers and regions, and when other businesses follow suit.

Despite this potential, local businesses, which the majority of low-income consumers purchase from, often **lack the expertise, resources or incentives to market their products and services and create effective demand among poorer and more remote consumers, who are often not viewed as viable customers**. By facilitating improvements in the operations and capacities of private sector actors, development organisations can improve access to and usage of products and services in a more sustainable way whilst also generating benefits for the private sector actors involved. The approaches listed in Chapter 3 provide practical guidance and examples on how to do this.



A small shop selling soap and other products in Ethiopia. ©Tereza Hronová

HOW CAN WE BETTER UNDERSTAND WHY MARKETS ARE NOT WORKING WELL FOR POOR PEOPLE

In order for interventions to effectively enable and motivate poor people to start using products or services that can positively impact their lives, implementing organizations first need to **identify products and services that are important for poor people's lives**, and understand **how and why the market systems for these products and services are not working**. Understanding these causes requires a market assessment, which involves a range of research methods commonly used in the development sector, such as desk reviews, key informant interviews, and focus group discussions. Detailed guidance on conducting market assessments is provided in the tools recommended at the end of this section. The key focus of the market assessment process and tools we can use should be informed by the research questions shown in the diagram to the right. Assessments typically start with information gathering activities at the top of the diagram and move down.

WHAT IS A MARKET SYSTEM?

A market system is the network of buyers, sellers, service providers, rule-makers (e.g. government) and other actors that come together to trade in a given product or service, or influence how that trade occurs (as illustrated in the market system diagram example on the next page).

Identify which market systems are important for poor people

One of the first steps in the market assessment process is to select the market systems you want to research (if these have not yet been selected by a donor based on good research). A market system can be specific to a product (e.g. maize, seeds, latrines) or a service (e.g. veterinary services, coffee processing), and can also be a crosscutting sector (e.g. financial services, labour). Normally several market systems are selected – to mitigate the risks of interventions in one system not being successful, though it is also important not to select too many and spread the team too thinly. Using a structured selection process based on clearly defined criteria - taking into account the potential impacts on poor people, the economic

THE STEPS AND TOOLS USED IN THE MARKET ASSESSMENT PROCESS

1

WHICH market systems are important to the poor?

- Desk review of secondary data (e.g. socio-economic research studies, census data, poverty analysis, business environment reports)
- Needs assessment and livelihoods analysis (e.g. household surveys)
- Gender analysis

2

HOW is the system not working?

- Market and value chain mapping and analysis
- Stakeholder mapping and analysis
- Gender analysis
- Consumer research

3

WHY IS THE SYSTEM NOT WORKING? (ROOT CAUSES)

- Key informant interviews, focus group discussions
- Problem trees
- Gender analysis
- Barrier analysis
- Partner assessment tools (and due diligence)
- Sustainability analysis

Source: adapted from the Springfield Center (2015) M4P Operational Guide

opportunity, and the feasibility of effecting change, along with other relevant criteria - will provide implementers with the best chance of selecting market systems that can be influenced to positively impact a target group. Guidance on the market selection process, including developing criteria and a simple scoring matrix to compare potential market systems and help inform selection, can be found [here](#) in this Practical Action Guideline from the PMSD Roadmap.

Understand how these market systems are not working and why

In conducting this assessment, it is important to think of the chosen market as a system, made up of many actors

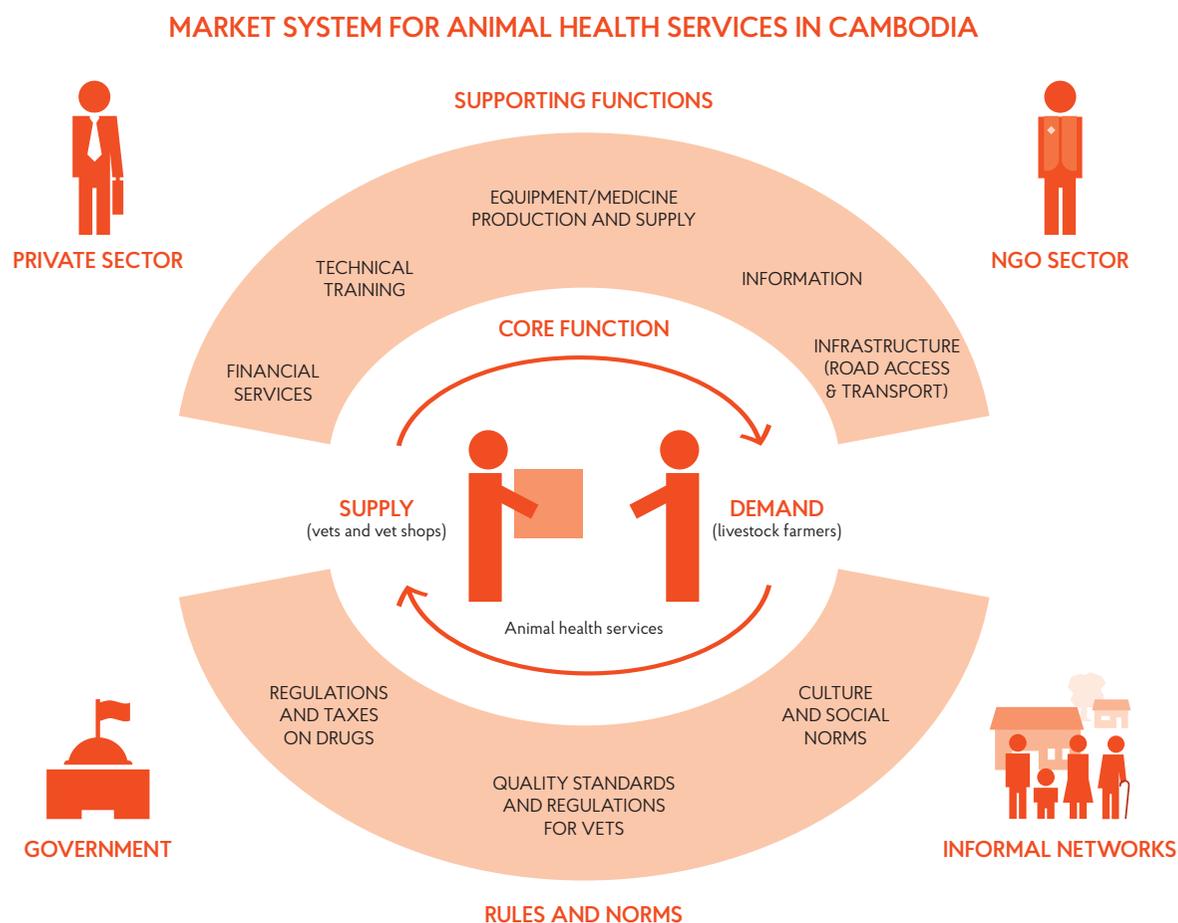
and interactions that influence how the market functions. Mapping the structure of the selected market system using the market system diagram (also referred to as the 'donut'), to provide a visual representation of the overall system we are aiming to influence, is an important step in this analytical process. The donut divides the market system into three parts (shown below), made up of the **core** (where providers and consumers exchange goods and services), the **supporting functions** (such as information and skills), and the **rules** (formal or informal rules which shape behaviour). For example, the market for animal health services in Cambodia involves suppliers of these services (vets and vet shops), consumers of these services (farmers), and also relies on suppliers of veterinary drugs,

financial service providers, along with government actors that impose regulations and taxes, and social norms that influence farmers' views towards these services, as shown below. The donut can be used to structure our analysis of the market system, by helping us identify the various actors involved and the main constraints that are preventing the system from functioning more effectively.

If a project wanted to improve the demand for animal health services, a market assessment can help us answer important questions, such as: Who (if anyone) is currently providing these services on the market, and what barriers do they face in reaching poorer farmers? What barriers do farmers face in accessing these services (e.g. are they aware of the benefits, can they afford them)? Who are the other actors involved in the market and what are their roles (e.g. government, NGOs, financial institutions)? What interventions have been tried in the past, and why did they succeed or fail? What type of changes will most benefit poor people, and how can the project best contribute to this change? This information is important to know so that we can design our interventions so that they **affect changes to the overall system** (also referred to as 'systemic' or 'system-level' changes), which are much more likely to continue after the project support ends, and therefore positively impact more lives (a useful explanation of 'systemic change' by Helvetas, On Systemic Approach: What It Is and What It Is Not can be found [here](#)). On the next page is a practical example from PIN's programming in the Philippines about how a market assessment informed an effective system-level intervention.

Understand the barriers (and motivators) that poor people face:

An important component of the market assessment process is identifying the barriers and motivators that influence our target group's ability and willingness to adopt a new product or service. We can identify these by conducting formative research, such as a Barrier Analysis study, key informant interviews, focus group discussions, and observations. Once we know the barriers and motivators to using the product or service, we can design activities to address these identified barriers. Practical guidance on conducting Barrier Analysis and other similar types of formative research can be found on PIN's [Behaviour Change Toolkit](#) and www.behaviourchange.net. A practical example of how a Barrier Analysis led to an effective intervention to increase demand is shown below.



FIELD EXAMPLE: MARKET ASSESSMENT IN THE PHILIPPINES

Context: The ESIP project (implemented by Helvetas and PIN) supports the livelihoods recovery of poor farming households in Eastern Samar, a fragile context highly vulnerable to natural disasters. A market assessment was conducted in 2014 in the aftermath of recovery efforts responding to the destructive typhoon Haiyan. The assessment was aimed at better understanding the market systems (including specific agricultural sub-sectors) that poor and vulnerable farmers rely on, and opportunities and constraints to improving the way these market systems function.

What did the initial market assessment involve: The market assessment involved household questionnaires from 450 randomly selected households, 10 focus group discussions with selected households, and 50 key informant interviews with other market actors and players, including traders, input providers, local government officials and university researchers. A validation workshop was conducted to verify the accuracy of the findings.



A local service provider in the Philippines weighs a farmer's vegetable harvest as part of her consolidation services. © Leonides Yape

What were the main findings: The market assessment found that the vegetable and livestock subsectors offer important opportunities for poor people to improve their livelihoods and resilience. Despite this potential, farmers' productivity was very low due to a lack of access to, and limited knowledge of, quality inputs, services and technologies. For example, good-quality and affordable seeds for high-yielding varieties of vegetables were

limited in availability. One of the causes of this were the poor capacities of the private sector (e.g. traders, input suppliers) to promote and build demand for needed services at the local level.

How the assessment findings were used: The project focused on developing the technical and business capacities of 'local service providers', who were often lead farmers or traders with whom poor farmers interact with regularly. The services these actors provide include selling inputs (feeds, seeds and fertilizers) and buying and consolidating farmers' production. By improving the capacity and incentives of these local actors, and their ability to effectively promote and market their services, the project helped generate increased demand for new inputs and services. This, among other reasons, has improved the quality of inputs and advice farmers receive, and made it easier for them to sell their products for a fair price. The market assessment report can be accessed [here](#), further information on the project's interventions can be found in [this article](#), and [this article](#), called Reality Check: Applying a Systemic Approach in a Fragile Context provides further analysis on the projects systems approach.

TOOLS AND RESOURCES FOR MARKET ASSESSMENTS

The Springfield Centre's
[M4P Operational Guide - Chapter 2: Diagnosis](#)
(especially pages 14 - 20)

A detailed description of the market assessment and analysis process, from the institution that developed the M4P methodology and many of the tools.

Practical Action's PMSD Roadmap

Clear guidance on each of the steps used in conducting market assessments, with a focus on participatory approaches.

ACDI/VOCA's Gender Manual & Toolkit

Guidance on how to conduct gender analysis studies, includes guidance & tools on integrating gender into market assessments (pages 53-58).

FIELD EXAMPLE: UNDERSTANDING AND ADDRESSING BARRIERS FACED BY POULTRY FARMERS IN CAMBODIA

As part of a project aimed at promoting more effective poultry raising practices, PIN Cambodia conducted a Barrier Analysis to understand why many farmers do not vaccinate their poultry. One of the key findings of the study was that farmers who do not vaccinate chickens believed that accessing vaccines was difficult and that they lacked the knowledge and capacities required to have their poultry regularly vaccinated. This challenged the assumption that it was the cost of vaccines that was the main constraint. This resulted in greater efforts to build the capacity of village animal health workers to deliver (and create demand for) vaccination services on a commercial basis at the village-level, including through village-based promotion campaigns. Vaccinations increased by 30% over the project timeframe. Additional information is provided in [this report](#) summarizing PIN's experience from several Barrier Analysis studies conducted in Cambodia.



A COLLECTION OF BARRIER ANALYSIS STUDIES:

INVESTIGATING AND ADDRESSING
THE MAIN BARRIERS CAMBODIAN
FARMERS FACE TO PRACTICING POSITIVE
POULTRY MANAGEMENT PRACTICES



3.

FACILITATION APPROACHES FOR WORKING WITH THE PRIVATE SECTOR, AND EXAMPLES OF THEIR USAGE

The following approaches are commonly used by interventions aimed at engaging the private sector to improve demand among poor people for useful products or services. Most programs will use a variety of the approaches mentioned in this chapter, depending on the findings of the assessments conducted, and the nature of the product or service. An important step in this process is knowing how to identify and select suitable private sector partners to work with – guidance on this is provided in Section 3 of this [Good Practice Guide](#) developed by PIN.

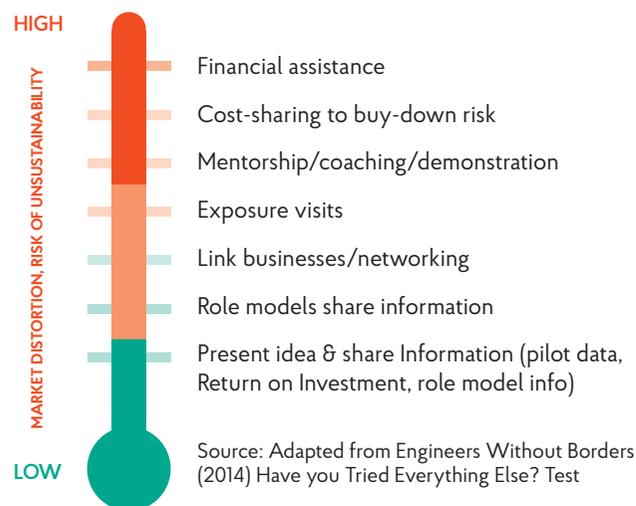
WHAT ABOUT SUPPLY?

This guide emphasizes approaches to stimulate demand for products or services, however supply-side factors are also critically important to consider. Any initiatives to increase demand needs to be met by supporting improvements in supply, and interventions will often support both supply and demand elements. For guidance about how to engage the private sector to improve supply, please refer to this [Good Practice Guide](#) developed by PIN. This could include, for example, 1) assisting small shops selling irrigation equipment to improve their offer of good quality products by linking them to larger irrigation suppliers, whilst also 2) disseminating discount vouchers to farmers to help increase demand for these products. As a general principle, **market demand should drive what is being sold and produced, rather than locating markets for what can be produced.** This underlines the importance of initial market research to understand the target customers' needs, and then adapting products or services accordingly in order to meet and increase customers' demand.

The approaches for working with the private sector are listed on the next page in order of their risk of being unsustainable and distorting, with activities ranging from high sustainability and low distortion (e.g. information sharing) to low sustainability and high distortion (e.g. financial support). This is

based on a useful framework (shown below) for thinking about the types of facilitation approaches that can be used with the private sector, and how to sequence these (starting from the bottom and moving up).

THE "HAVE YOU TRIED EVERYTHING ELSE?" TEST



The diagram highlights that **before jumping to financial support** as a solution (which can attract the wrong type of businesses or can cause unsustainable behaviours), it is useful for programme teams to **first consider other available options**.



WHAT IS A 'MARKET FACILITATION' APPROACH, AND WHY IS IT IMPORTANT?

To avoid negatively impacting markets and to ensure our interventions are sustainable, interventions should aim to be facilitative in nature. This means that organizations should work to create the conditions for permanent public and private market actors, that have a vested interest to be involved after the project ends, to drive change themselves. Rather than organisations directly implementing activities and ensuring participants know we supported them, **we can bring local actors together to do the work and simply help to build the relationships, fill knowledge gaps, and aid the actions of the permanent local actors**. For example, if we wanted households to be trained on the benefits and

use of micronutrient powders for their children's nutrition, instead of having NGO's staff train farmers directly, we could facilitate sales staff from local shops supplying such products to train them, as this can develop a relationship that will last beyond the NGOs involvement. Facilitators can provide support to local actors and help introduce new ideas, practices or business models; however, **this must always be as part of an exit strategy**. This role has implications for the types of competencies that project staff have and requires a greater need for soft skills (e.g. communication, relationship building, coaching etc.). It also requires a **strong investment into capacity building of the project teams**, so that they understand

what a facilitation approach means, why it is important, and how it can be done in practice. Recruiting project staff with more of a business and private sector background can be helpful in this process. Engineers Without Borders have developed a practical [guide](#) for assessing the competencies of staff, called Being a Market Facilitator: A Guide to the Roles and Capacities. Their Offer Arsenal also has a useful list of best practices for facilitation, linked [here](#). The International Labour Organisations (ILO) have also developed a useful [learning note](#) called Market Systems Facilitation, How Good Are You? and an online [role-playing game](#) to test your facilitation skills.

GUIDING PRINCIPLES AND BEST PRACTICES WHEN WORKING WITH PRIVATE SECTOR PARTNERS:



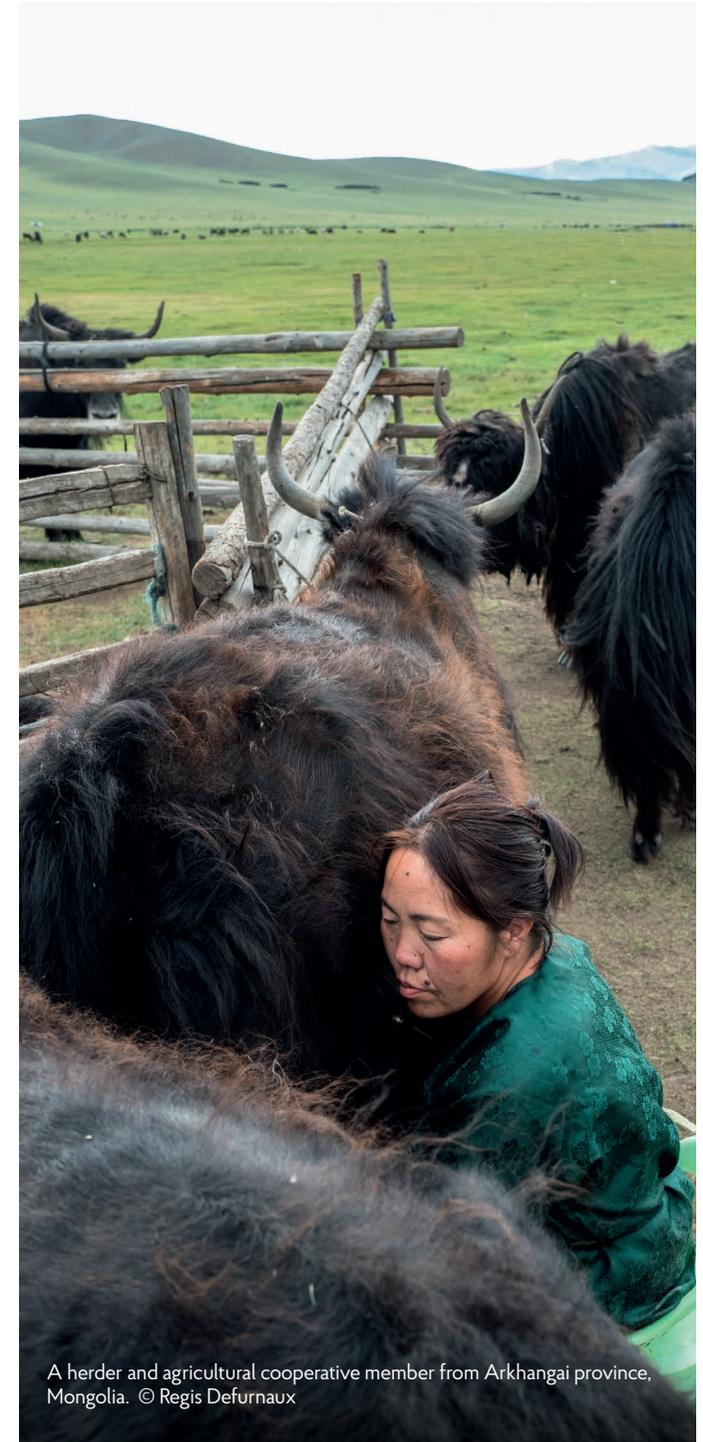
Clear roles and responsibilities: Organizations should have **very clear and agreed-on expectations and roles and responsibilities with private sector partners**, to ensure good cooperation. This includes making sure the organisation does not become too involved in driving the business and activities of the partner, which can lessen their sense of ownership and build dependency. For example, if an organisation is helping a company develop a sales agent network to promote their products, it should be made very clear whose role it is to recruit, train, and provide coaching support to these agents. Any support you are providing should have a clear phase out strategy and this should form part of your agreement with them. A sample Memorandum of Understanding MoU for developing agreements with a private sector partner can be found in this World Vision [guide](#) called Integrating Extremely Poor Producers into Markets (page 143).



Long-term vision: Any interventions to engage the private sector, and the way in which they are implemented, should always be consistent **with a vision of how the market system can work more effectively** and sustainably in the longer-term. For example, if a new sales and marketing approach is tested and supported – such as preparing a village-based promotion event – the approach selected should be one that can be led and replicated by local private sector partners, and if successful, continued by them after the project ends.



Monitoring, adaptation and flexibility: Working with private sector actors to influence markets is dynamic, meaning that conditions can change quickly. A lack of flexibility in adjusting timelines, activities, budgets, and partnerships can impact a project's success. The use of adaptive management approaches are needed, **starting with small scale piloting of any new approaches, learning and adjusting accordingly**. The Adopt-Adapt-Expand-Respond [AAER framework](#) is a great resource to inform this type of approach. It provides implementers with a framework to manage and measure the extent to which the new behaviours and practices introduced by a project are really owned, driven and spread across an industry (in a way that shows system-wide changes) by private partners themselves. Any initiatives should be **closely monitored and evaluated to determine those which are most effective** in increasing adoption and use of the product or service, their cost-effectiveness, and their potential to be scaled up. For example, if a promotion event is supported to promote latrines, it should be followed up with some field research to get feedback from the involved participants and retailers, and investigate what happened in terms of sales, which should be compared with the cost of the events in order to assess the return on investment. Mercy Corps' learning [note](#) called Managing Complexity, Adaptive Management at Mercy Corps provides practical guidance on how to integrate an adaptive management approach into our work. PIN's [IndiKit](#) website has a range of useful demand-side indicators that can be used to monitor interventions.



A herder and agricultural cooperative member from Arkhangai province, Mongolia. © Regis Defurnaux

Companies often lack reliable information on demand for their products when introducing a new product or service and when targeting poorer or more remote customers. Addressing this lack of information is a relatively low cost way to encourage private sector actors to adopt a particular business practice or expand their operations into a new geographic area. Market research provides businesses with information needed for their decision-making. This includes, for example: Who are their target customers (and competitors)? How to adapt products to (potential) customers' needs? What pricing strategy should be used? How can they get their products or services to their customers (in a cost effective way)? What sales and promotion channels will be effective in attracting customers? This market research is different from the overall market assessments (mentioned [here](#) in this guide), as it is collecting more detailed information about one specific aspect of the market.

As much as possible, private sector partners should drive this market research process, so that it is strongly informed by their information needs. NGOs' roles can be in identifying key information gaps (which can sometimes come out from initial market assessments), facilitating access to the required expertise, providing technical support with designing the research, and helping to cover some of the costs. To undertake this research, it can often be effective to partner with actors that understand the sector well (e.g. chambers of commerce, business associations) or with universities. Market research can be conducted using a variety of different methods, and usually involves a combination of approaches. It is common to start with secondary research (e.g. reviewing information from the internet, data provided by various businesses, government and academic institutions) and then continuing with primary research (e.g. observation, surveys, focus groups, product testing etc.). It is important to always start by identifying the key questions that need to be answered. Market research can involve the following activities:

→ **Customer identification and segmentation:** Particularly important is the information related to the potential market for a given product or service. Potential customers are sorted into segments based on their demography, values or interests, behaviour and any important characteristics.



South Sudan © Jan Novák

The approximate market size for each customer segment can be determined and expressed in a number of customers. The analysis is used for business planning, as well as to plan and identify effective sales and promotional channels. When organizations are providing support for such assessments, the goal is to identify those low-income groups that the project is aiming to support, that have the greatest likelihood of buying the product or service.

Example: For example, if we are promoting cookstoves, potential consumers might be current users of firewood and traditional stoves. If we wanted to target women, we may also choose to focus on women that are members of saving groups, or garment workers, as they are likely to have more regular income, higher demands on their time, and more decision making power – all factors that can make them

a good potential target group for cookstoves. This [research brief](#) created by Mercy Corps about a cookstove intervention called What Motivates Women to Buy shows one way to split up and analyse consumer segments – according to identified barriers and motivations (see page 7). Another important factor to consider is that **potential buyers are not always the same as potential users**. For example, in many contexts, men have the main decision-making power regarding families' budgets, so targeting only women (the future users of cook stoves) might not be as effective as targeting both women and men (and explaining the benefits that both women and men gain out of investing in a cook stove).

→ **Competition analysis:** This involves an assessment of the prices, strengths and weaknesses, and other relevant

information of direct and indirect competitors, which is the basis for product positioning and developing a value proposition. Direct observation of competitors can be a useful way to gather this information.

- **Spending practices:** Assessing the costs and benefits for consumers of adopting new technologies and practices can also be useful data to collect. Including a gender focus into this research can be very effective, if women are a specific target group. An assessment of people's willingness to pay can assist with this. Guidance on assessing willingness to pay can be found [here](#) on PIN's IndiKit website.
- **Customer satisfaction:** This can involve identifying the most important product features, and serves as a foundation for improvement or design of new products or services. It can be conducted by field trials (described in the following paragraph), by analysis of company documents (e.g. complaint books, warranty claims, recurring purchases) and by surveys. An example of this is a survey PIN conducted in Cambodia to assess Farmers' Usage, Attitude & Image of Veterinary Services & Vaccinations, accessible [here](#). The findings of this survey was then shared with veterinary service providers to assist them with making targeted improvements in the provision and promotion of their services.
- **Field trials:** Another useful approach, when a new product is being introduced, can be the use of community field-tests to find out user preferences. For example, two different types of solar lanterns might be distributed to 50 households to use for 1 month (rotating the lantern types half-way through after 2 weeks). This could then be followed up by individual interviews and focus group discussions with the participating households to gain feedback from them on key criteria (e.g. light duration, ease of use, attractiveness of the product). Households can be asked to rank the products according to these criteria. It is recommended that trials last at least two weeks per product so that the novelty of the product wears off and the more regular usage patterns emerge. Appropriate user manuals and training should be provided to participants prior to trials.

Additional guidance on conducting consumer research from the Global Alliance for Clean Cookstoves can be accessed [here](#).



A member of a youth-run leather enterprise making products in Ethiopia. © PIN archive

For potential customers to buy a new product or service, they **require clear, actionable information** about its benefits, where they can buy it, and how they can finance it, and this needs to be provided by someone they trust. Reaching and motivating low-income consumers in an effective and cost-efficient way - especially those in remote areas - remains a key challenge for businesses, and often can require external support.

Many programs therefore often support suppliers of products or services to pilot new distribution models. Involving community based entrepreneurs, who live in these communities, as vendors or sales agents, can be one effective way to help to facilitate the behaviour change that is necessary for consumers to embrace a new product. For example, a big part of Eastern African mobile-banking service M-PESA's success has been the use of trusted local agents who register new customers and provide consumer education, with more than 260,000 agents now providing services to 25 million subscribers.³

A wide range of different distribution models exist. The choice of distribution model will depend on the type of product or service and the local context and opportunities. Some commonly used models can be categorized into the following approaches (with additional guidance in the table to the right):

- **Direct sales force:** This approach involves larger businesses recruiting and training local agents who distribute and sell products at the community level, often paid on a commission basis. These agents can use a variety of promotion or marketing techniques (see [this section](#) of the guide on marketing techniques). This approach has typically been used in hard-to-reach communities with limited shops and poor transport access. This model often empowers entrepreneurs to provide educational or advisory services to the consumers, in addition to providing more convenient access to goods.
- **Leverage networks of existing enterprises:** This can involve the selling of products through established small shops, street vendors, or retailers. In some cases, these are informal businesses started by entrepreneurs. In other cases, they can be existing businesses selling other products.



TOOLS AND RESOURCES TO SUPPORT DISTRIBUTION MODELS

The Clean Cookstove Alliance's [Empowered Entrepreneur Training Handbook](#)

Practical guidance for organisations/enterprises on supporting female sales agents (with a focus on household energy products) covers business, empowerment and leadership topics.

Business Fights Poverty guidance paper [How Do We Scale Distribution and Sales Networks that Create Opportunities in Low-income Markets?](#)

Lessons learned on distribution models and sales networks that strengthen micro-enterprises and expand economic opportunities for low-income people.

SNV's guidance papers on [Mapping Successful Cookstove Distribution Models](#) and [Market-Based Solutions for Input Supply](#)

Lessons learned on effective distribution models to enable access to and build demand for cookstoves and agricultural inputs.

CARE,SABM,BFP,HKS [Growing Together – Guide on Strengthening Micro-enterprises in Value Chains](#)

Practical guidance for larger companies and organisations working with these companies on how to strengthen the role of micro-enterprises in their value chains.

This approach is more commonly used for products that require less education and marketing for consumers, such as pre-packaged oral rehydration salts for treating diarrhoea, or solar lamps for lighting. The advantage to this approach is that it harnesses the existing capacities and networks of the enterprise. Established companies are also better positioned than start-ups to introduce new products that target low-income consumers, as they can cross-subsidise with profitable product lines.

³ Business Fights Poverty (2016) [How Do We Scale Distribution and Sales Networks that Create Opportunities in Low-income Markets?](#)



FIELD EXAMPLE: SUPPORTING VILLAGE BASED SOLAR SALES AGENTS IN CAMBODIA

Despite excellent conditions for solar technologies in Cambodia, many solar companies struggle to scale up their distribution models effectively. PIN worked with several companies to pilot new distribution networks in remote areas, which involved recruiting local sales agents to market and sell technologies, with a particular focus on solar home systems. A variety of different models and approaches were piloted. A key learning was that one of the most effective and efficient approaches was supporting local sales agents to act as a network of 'lead generators'. These would be community-based individuals, often existing customers of the technology, who were incentivised by a sales commission to identify and take the details of interested customers. They would then inform the full-time sales staff of the solar companies of the villages they should visit to conduct their promotional activities. This 'lighter' model proved to be more effective than previous attempts to train community-based agents to become salaried sales staff for the companies, who often did not have the educational or marketing skills to effectively sell relatively expensive and complex solar products. Determining the best model may therefore require several pilots, and should always take into account the capacities and incentives of local actors and the types of products being promoted. The use of lead generators was also identified in this Hystra [study](#) as an efficient way to develop a sales model.



Staff from a national supplier of biodigesters in Cambodia installing a biodigester for a new customer. © Anna Gorecka

FIELD EXAMPLE: LEVERAGING EXISTING RETAILER NETWORKS TO SELL BIODIGESTERS IN CAMBODIA

In Cambodia, PIN worked with a national supplier of biodigesters to develop partnerships with provincial retailers of agricultural equipment, to integrate biodigesters into their existing sales operations, taking advantage of the existing networks, sales, and management experience of these retailers. This enabled the enterprise to scale up its operations to five targeted provinces within its first year, which has proven to be more effective and efficient than building up distribution networks from scratch. PIN's support initially involved cost sharing some of the associated costs of the company establishing these new distribution partnerships. This included, for example, subsidising some of the costs for initial promotional discounts used to incentivise retailers purchasing their first 10 units, along with providing technical support with promotion and marketing approaches.

GUIDING PRINCIPLES AND BEST PRACTICES WITH SUPPORTING DISTRIBUTION MODELS:



Clear value and incentives for all actors:

For distribution models to achieve scale, the model needs to ensure all parties (e.g. sales agents, retailers, companies) are being properly incentivised (these can be economic or social incentives).



Experimentation and adaptability: Different models have proven effective in different situations, and research has found that effective companies do not limit themselves to one model but choose an array of different models, tailored to the specific context, and are flexible in shifting models according to the changing market situation and technologies. For example, selling new and durable products, such as improved cookstoves, solar lights or water filters (where those products are not yet well known) typically requires a direct and skilled sales team able to convey a complex marketing message. As those products become better known and spread, retail shops may be able to take over the sales networks.



Invest into the selection process: Being a sales agent can be a challenging job for the entrepreneurs, as even in cases when agents find the work profitable, they can struggle to stay engaged because of competing demands on their time, including family and household responsibilities. The key is to find the right

type of actor. It can often be effective to have community based entrepreneurs work as 'lead generators', as further described in the example above.



Engaging women can be very effective:

For example, [Solar Sister](#), an organisation that has established networks of woman entrepreneurs to sell solar products across three African countries, has so far established 2500 entrepreneurs and reached over 700,000 customers. Along with proving effective as sales agents, this has also been contributing to important social benefits, by breaking down gender barriers. Women also tend to reinvest more of their earnings back into their families.⁴



Building partnerships: Successful interventions have all relied on the expertise, resources, and networks of various partners, including financial institutions, technology companies, NGOs, donors, and governments.



A sales commission model: This has proven to be most effective for sales teams. This means that instead of paying only a flat salary rate per week (or month), they are paid based on the number of units they sell. Bonuses should also be put in place to encourage major achievements.

⁴ International Finance Corporation (2017) [Supporting Women in Business—It's Just Smart Economics?](#)

If private sector actors are to adopt new marketing techniques or distribution models to stimulate demand for their products or services (and better reach poor people), they often need to learn new knowledge and skills, and need to invest in developing the skills of their staff and sales agents. This section provides guidance about the variety of ways that private partners can be supported with promotion and marketing. The key difference between marketing and promotion is that promotion is just one part of a company's overall marketing mix, which consists of price, product, place (where the product/service is sold) and promotion.

Support for promotion and marketing will depend on the findings of the initial [market assessment](#), which should assess the constraints and capacities of private sector actors to effectively market their products in a way that reaches even poor customers. Findings from [market research](#) to understand consumer preferences should also be integrated into promotion and marketing strategies. The steps detailed below will not always occur in sequential order, and will depend on the situation and identified needs of the supported businesses.

Developing a business and marketing plan: Businesses need to strongly believe in and commit to any new sales or marketing approaches, in order for them to be effective. They should be supported to integrate these approaches into a business or marketing plan. In assisting firms to update the marketing and sales sections of their business plans, they should consider the following questions:

- Through which channels will they deliver products or services to their target customer segments?
- How will they promote the products or services to target customer segments (including women)?
- How will they price the proposed products and services (so that even poorer people can afford them)?
- How does this compare with other products and services in the market?



Poster used to promote PIN-supported mobile health message services in Angola, it reads "Mobile Health – Messages that Save Lives for Mothers and Care-givers". © PIN archive

- What additional services will they offer that will benefit and attract their target customers?
- Who are their distribution partners, and what support will they provide to them so that they can more effectively sell the products or services?
- How they will resource these initiatives? What personnel capacities do they need to improve? What materials will be needed?

An effective approach that is commonly used is developing a marketing strategy based on the 4Ps model (product, place, price and promotion). Guidance on how

to use the 4Ps of marketing, along with practical examples, can be found in Social Marketplace's [Online Social Marketing Toolkit](#).

Training and coaching: A key requirement for any successful distribution and marketing of a product or service is a capable and committed sales force. Wherever possible, programs should aim to **facilitate capacity building activities through local actors**, rather than providing it directly, to ensure long-term sustainable access. Facilitating capacity building involves **identifying ways that local market system actors can deliver the capacity building instead of delivering it directly by**

NGO staff, who often don't have first-hand experience with running a business. For example, an agricultural input distributor may be best placed to provide training to input retailers on marketing strategies. In this case, the project's role shifts to become more of an advisory role, and may involve providing support for curriculum development, facilitating 'Training of Trainers' for staff delivering the training, or helping to cover some of the costs of delivering the training. Business Development Service (BDS) providers could also be engaged to provide needed trainings. These are often consulting firms or individuals (but can also be non-profit, government actors, or industry associations) that provide services to improve the performance of an enterprise, its access to markets, and its ability to compete.

Training should be as practical as possible with exercises that reflect the real world environment in which participants operate. For example, marketing training should include a role-play to practice the marketing approaches that will be used in the field. Peer to peer capacity building approaches have proven to be very effective. For example, supporting new sales agents to accompany successful sales agents during their promotion activities. This [Empowered Entrepreneur Training Handbook](#) by the Global Alliance provides practical guidance on training sales entrepreneurs in basic business skills and leadership, with a particular focus on women and promotion of household energy products (although it can be adapted and used for other products and services).

Develop clear messaging: In order to engage people effectively, private sector partners need to develop a **clear, meaningful message** that will be understood and resonate with different target customers. Input from the market assessment and market research that identify the main motivating factors should be used in developing this messaging. Depending on the resources a project has available, it can be effective to work with social marketing agencies that specialise in researching, designing and implementing effective behaviour change strategies and materials to influence positive behaviours among a target group. The International Social Marketing Association [website](#) has a directory of agencies and useful learning resources on this topic.

GUIDING PRINCIPLES AND BEST PRACTICES WITH MESSAGING:



Focus on value: Private sector partners need to understand **clearly what the users of the product/service (not your project staff) see as the most important benefits** (and how it solves their problems, better than any other alternatives) and focus their messaging on this. This is often referred to as the 'value proposition'. In many cases, money savings will be the top priority. For example, for oral rehydration salts in rural Angola, the value proposition is the money households save on hospital trips due to the reduced severity of diarrheal illnesses affecting their children. A [study](#) by Hystra found that successful companies were not all focused on reducing their price as much as possible, but rather on offering their clients the best possible value for their money. This means a risk-free, good quality solution at a price comparable to alternatives.



Marketing messages should be tailored to the target group. For example, a project to promote cookstoves amongst women in Uganda found that the time-saving benefits of improved cookstoves were the most important to them, compared with men who preferred the cost

"Impersonal marketing methods like advertising and media stories may spread information about new innovations, but it's conversations that spread adoption."

Everett Rogers, Marketing Expert



savings. Accordingly, all marketing material and messaging was developed to focus first on benefits that appealed most to women and, second, on benefits that appealed to men.

Keep strategies and messaging simple. The more complex a strategy or tactic, the more likely the meaning will be lost. For example, PIN found that the most effective way for biodigester sales agents to increase their sales of biodigesters, was through small group meetings followed by door-to-door sales, using simple flipbooks, and focusing on the key message of financial savings. Often organisations will want to include as many benefits as possible into their messaging. However, **the message should be focused, not broad.**

Sales and marketing activities. Private sector partners may also need assistance with the marketing activities they are using to sell their products or services and communicate their core message to the target population. Some examples of effective activities include:

→ **Small group meetings** involve a selected group of community members (pre-identified as potential customers) being invited to learn about a specific product or service and its benefits, often through testimonials from existing satisfied customers and visual displays or demonstrations. One example of this is the Community Led Total Sanitation approach (see tools below for guidance), which uses community

meetings as a way of 'triggering' behavioural change. It is important that sales agents collect the contacts of interested customers from these events, and follow up with them (as any decisions to purchase often need to first be discussed within a household).

→ **Door-to-door sales** usually to those people that meet a specific customer profile (e.g. selling micro-nutrient powders to families who have young children) or have shown interest in a product (such as those who have attended small group meetings). This may be difficult during the day as men are working and women often do not feel empowered to make purchasing decisions without consulting their husbands. In such contexts,



Man admiring a promotional billboard for domestic biodigesters in Cambodia. PIN engaged famous comedians to promote biodigesters, increasing people's interest in the product. © Archive PIN

it is advised to inquire what time is best suited for the target group and schedule the visits accordingly.

→ **Competitions or contests** can be used as a business tactic to market a new product or service, or generate greater interest around an existing product or service. They can reduce the risks associated with trying something new, and create prestige around it. They can also leverage the importance of 'seeing is believing'.

Example: Cooperating with an agricultural input company to select 20 farmers randomly (through

a raffle) to try out improved agricultural seeds. As part of the farmers involvement, they have to come and receive training on how to use them properly, and allow for a demonstration day where other farmers can come and learn from them, as a way to encourage others to try it. More details on this approach can be found in this EcoVentures' Market Facilitation [Cartoon Learning Series](#).

DO LARGE-SCALE MEDIA CAMPAIGNS WORK?

Many organizations place greater emphasis on raising awareness of promoted products or services by investing in 'above the line' marketing campaigns, i.e. billboards, radio ads or TV advertising. Studies have found that while these investments do raise awareness they generally fail to translate into actual sales, as detailed in this lessons learned report by [Hystra](#). For example, a marketing campaign stressing the health benefits of improved cookstoves resulted in an impressive 69% awareness of health impact among potential customers, and 83% of these stated their intention to buy, but a disappointing 2% made actual purchases. Similarly, a final evaluation of a Mercy Corps SCOPE program aimed at increasing clean technology adoption amongst tofu and tempeh retailers in Indonesia, found that their NGO-supported mass media marketing campaign activities were largely ineffective (and could not compete with bigger companies advertising campaigns). The project found that supporting private sector actors to invest in their own face-to-face marketing was far more effective (a summary of these and other interesting findings from this project can be found [here](#)). It can also be very challenging to monitor the impacts and cost effectiveness of these marketing approaches.

Nonetheless, the Alliance for Clean Cookstoves found that while demonstrations are often the best way to educate consumers about the product, consumers were more likely to trust a cookstove company if they had seen professional advertisement or heard the company's name on the radio. These type of branding initiatives can therefore help build product awareness and brand image, and can raise the profiles of the products in communities. If these approaches are to be used, they should not replace the need for village level promotion approaches. Radio testimonials have been found to be effective (particularly for remote customers) by engaging users to discuss their experience with using a product and highlighting the benefits that would appeal to other potential customers. Useful guidance for developing mass media and radio interventions can be found on PIN's website www.behaviourchange.net.

FIELD EXAMPLE: ALTERNATIVE ENERGY PROMOTION IN EAST TIMOR

An alternative energy project (focused on solar products and clean cookstoves) implemented by Mercy Corps in East Timor had a strong focus on strengthening demand for these products through various marketing campaigns. The project's final evaluation found that sales were the lowest in the areas where the organisation had the biggest footprint (e.g. where community installations had been done and project staff had been directly involved in promoting the products), as the communities expected the products to be free. A useful case study on the project and its lessons can be found [here](#).



TOOLS AND RESOURCES TO SUPPORT PROMOTION AND MARKETING

Social Marketplace's

[Online Social Marketing Toolkit](#)

An online information hub with best practices and case studies on social marketing and selling of goods and services to low-income consumers.

Plan and the Institute of Development Studies (IDS) [Community-Led Total Sanitation Handbook](#)

Provides guidance on each step of the Community Led Total Sanitation approach including field examples and practical tips.

Hystra's Lessons Learned report

[Marketing Innovative Devices for the Base of the Pyramid](#)

Extensive research study on approaches and best practices in marketing innovative products to low-income consumers.

Global Alliance for Clean Cookstove's [Marketing and Sales Resources](#)

Useful guidance on supporting the private sector to develop effective sales and marketing approaches for household energy products.

GUIDING PRINCIPLES AND BEST PRACTICES WITH PROMOTION AND MARKETING:



Leverage local relationships and trust: The most effective approaches to motivate poorer households to buy a new product or service often involves below-the-line marketing approaches that rely on peer connections, word of mouth, local relationships and trust. Research conducted by [Hystra](#) found that a large percentage of poorer customers surveyed make a purchasing decision based on what their neighbours and relatives recommend. There are usually higher levels of trust through communication within the same social classes, and approaches should reflect this. For example, when selecting model farmers as demonstrators of a new technology, it is important to include poor farmers within the group of model farmers, since the strongest relationships are peer-to-peer relationships among poor farmers. In some contexts, it is also critical to engage local government actors as influencers.



Try to avoid customers knowing it is an 'NGO supported' initiative: Experience has shown that if customers realise that certain products or services are being promoted by a funded organisation, it becomes much more difficult to sustainably scale up using a market-driven approach. This is because they will expect the product to be free or heavily subsidized. Implementing organisations need to be strategic about how they present themselves and their donor to communities – ideally, they avoid mentioning their involvement in the market-related components of the products or services. Any promotional activities should be driven by the suppliers themselves. The importance of this low-visibility approach to the sales and marketing component should be discussed with and communicated to donors. Additional information on this and other useful tips can be found in Enterprise Work's [two-pager](#) on [Successfully Scaling up Sales Programs](#).



Large-scale handouts should be avoided even in the early stages, as customers will not want to pay the full production and distribution price if their neighbour was given a product or service for free.



Consider using a sequenced approach. Starting with middle-income consumers to build the feasibility of a product, and working down to lower-income

consumers over time is one strategy that has been found to work, as demonstrated in this best practice [report](#) by iDE called iDE's Approach to Sanitation Marketing. The first step targets 'early adopters' who are willing and able to pay cash. The second step focuses on reaching poorer households - that want to see their neighbours using a product first - through targeted marketing approaches and sanitation financing. The third step targets the remaining households (the poorest households) using smart subsidies that are only eligible for households that meet specific poverty criteria.



Consider timing and seasonality: Many poorer consumers do not earn a regular income. **Promotion should therefore be done at a time when people are able to act upon it** – when they have money available. For example, if planning a campaign promoting the sale of agricultural equipment, the best time to do this is after the harvest season when people have more disposable income.



Gain ideas from the approaches of other effective private sector actors: Observing the promotional activities and business models already introduced and in the market can be a useful approach for getting ideas and innovations, though will always need to be tailored to the product and context. For example, USAID's MSME project in Cambodia identified a training model used by animal feed wholesalers for their retailers, to create customer awareness and drive input sales. The project focused on encouraging other companies to replicate this model, which contributed to widespread and enduring adoption.⁵



Product diversification: Different customer segments are likely to have different needs and desires, product diversification can help to address this. For example, iDE's [SanMark program](#) in Bangladesh promotes three different latrines for different customers and households can easily understand the different product options and choose one that suits their needs and income constraints.

⁵ USAID's Leveraging Economic Opportunities (LEO) Project (2016) [Scaling Impact through Agricultural Input and Output Markets: A Synthesis and Troubleshooting Guide](#)

Research conducted by [Hystra](#) of 15 different companies selling a range of products to low-income customers, which included for example latrines, irrigation pumps, and solar lanterns, found that many customers were no longer using these products two years after purchase. This was often caused by the lack of maintenance and follow-up support from the companies. As customers often make a decision based on what their neighbours inform them, having dissatisfied customers actively discourage their friends and neighbours from purchasing a product or service can have a significantly damaging impact on the growth in demand and usage. Another factor the study found was that donor funded-projects often face pressure to achieve short-term sales targets, which can sometimes take precedence over ensuring long-term usage and benefits of promoted products or services. It is very important that initiatives to maintain long-term demand are discussed and supported. This includes:

- **Customer service:** Selling a product or service requires developing and maintaining good relationships with customers. This means ensuring that the sales staff know the product or service well, are polite and respectful, and are responsive to the consumers' demands in a way that leaves a lasting positive impression on them. The growing use of technologies, such as mobile phones, increase opportunities for this.
- **After sales services:** Organising reliable and easy-to-access after sales services should be a priority. For example, users of solar equipment may need assistance with how to clean their panels after the first six months, to maximise their energy generation. Contact information for the company should always be shared, and the customer's contact details should be documented, to follow-up with them. Customers should also be made aware of any warranties. Localising after-sales services can be an effective and cost-efficient approach in some circumstances.
- **User-feedback surveys:** Surveys can be an effective way to generate feedback on the products and measure customer satisfaction. The Net Promoter Score (NPS) is a wide spread methodology used to track this, and can be used to immediately identify and follow-up with dissatisfied customers, preventing negative word-of-mouth. An introduction on how to use NPS can be found [here](#). Organisations have good experience conducting data collection for their projects, and can often support companies with this expertise.



A biodigester technician repairing a biogas lamp. © PIN Archive

FIELD EXAMPLE: IMPROVING AFTER SALES SERVICES THROUGH LOCAL TECHNICIANS IN CAMBODIA

PIN supported renewable energy companies with the identification, coaching and skills development of village-based 'Local Technicians' responsible for providing effective after-sales and maintenance services for biogas units. This initiative was supported to enable easier and more efficient after sales services to biogas users, to help ensure long-term operation of the biodigesters and positive perceptions towards the technology. The main services provided by Local Technicians include advice for users about operation and maintenance, repairs, and sales of spare parts. Many Local Technicians were existing users of the technology, and in addition to their maintenance services, also became

engaged as effective sales agents to earn commission for this service. The project found that the social status and benefits this provided them was a key motivating factor (and ensured they remained active even when their income generation was still low). A network of more than 250 local technicians was established and actively providing services to more than 13,000 households using these devices. User surveys found that user satisfaction rates were 96% for the performance on their biodigesters, and 91% were satisfied with their after sales services. A key lesson learned was ensuring the energy enterprises were closely involved in the selection and training process of Local Technicians.

Financial constraints can often be a significant factor in preventing low-income households from being able to purchase products and services. These consumers are often unable to access formal financial services due to physical remoteness, lack of needed documentation, or the lack of suitable financial products or services on offer. Working with private sector partners (either as sellers of products or services, or as financial service providers), to lower financial barriers and improve affordability, can be an important driver of demand creation. The type of approach will depend on the specific product or service being promoted and its distribution model. An important first step is **understanding the financial capabilities and preferences of a target group** (which can be conducted as part of the [consumer research](#) step).

Several effective approaches include:

- **Product and packaging innovations:** Affordability can be significantly improved when a product is offered **in a form that matches the disposable income of the poor** (e.g. a smaller package). When initial market assessments reveal that packaging sizes for products or services appear to be a significant constraint, implementers can share this market information with private sector partners, to try and demonstrate the potential market they could access through selling smaller product sizes.
- **Working with micro-finance institutions (MFIs) to develop new products or services.** MFIs have the systems, processes and networks in place to disseminate loans, and have the financial incentives to continue operating after projects end, which can make them an important partner in enabling financial access. They can also leverage their existing networks and the trust that consumers have in them to promote the targeted products or services. Nonetheless, loans for poorer customers and low-cost items may not be attractive to MFIs due to the lower returns and high transaction costs of reaching customers. Programmes often have to develop a new product or service to reach targeted customers. An important step in this process can be to



A credit officer explaining solar loan products to a customer in Cambodia. © Phon Son Kimsan

- **Consumer subsidies:** A direct, short-term incentive provided to a consumer that can be used to lower the financial risk, improve access, and encourage participants to be early adopters of a new product or service. Whenever they are used, subsidies should be designed to be 'smart' and should have a clear exit strategy. Guidance and examples on smart subsidies (including the risks involved and ways of mitigating against them) can be found in the table below.
 - **Vouchers (for discounts):** Subsidies can also be provided in the form of vouchers as a means of offering discounts for a particular product or service from chosen vendors. Vouchers can be a useful way to
- initially encourage the use of new products or services amongst lower-income households. For example, if a person comes to a pre-selected shop and buys seeds, they will be given a 20% discount when using the provided voucher. Vouchers allow for market interactions to take place. Rather than just taking a hand-out, poor people are participating in the market as consumers with the power to buy something.
- **Financing directly through the sales business.** This approach (also referred to as 'in-house' financing) allows the customer to buy the product up-front and make repayments directly to the supplier, based on an agreement with them. This can be convenient for customers as they only have to deal with one entity, and can provide them with more confidence in making a purchase as if the product isn't working they can withhold their payment to the supplier (which also incentivises the supplier to provide good after sales

services). A study by [Hystra](#) demonstrated that in-house financing was found to be one of the most effective approaches to financing energy products, for both the customers and the technology suppliers. The challenge is that the supplier needs to have access to its own capital and have the capacities to identify and manage the risks. Additional guidance on financing approaches (with a focus of energy products) can be found in this Global Alliance [report](#) on Consumer Finance Models for Clean Cookstoves.

- **Lease-to-own or pay-as-you-go models:** Customer payments go towards paying off the price of a technology, or renting the technology, and customers eventually become the owner. A rental approach can be promoted as a low-risk, low commitment way to have customer try a technology before deciding to buy it, and has been used effectively by a lot of solar companies for solar home systems. Some lessons learned from these approaches by GSMA's Mobile for Development Utilities program can be found [here](#).
- **Mobile payments:** Several companies that sell durable goods have been using mobile money services to stimulate more demand, make payments easier, and reduce upfront costs for low-income consumers. Mobile financial services provide a pathway to formal financial access in areas that physical banks cannot reach. For example, [M-Kopa](#) allows customers make payments on their solar home systems with mobile-money from any location, at any time, which enables flexible payment schedules and responds to the cash-flow challenges of low-income customers.
- **Savings and loan groups:** Poor households can be supported to save individually, or as a group, to generate sufficient money to invest in needed products. It can be effective for businesses selling products or services to target savings group. This can be done by meeting with the group to explain the benefits of the product or service, and then agreeing on a financing and delivery strategy with the group. For a clear introduction to saving groups, and the various models available, consult this [report](#) by SEEP called Savings Groups: What Are They?

FIELD EXAMPLES: USING VOUCHERS TO ENABLE ACCESS TO SEEDS IN AFGHANISTAN

In remote upland areas of northern Afghanistan, farmers are interested in buying improved seeds to improve their farming, but face constraints in not being able to access them locally. Suppliers choose not to operate in remote areas due to the high costs of reaching these areas. To improve access to seeds, PIN worked with a range of improved seed suppliers to organise seed fairs at the community level. To ensure a minimum number of sales for the suppliers, PIN agreed to provide a certain number of more vulnerable farmers with cash vouchers, which they could redeem from the suppliers at the market events.

The price for seeds was not fixed and was negotiated between suppliers and customers. By involving a large number of suppliers in the event, the project created a sense of competition between them, which had positive impacts on the quality and price of the products displayed. Rather than direct distributions, which can distort the businesses of local traders and vendors, the seed fair helped to kick-start a relationship and linkage between the suppliers and local communities. Vendors were impressed by the local demand, and were happy to have also sold a large amount of other seeds that were not covered by the voucher system.

FIELD EXAMPLES: IMPROVING AFFORDABILITY THROUGH SMALLER PACKAGING

Small enterprise Maziwa King in Nairobi, Kenya, found a way to make milk products more affordable and accessible to low-income consumers by selling milk using coin-operated milk dispensers, with consumers bringing their own bottles. This enabled the prices charged to be as low as five Kenyan shillings (about USD\$0.05) per purchase. The business has been growing rapidly because of strong demand for small servings of milk in the low-income markets they serve.

Swisscontact's Katalyst project in Bangladesh motivated producers to sell seeds in smaller and cheaper packages that are more relevant to the needs of small-scale vegetable growers. This enabled hundreds of thousands of poor farmers access inputs that they previously were not using (more information can be found in this [video](#)).

In Cambodia, vaccines were only sold in bottles containing 1,000 doses or more. This increased the costs for smallholder farmers who often own only about 20 chickens. PIN engaged veterinary companies in selling their vaccinations in smaller bottles with less doses, resulting in smaller producers having better access to these vaccinations.

FIELD EXAMPLE: USING SMART SUBSIDIES IN THE SANITATION SECTOR

To reach the poorest of the poor, iDE's experience with financing sanitation found that a smart subsidy can be used to effectively target poor people. In this particular context, subsidies are considered "smart" when they minimise the negative distortions on sanitation markets by effectively targeting only those households that are eligible to receive them. To do this, IDE developed a system to establish household poverty status, and only offered the subsidy to those households that met this specific criteria. Research conducted into this found poor households made up 44 percent of latrine purchasers in areas where smart subsidies were used, compared to only about 17 percent of customers were poor in areas where smart subsidies were not offered. This showed that smart subsidies can be effective at achieving a pro-poor objectives within a market-based approach. Further information can be found in this [report](#) on iDE's Approach to Sanitation Marketing.

GUIDING PRINCIPLES AND BEST PRACTICES WITH LOWERING FINANCIAL BARRIERS:



Financial solutions need to be tailored to different customer needs: When thinking of financial solutions, thorough research should be collected first on the target consumer's behaviour and income patterns, so that appropriate financial solutions can be developed according to their needs. This needs to take into account, for example, seasonal factors that influence when households have more financial resources available. For example, M-Kopa in Kenya allowed customers to take 'mini breaks' from repayments for solar systems during lean times for household income. Different financial options can also be provided for different customer groups.



Close coordination with government and other development partners is important to minimise disruptions to projects' market-driven approaches and results. For example, if a donor decides to start subsidising a product or service in the target areas, this will reduce people's willingness to pay market prices. Communication with relevant external actors should occur during the project design stage and throughout implementation to ensure a coordinated approach.



Be strategic and have a clear exit strategy: When subsidies are used to incentivise partners, they should be used 'smartly'. Smart subsidies are subsidies that are used as little as possible and with a clear plan and exit strategy, so that the program can be scalable and sustainable without them. If this is not done, subsidies run the risk of creating dependency and distorting the market. For example, favouring products from only one business over others can make it harder for the businesses not involved to grow. Subsidies being withdrawn too quickly can also have damaging impacts on markets and consumer demand.

FIELD EXAMPLE: LESSONS LEARNED FROM USING SUBSIDIES FOR BIODIGESTERS IN CAMBODIA

In 2013, when a subsidy provided to buyers of biodigesters in Cambodia was reduced from USD \$150 to an average of \$120, there was a 73% reduction in annual sales the following year. It is unlikely that this significant reduction in sales was due to the fact that customers would have to pay USD \$30 more for digesters that would otherwise save them hundreds of dollars a year. The more likely scenario is that potential customers had come to perceive the price of the biodigesters (with the subsidy) as stable and unchanging due to it being heavily advertised and in place for several years, and became discouraged from buying the technology when the price increased. The removal of the subsidy also decreased the motivation of biodigester companies to promote and market the product, who used the subsidy as a key sales tactic. When the subsidy returned to USD 150 the following year, the number of biodigesters built increased by 64%. This demonstrates the significant impact that subsidies can have on market demand and customer perceptions of value, and reinforces the need for having well-thought-out, long-term vision whenever consumer subsidies are introduced.

FIELD EXAMPLE: A PRO-POOR APPROACH TO FINANCING SANITATION IN BANGLADESH

BRAC's WASH Sanitation program makes improved latrines affordable for different types of customer groups: (1) for better-off customers, it does not provide any financial assistance and only provides technical and advisory support (e.g. with design and site selection, contacts of latrine construction companies) for the installation of latrines; (2) for poorer customers, it provides micro loans through a microfinance program; (3) for ultra-poor households, it offers subsidies (BRAC and governmental) for latrine construction materials. This tailored approach helped BRAC improve access to sanitation for 25.8 million people in 40,000 villages (from 2006 to 2011) and increase latrine coverage from 33% to 83%.



TOOLS AND RESOURCES FOR FINANCE INTERVENTIONS

Mercy Corps' [Voucher and Fair Implementation Guide](#)

Comprehensive and detailed guidance on the different steps involved in using vouchers to enable access to a good or service.

Practical Action's PMSD [Step 3, Strategic Design and Planning \(pages 18-22\)](#)

Guidance on the use of subsidies, including common risks and ways of mitigating against them.

RAF Learning Lab and Mastercards' [Better Together: Last Mile Partnerships for Smallholder Finance](#)

Lessons learned and guidance on facilitating business partnerships with financial institutions to support smallholder farmers.

USAID/ World Vision/ FHI 360's [Integrating Extremely Poor Producers into Markets Field guide](#)

Field Guide on supporting very poor households to access markets, includes guidance and examples of smart subsidies (pages 79-81).

QUALITY CHECKLIST - THINGS THAT PRACTITIONERS SHOULD LOOK OUT FOR

What is this checklist? This practical checklist was developed to assist you to consider important steps when planning and implementing initiatives which engage the private sector to increase demand for products or services. You can use it during the project design stage or during implementation.

Quality Checklist - Increasing demand for products and services through effective engagement of the private sector

Have you conducted an assessment to properly diagnose the constraints/barriers poor women and men face in accessing needed products or services?	Y	N	N/A
Have you made sure to conduct due diligence of your private sector partners, to assess the risks of a potential partnership? (some useful guidance from Mercy Corps is provided here)	Y	N	N/A
Have you made sure to use an adaptive management approach that involves first piloting your types of support before scaling them up? (consider using the AAER framework)	Y	N	N/A
When introducing a new business model or practice, have you made sure to assess relevant interventions that have been tried previously (and the reasons for the success or failure of these)?	Y	N	N/A
Have you made sure to coordinate your activities with other market or non-market actors (e.g. other NGOs working in the same sector)?	Y	N	N/A
Have you considered how to integrate a gender-sensitive approach into your interventions? (Christian Aid's guide has useful guidance on gender-sensitive market development approaches)	Y	N	N/A
Have you made sure, that as much as is possible, you are only playing a facilitation role? (consider EWB's list of best practices and this role-playing game by ILO)	Y	N	N/A
Have you developed a vision for sustainability? (the Who Does Who Pays analysis is a useful tool for this, guidance on how to do this is linked here , especially pages 21-24)	Y	N	N/A
Have you ensured that any financial support has a realistic and clear exit strategy?	Y	N	N/A
Have you allocated resources for capacity building to the project team on facilitation/market development approaches, and made sure that they are aware of the project logic?	Y	N	N/A
Have you made sure to consider and mitigate any health risks from products that are promoted (e.g. supported the appropriate and safe use of pesticides or disinfectants)	Y	N	N/A
Have you made sure that any initiatives to strengthen demand are being met with initiatives to improve supply? (please click here for guidance on supply)	Y	N	N/A

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A village animal health worker in Cambodia with her livestock vaccines.
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If you have any feedback on this guide or ideas for improvement, please send them to resource@peopleinneed.cz.

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