



**Evaluation of Woord en Daad SMED activities
carried out in cooperation with CSS in Bangladesh**

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This report is an output of the Partnership for Learning by ISS and Woord en Daad. The title and number of this evaluation are: 'Evaluation SMED program', W&D project number 1694003. It contains an independent advise from two senior staff members of ISS on how to fine tune the Woord en Daad SMED program in Bangladesh, carried out in cooperation with CSS.

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Executive Summary

The Woord & Daad CSS SMED program in Bangladesh is well-managed and financially sustainable. It provides loans to successful businesses that effectively use the loans to expand and hire some more workers. In a country with a functioning financial system all these firms would be able to get bank loans, but in Bangladesh such small businesses need to rely on NGOs for credit. The direct poverty reduction impacts of the employment generated by these businesses is limited as most supported firms are primarily retail outlets, which by and large employ few poor people, given the required levels of education and representation, except possibly in distribution of goods. Poverty reduction impacts are relatively higher for those businesses that also process or manufacture part of the goods they sell.

Poverty reduction impacts also appear to be relatively higher in a new additional SMED *Small* program, which offers loans to businesses that have ‘outgrown’ the micro-credit program, but are as yet too small to be able to absorb loans from the SMED program. Again, poverty reduction impacts are highest among firms that are at least partly also processing or manufacturing goods, as employment of poor people takes place mainly in low-tech labour-intensive processing and manufacturing.

The scale of operation of the SMED program is very small, 32 firms are supported in Bangladesh, 23 in the two areas covered by this evaluation. To enhance the significance of this intervention, we suggest to either:

- strengthen the poverty reduction impacts by prioritizing relatively smaller firms that use low-tech labour-intensive methods of production, or
- strengthen the coherence of the Woord & Daad intervention logic from education to vocational training to creating job opportunities, by prioritizing somewhat larger and more capital-intensive firms using relatively higher skills, that can absorb vocational training graduates.

Another possible way forward, which might go together with strengthening the Woord & Daad intervention logic, is to prioritize firms that operate at a level of sophistication that makes it at least potentially possible to more effectively utilize the entrepreneurial and managerial expertise from the Woord & Daad Business Platform. Clearly, this option pulls in the opposite direction from strengthening the direct poverty reduction impacts. We advise Woord & Daad to choose more explicitly where and when they focus their SMED program on which of these possible options. Based on our field study, we feel that for the case of CSS in Bangladesh, enhancing the poverty reduction focus is the best option.

Response of Woord en Daad to the recommendations (in Dutch)

Deze respons verwoordt de reactie van Woord en Daad (W&D) en Christian Service Society (CSS) op het evaluatie-rapport van ISS van het programma MKB-ontwikkeling in Bangladesh. Daarnaast zijn de conclusies besproken met een aantal leden van het Business Platform van Woord en Daad.

Inleiding: de aanloop naar de evaluatie

Enkele jaren geleden is Woord en Daad gestart met het ondersteunen van het midden- en kleinbedrijf in het Zuiden. Deze beslissing is genomen in overleg met het BusinessPlatform van Woord en Daad, een brede groep van Nederlandse bedrijven en ondernemers die betrokken zijn bij economische activiteiten van Woord en Daad. Primaire doel van deze economische activiteiten is dat er werkgelegenheid in het Zuiden gecreëerd wordt.

In 2006 is een verdere een professionalisering doorgevoerd op basis van de ervaringen die inmiddels waren opgedaan. De belangrijkste conclusies die we toen trokken, waren:

- Iedere business case heeft (allereerst) een capabele ondernemer en een goed business plan wat de financiële haalbaarheid aantoont nodig;
- Een ondernemer is zelf zelden arm. Zijn bedrijf kan echter wel bijdragen aan armoedebestrijding, bijvoorbeeld door het creëren van werkgelegenheid en het aanbieden van bepaalde producten en diensten;
- Een lokale partnerorganisatie met een zakelijke inslag en ervaring in het beoordelen van ondernemers en business plannen, evenals het verstrekken van leningen aan ondernemers, is cruciaal voor het succes;
- Vanuit Nederland is het niet mogelijk om een MKB-bedrijf in het Zuiden voldoende ondersteuning te bieden. Deze directe ondersteuning is daarom ook vooral de taak van de lokale partners van Woord en Daad.
- Een bedrijf starten is niet moeilijk, maar het gaat erom dat een bedrijf op de langere termijn overlevingskansen heeft. De focus dient daarom meer gericht te worden op bestaande bedrijven met groeipotentieel.
- Geld dat via onze lokale partner wordt uitgeleend aan ondernemers in het Zuiden moet terugbetaald worden zodat het opnieuw ingezet kan worden. Het maximum bedrag voor een lening aan een ondernemer is 100.000 euro.

Begin 2006 zijn Woord en Daad en CSS gestart met het verstrekken van leningen en advies aan MKB ondernemers in Bangladesh. De evaluatoren van ISS hebben zich aan de hand van beschikbare informatie voorbereid en Woord en Daad heeft ISS in verschillende gesprekken de start, achtergrond en aanpak van MKB ontwikkeling uitgelegd.

De evaluatie: specifieke opmerkingen bij de uitkomsten en aanbevelingen

De evaluatie in Bangladesh richtte zich op het inzicht geven in de effectiviteit van MKB-ontwikkeling en de impact ervan op armoede. Armoede heeft vele gezichten en oorzaken. In het evaluatie-rapport wordt gesproken over de verschillende vormen waarin armoede zich in

de Bengaalse context manifesteert. ISS maakt een onderscheid tussen “hated poor” (bijv. bedelaars op straat), “hardcore pore” (geen formele opleiding) en “social poor” (enige vorm van opleiding).

De resultaten van de evaluatie stemmen ons tevreden en bevestigen dat we op de goede weg zijn, de aanpak met bedrijfsontwikkeling goed werkt en positieve zichtbare resultaten oplevert waaronder extra werkgelegenheid. We zijn ook blij dat er aanbevelingen worden gedaan en leerpunten worden genoemd. Toch willen we een aantal kanttekeningen plaatsen, omdat de werkelijkheid van het ondernemerschap zich vaak wel maar soms ook niet helemaal laat verenigen met de doelstellingen voor het direct bestrijden van armoede.

Selectie proces van ondernemingen en het type werkgelegenheid

MKB-ontwikkeling moet een armoedefocus hebben, maar wel binnen de context van een levensvatbare business case. Niet alleen productiebedrijven (die vaak de armste werknemers in dienst nemen) hebben onze hulp nodig. Ook andere typen bedrijven verdienen steun. Ook macro-economische gezien achter Woord en Daad het van belang om zich niet uitsluitend te concentreren op productiebedrijven. Andere bedrijven (bijvoorbeeld in de dienstensector) creëren immers ook noodzakelijke banen en leveren producten en diensten op die voorzien in een behoefte, en soms zelfs een grote bijdrage leveren in sociale zin zoals voedsel, medicijnen en water.

Woord en Daad is van mening dat leningen ook verstrekt moeten worden aan “buitenstaanders” die nog niet eerder bij CSS geleend hebben. Voor het in stand houden van een kredietprogramma voor ondernemers heb je ten opzichte van de leningen met een relatief hoog risicoprofiel ook klaneten nodig die een lager risico vormen. Wat betreft het type werkgelegenheid geldt ook hier: Sommige bedrijven bieden werkgelegenheid aan ongeschoolde arbeiders terwijl andere bedrijven door de aard van hun business meer geschoolde arbeiders in dienst nemen. Niet ieder soort bedrijf kan overleven met de laagste geschoolde en armste werknemers, hoe wenselijk dat vanuit oogpunt van armoedebestrijding ook is.

Waterbedrijven

Dit initiatief is oorspronkelijk gestart als waterproject onder het programma “basisvoorzieningen”. Technische problemen en oplopende kosten met de waterinstallaties brachten de haalbaarheid van het project in gevaar. Daarom is besloten het project te veranderen en een bedrijfsmatig karakter te geven. De doelstelling van water voor de allerarmsten verschoof daarmee naar een levensvatbaar bedrijf dat water verkoopt tegen een zo laag mogelijke prijs. Deze waterbedrijven worden nu gerund door zelfstandige ondernemers en zijn inmiddels goed op weg naar financiële zelfstandigheid. Ook bieden ze substantiële aantallen arme en middeninkomen huishoudens schoon drinkwater voor menselijke consumptie. Verschillende van deze waterbedrijven bieden beperkte hoeveelheden water gratis of tegen gereduceerd tarief aan allerarmsten. Daarnaast biedt elk waterbedrijf werkgelegenheid aan verschillende werknemers.

Ethische rol en voorbeeldfunctie van ondernemers die we helpen

We verwachten van ondernemers niet formeel dat ze functioneren als een “ethisch rolmodel” maar in de goedkeuringscriteria vooraf en de monitoring achteraf wordt aangegeven wat we

van ondernemers verwachten. In de visie van zowel Woord en Daad als CSS is het als eerste de verantwoordelijkheid van de ondernemer zelf om zijn bedrijf behoorlijk en efficiënt te leiden en synergie te zoeken met andere bedrijven. Het is de meeste ondernemers eigen om te streven naar de hoogste opbrengst tegen de laagst mogelijke prijs. Wanneer CSS of W&D misstanden tegenkomen ondernemen we daarop gepaste actie richting de ondernemer.

Kansen in de W&D interventie keten: VET-JBC-MED-SMED integratie

Integratie tussen de keten van vakonderwijs, job & business centres, microkrediet en bedrijfsontwikkeling is geen doel op zich maar een beoogd positief effect dat ontstaat tussen de verschillende programma's. Zowel CSS als W&D onderkennen het belang van het verbinden van ondernemers en opleiders/studenten. Het is ons doel om de koppeling tussen het (vak)onderwijs van Woord en Daad en de bedrijven die we een lening verstrekken zoveel mogelijk te benutten.

Daarnaast zijn gecreëerde banen eveneens waardevol als ze ingevuld worden door studenten van een andere school. Leerlingen zouden bijvoorbeeld een stage of baan kunnen krijgen bij een bedrijf. Ook kunnen bedrijven waardevolle feedback geven op het curriculum van de opleiding. Zo willen we stimuleren dat studenten van onze opleidingen ook meer kans krijgen op een goede baan doordat hun kennis aansluit bij de behoeften van ondernemers.

Zo mogelijk koppelen we studenten ook aan bedrijven waaraan we leningen verstrekken, waarbij de ondernemer zelf de vrijheid behoudt om een keuze te maken wie hij/zij in dienst neemt. Praktisch doen we dit door de samenwerking tussen onze MKB-partners en de onderwijs-partners in hetzelfde land te stimuleren. En door bij de selectie van bedrijven en ondernemers die we helpen, vooraf al duidelijk te maken welke resultaten op het gebied van armoedebestrijding we verwachten als we ondernemers een lening geven. Hoeveel banen worden er gecreëerd? Wat is het salaris van de werknemers? Welk type werknemers wordt aangenomen? Welke positieve effecten gaan er uit van het product of dienst dat het bedrijf levert?

Tegelijkertijd blijven ondernemers in het Zuiden autonome ondernemers, die hun eigen keuzes maken over hoe en met wie ze hun bedrijf runnen. Net als in Nederland.

Leerpunten

Uit de evaluatie komen voor ons een aantal leerpunten naar voren waarvan we onderstaand de belangrijkste noemen. Deze leerpunten zijn of worden inmiddels geïntegreerd in de aanpak.

- Selectiecriteria voor het beoordelen van business cases aanvullen met meer indicatoren om de armoede impact van het bedrijf aan te tonen. Maak hierbij onderscheid per land, partner en branche waar ondernemers geholpen worden omdat het soort bedrijven dat geholpen wordt in ieder land verschilt.
- Alle doelstellingen (armoede impact, keten versterking, expertise inbreng vanuit NL) niet rigide toepassen op ieder land en/of partner en/of business case. Iedere situatie is daarvoor te verschillend.
- Blijf bedrijfsontwikkeling zien vanuit de doelstelling van werkgelegenheid voor zowel arme als minder arme werknemers en besteed aandacht aan de arbeidsomstandigheden en aan de effecten die het hebben van een baan op deze werknemers en hun bredere leefomgeving heeft.

- Leerpunten n.a.v. de discussie met leden van het Business Platform:
 - Blijf gefocust qua keuze van sectoren per land en concentreer niet op te veel landen en houd het bij deze 11 landen om zo de aandacht voor partners, business cases en frequentie bezoek waar te kunnen maken.
 - Denk aan de capaciteit bij W&D met de juiste bemensing met voldoende expertise en beschikbare tijd. 4-5 landen per persoon blijkt het maximum.
 - MKB bedrijfsontwikkeling is populair bij ondernemers, er is bereidheid om daarvoor middelen ter beschikking te stellen, temeer daar het geld (een lening) steeds opnieuw gebruikt kan worden
 - Het creëren van banen voor niet of minder arme werknemers biedt eveneens kansen voor armen om de (vrijkomende) banen onderop de ladder te bemachtigen. Het effect van de missende treden op de ladder die ingevuld kunnen worden dus.
 - Coaching en leiderschapsontwikkeling van (jonge) ondernemers is belangrijk op lange termijn, naast het geven van leningen.

April 2008

Gert Wiggelinkhuijsen

Manager Bedrijfsontwikkeling Woord en Daad

1. Introduction

The main purpose of this evaluation is to provide constructive inputs to Woord & Daad and CSS to further strengthen their SME program. Therefore, this evaluation does not so much look back to assess whether specific effects have been achieved, but we have tried to focus on delivering qualitative advice on how to further improve the SMED program, based on interviews with staff of Woord & Daad, staff of CSS, and especially through interviewing supported entrepreneurs in Bangladesh.¹

After this Introduction, Chapter 2 explains our methodology, based on the Evaluation Format that has been added as Appendix 1, and it summarizes choices made in the field. Other methodological appendices contain a list of all the firms that we have interviewed (Appendix 2), and the semi-structured Questionnaire (Appendix 3).

Chapter 3 presents the main direct findings which are presented along the lines of the eight evaluation questions introduced in Chapter 2. In turn, Chapter 4 puts forward our more general ideas on how to further improve the relevance of the SMED program to the Woord & Daad portfolio. Chapter 5 lists our recommendations.

Appendix 4 contains a short discussion note that we wrote for Woord & Daad as part of our preparations for this evaluation. This note provides a more general discussion of the often implicit assumption that small business development will automatically lead to poverty reduction through income and employment generation. Finally, Appendix 5 contains the Terms of Reference for this evaluation, as written by Wouter Rijnveld from Woord & Daad.

We wish to thank the following persons from Woord & Daad: Jan Lock, Wouter Rijnveld, en Gert Wiggelinkhuijsen. Moreover, we wish to thank Evert de Blok for his valuable and active participation in this evaluation.

In Bangladesh a special thanks goes to all CSS staff who have made our assignment a real pleasure and learning experience. We would like to mention in particular the generous assistance and companionship of Zakir Hossain in Khulna, the warm welcome and engaging discussions with Mark Munshi, and, most importantly, the unfailing support from Shankar Sidker, and his serious yet cheerful approach to our visit. Without his integrity and logistical mastery this study would not have been the same.

While we appreciate all the assistance we got during this study from various people, responsibility for the content of this report rests only with the authors.

¹ Woord & Daad and CSS possess an extensive and up to date data base on supported businesses. Given that our report is mainly for internal use, we have not provided repetitive information on basic characteristics of supported firms, but have concentrated on interpretation.

2. Methodology

The data collection has used the ‘Evaluation format to assess Woord & Daad SMED support to CSS SME interventions in Bangladesh’ which can be found in Appendix 1. The evaluation format looks at 8 steps that make up a complete cycle of questions for this evaluation:

- 1) How does W&D direct and support its SMED unit?
- 2) How do W&D and W&D SMED support CSS? What specific inputs does W&D SMED provide to CSS? What inputs does CSS receive from other organizations?
- 3) How does CSS select and support targeted entrepreneurs? How does CSS contribute to W&D SMED objectives on Civil Society Building and Policy Influencing and to W&D intervention chain coherence?
- 4) What are the outcomes for targeted entrepreneurs, their firms, and workers?
- 5) What are the outcomes for W&D SMED and W&D beyond Business Development and Direct Poverty Alleviation?
- 6) In what ways does CSS monitor outcomes and systematically tries to learn from previous experience? How does CSS report back to the W&D SMED unit?
- 7) In what ways does W&D SMED monitor outcomes and systematically tries to learn from previous experience? How does W&D SMED report back to W&D?, and, finally,
- 8) In what ways does W&D monitor outcomes on and beyond direct poverty alleviation and systematically tries to learn from previous experience?

These steps contain related but analytically separate issues, which are *not* of equal weight. The evaluation has focused on CSS outputs (step 3) and **outcomes for the target group** (step 4). Within these issues the evaluation will focus on those critical success factors that deal with 1) the quality of CSS service delivery to entrepreneurs and 2) the poverty alleviation outcomes.

The remainder of this chapter will, first, explain our definition and measurement of poverty in Bangladesh, and, secondly, present our data collection process.

2.1. Who are ‘the poor’?

An assessment of the SMED programmes’ effects on poverty has to be based on an appropriate definition of the target group and observable indicators to identify them in the field. However, neither official statistics nor common sense language use are very useful in this regard. The poverty line of 1,000 taka/month, or about half of the lowest international standard, is clearly a political figure meant to conceal the magnitude of poverty in Bangladesh. Moreover, quantitative data on poverty suffer from *systematic unreliability*. There is a well-known moral hazard problem: People underreport their (highly volatile) incomes) hoping that they would qualify for support. It is safe to assume that few of the workers in SMED businesses have fallen under the official poverty line before their present employment, except in periods of extreme crisis.

In contrast, everyday perception of poverty in Bangladesh is very broad. According to the World Bank’s ‘Voices of the Poor’ country report², no less than 75% of the households within

² Narayan, D. & P. Pettesch (eds., 2002) *From Many Lands: Voices of the Poor* Vol. 3. Washington DC & New York: World Bank & Oxford University Press.

rural and urban communities are considered to be poor in one way or the other. However, people make an interesting distinction between three categories of the poor. The first subgroup referred to as the ‘social poor’ consists of households who have a meagre but fairly stable income, and comprises virtually all manual labourers but also sales personnel, office clerks etc. Thus any successful enterprise support programme can claim to create employment for the social poor, but so can almost all businesses (including large corporations and exporters) in the country. The critical question – against which we have assessed the poverty reduction impact of CSS’s programmes – is whether a significant number of the second category, the ‘helpless poor’ (called ‘hardcore poor’ in urban contexts) are finding jobs. These form the majority of the poor, and are households depending on irregular employment or self-employment, with a highly volatile income and frequent and severe livelihood crises. The third category of ‘bottom’ or ‘hated poor’ consists of beggars, homeless people, ambulant petty vendors and similarly marginalized groups. These can hardly be considered employable by commercial businesses, and therefore not possibly benefit from entrepreneurship development (and neither from micro credit).

Yet peer assessment is a problematic and expensive instrument even in community development, and unpractical for this evaluation as we would need to determine whether workers had been perceived as hardcore poor *in the past*. What we needed was a proxy indicator, and in our view the most powerful one in the Bangladeshi context is education (in others it could be tenure status, ownership of certain assets, or a combination of several such characteristics). According to World Bank statistics, adult illiteracy is still almost 60%, with a strong overrepresentation of women. There is an obvious and very strong correlation with hardcore poverty: Illiterates cannot find decent jobs, and the poor cannot send their children to school thereby inheriting their poverty. The basis of our assessment of poverty effects was therefore whether employment in the SMED business explicitly or effectively requires any formal education, i.e. excludes (most of) the hardcore poor. We can consequently not make quantitative statements about the number of poor people who have benefited from the programmes. What we can say is which kinds of businesses employ uneducated people, making it *likely* that a significant number of them had been among the hardcore poor. The problem is the inherent *upper* threshold on wages, working conditions etc.; if these are ‘too’ favourable the job will attract non-poor applicants, and a smart entrepreneur will prefer these over their low-skilled and slow-learning competitors.

2.2. Data Collection

While the main data collection has focused on interviewing entrepreneurs that have received loans from the CSS SMED and SMED Small program, we also have interviewed Jan Lock (Director Woord en Daad), Mark Munshi (Director CSS), Shankar Sidker (CSS Program manager SMED, referred to as CSS Business Development Officier (BDO)), and Gert Wiggelinkhuijsen (SMED, Woord en Daad). The information from interviews with Jan Lock and Gert Wiggelinkhuijsen have been used to answer especially question 1, 7, and 8), while the interviews with Mark Munshi, Shankar Sidker and Gert Wiggelinkhuijsen have been used especially to answer question 2, 3, 5, and 6.

The interviews with entrepreneurs have been carried out between 27 October and 7 November 2007, by the two evaluators³, with excellent logistical and good translation support from Shankar Sidker.⁴ His very capable assistance was one of the reasons why we have been able to carry out more interviews than planned. The other reason is our early decision to not do separate interviews with workers as these would not provide significant value added to our evaluation. Entrepreneurs were quite open about basic information concerning workers (who were usually present and confirmed such basic information about levels of education and wages), and we decided that interviewing the workers in the workplace on additional and more sensitive issues like treatment by the entrepreneur would not lead to useful information but it would more or less fully occupy one of the evaluators. Instead, we decided to split up and thus be able to cover significantly more SME Small entrepreneurs (15 instead of the planned 10). Finally, we had to abandon the idea of control cases as we had no way to establish a 'typical' and 'otherwise similar' firm, given the wide variety and huge numbers of firms in Dhaka and Khulna and the very limited number of supported firms. Therefore, we have focused on looking at differences in firms over time, before and after getting the loan, which proved to be a more meaningful comparison.⁵

In total, we have done 32 interviews, spread rather evenly among SMED and SMED Small, plus three water plants in different locations (as shown in Table 1). The list of all the interviewed firms can be found in Appendix 2. We have separated the SMED and SMED Small firms in two different subgroups: those who are only retailers and those who are often also retailers but at the same time carry out processing and manufacturing activities. To give a few examples: a clothing shop in Khulna that sells mainly women's clothes, some of which are produced in their own small workshop around the corner, while the bulk of the clothes are bought from wholesalers in Dhaka. Another example from Dhaka is a store that sells voltage stabilizers, some of which are imported and some are produced in the home of the owner, using some imported key components plus other local materials and labour. The group of (also) processing/manufacturing also contains the very few SMEs who do not engage in retail at all, like the Famous Poultry Complex.

Except for one SME in the Khulna region⁶ and two SMEs in Dhaka⁷ we interviewed *all* SME entrepreneurs that are presently supported by the Woord & Daad CSS SMED program. For the SMED Small we necessarily relied on the Micro Credit Program (MCP) staff to take us to beneficiaries in their program. In Khulna, Erhard Berner and Zakir Hossain visited 5 'shops only' and 6 businesses with also processing. In Gazipur, Peter Knorringa and Shankar Sidker

³ Erhard Berner has been in Bangladesh from 26 October to 3 November, and Peter Knorringa from 30 October to 7 November. They were together in Khulna on 31 October (from late afternoon onwards), 1 and 2 November, travelling back to Dhaka on Saturday 3 November.

⁴ In Khulna, where both evaluators were present at the same time, Erhard Berner focused on interviewing SME Small entrepreneurs with logistical and translation assistance from Zakir Hossain, while Peter Knorringa interviewed SME Large entrepreneurs with Shankar Sidker.

⁵ This is in line with the evaluation format in that we proposed to investigate whether it was found plausible that firms run by supported entrepreneurs perform better than a) they would have performed without support, *and/or* b) otherwise similar firms that did not receive support.

⁶ Medical Emporium, a medicine store located more than one and a half hours drive from Khulna town.

⁷ Sultana Boutiques and Masud Textiles, both owners were not available during our visit, even though Shankar Sidker has tried very hard to get an appointment with them. In both cases convincing arguments were given that explain their unavailability.

were shown four SMED Small firms that were all engaged in processing or manufacturing type of activities, as the local MCP staff felt these would be the more interesting firms to visit. Nevertheless, they also mentioned that by far most of the SMED Small recipients are first of all retailers. We have not objected to being shown these four SMED Small examples, even though they were not really representative, as we agreed that we would probably not learn much more from visiting yet another few small retail shops, while it was by then (Sunday 4 November) already clear to us that small retail shops were the least promising in terms of employment generation for poor people.

Table 1. Interviews SME evaluation Woord & Daad, CSS Bangladesh

		Khulna	Dhaka	Gazipur	Sub-totals
SMED	Shops only	1	3	-	14
	(Also) processing/ manufacturing	6	3	1	
Water		1	1	1	3
SMED Small	Shops only	5	-	-	15
	(Also) processing/ manufacturing	6	-	4	
Sub-totals		19	7	6	32

3. Findings per evaluation question

These findings follow the steps as outlined in Chapter 2 and in more detail in the evaluation format in Appendix 1.

3.1. Output W&D/ Input W&D SMED

The first question deals with how W&D directs and supports its SMED unit. We find that the W&D Director has provided both stimulating guidance as well as more than sufficient room to manoeuvre to the SMED responsible. Now that the SMED responsible has been given time and space to develop his ideas and initial routines, we feel it is time to consolidate practices in SMED. In Chapter 5 we provide recommendations on how such a consolidation might be pursued.

3.2. Output W&D SMED/ Input CSS

The second question deals with the support from W&D SMED to CSS. We find that W&D SMED has been providing good quality support for selecting business cases. At present, the

Business Development Services offered are limited to finance related issues such as the writing of the business plan in order to be able to assess the loan request, and improving the financial administration to facilitate handling the loan.

After a challenging start, Woord & Daad SMED and CSS work together well, and both sides are open to learn from each other and do learn from each other. Initially, the Woord & Daad support on lending has been on a very detailed case-by-case basis with Gert Wiggelinkhuijsen taking the final decision on each business plan, releasing funds also on a one-by-one basis, but consolidation is already planned to take place also in terms of less case-by-case periodic reporting. Moreover, in the new SMED Small program the selection rests fully with CSS, where involvement of Woord & Daad SMED has been mainly on developing the policy paper on SMED Small.

Our assessment is that CSS will have no difficulty to reach financial independence for the CSS SMED program in the third year, given the well-thought through and strict repayment procedures. For example, CSS does not need to collect the actual repayments on a monthly basis, but they get a full set of cheques signed in advance, and they deliver one of these cheques at the beginning of the month to the bank. In exceptional cases entrepreneurs can request CSS to postpone cashing in a cheque for a few days or weeks, and CSS's BDO decides on the merit of such requests.

3.3. Outputs CSS

The third evaluation question focuses on the CSS outputs. Where relevant we distinguish between SMED, SMED Small and the water plants. A main issue in this section is how CSS selects and supports targeted entrepreneurs.

SMED

We find that in the SMED program firms are carefully selected and monitored. CSS clearly lives up to its claim to function as a 'better bank'. Almost all supported enterprises had a *convincing and experience-proven business model* from the start, operate in markets with plenty of demand, and fulfilled the strict collateral requirements. They can be considered prime borrowers and would have no difficulty to access formal credit in a country with a functional banking system.

The selection procedure has a significant element of coincidence in the sense that most entrepreneurs inquired for credit because they 'knew someone' in CSS; others heard in their networks about the opportunity. The initial selection of potential beneficiaries is done by CSS BDO, using some general guidelines provided by Woord & Daad SMED. Selection criteria are adhered to strictly. *Commercial viability* and likelihood of repayment are the first and foremost criteria, after which also labour-intensity, innovativeness and/or scope for employing poor workers are taken into account. Informal pre-selection and formal selection appear to work well in sorting out lemons; it is not unlikely, however, that worthy enterprises in terms of employing poor workers fall through the sieve as well, e.g. because they lack the extensive collateral requirements. We feel that in some cases a less strict adherence to collateral requirements could enhance the expected poverty reduction impacts, without necessarily leading to irresponsibly higher risks of non-repayment.

The CSS BDO collects the data and prepares the written business plan, using a format developed by Woord & Daad. The finalised business plans are presented to a senior CSS committee, who takes the final decision. At the moment the same format is used for relatively larger and smaller loans within the SMED program, which means the CSS BDO spends about as much time on a 5 lakh as on a 20 lakh loan. Woord & Daad and CSS are in the process of simplifying the format for smaller loans, and to stepwise synchronise procedures and formats for such smaller loans with the SMED Small program.

Lending expertise is not matched by a proactive stance on BDS support beyond the finance-related issues.⁸ All entrepreneurs report that their relation to CSS is strictly borrower-lender. None of them has received significant business advice or reported to have experienced intervention in decision making after having received the credit. Monitoring is regular but appears to be a routine, except in case of temporary difficulties in repayment (as happened to *Famous Poultry Complex* during the bird flu).

Enterprises appear to have been selected successfully with a focus on growth potential; most of them have *expanded significantly and hired additional workers* after having received the credit (see section 4). In contrast, no attempts have been made to create *synergy effects*. CSS has so far hesitated to promote contacts among supported entrepreneurs, fearing a potential organized protest against conditionalities.⁹ There is no indication that potential for cooperation has been considered in the selection of businesses.

SMED Small

SMED Small has so far been administered by the Micro Credit Program staff. A major difference with the SMED program is that in principle SMED Small is to provide an opportunity for those MCP clients that have 'out-grown' the MCP maximum loan and can absorb somewhat larger loans for their business. Most of these firms have some 4 years of track record in the MCP program, which serves as a good assessment criteria. Moreover, with in total some 47000 MCP clients (12060 in Khulna region and 4541 in Gazipur) they have a significant pool of potential SMED Small clients. On top of that, the selection criteria for SMED Small are quite strict, and make clear that among the MCP clients one finds many micro enterprises that have already reached a sizable scale (based on the simple observation that MCP clients must already possess all relevant licences, have growth potential, *and* have at least 5 employees at release of the SMED Small loan). In the Khulna region already 125 SMED Small loans have been distributed, including 19 to entrepreneurs that were not MCP clients in the past. In Gazipur so far 29 SMED Small loans were given out, including 5 new clients without an MCP history. In our interviews we noticed that some of the SMED Small clients without an MCP background saw the new program as an attractive new opportunity to get loans at a good rate without additional hassles, but that they did not seem to fit well in the ex-MCP 'self-made' profile, nor did their firms carry out low-tech labour-intensive activities. Therefore, it seems advisable to be very careful in letting new entrants into the SMED Small scheme, at least when a conscious effort is to be made to enhance instead of dilute the employment and especially poverty reduction impacts of the SMED Small program.

⁸ CSS is busy trying to recruit a BDS specialist.

⁹ According to CSS an initial attempt to bring entrepreneurs together in the Khulna region actually led to an organized protest about loan conditionalities.

Water plants

The water businesses are a separate story in that the entrepreneurial initiative seems to lie with CSS, except for one case. Moreover, conditions and size of the loans have been adjusted to allow these newly set up businesses to at least reach a break-even point in the near future. This project started initially as a basic needs project but did not succeed because of technical problems. Subsequently it was decided to 'shift' the water program to the SMED component by early 2006. Therefore, the initial goal of providing water for the poorest of the poor also 'shifted' towards, firstly, developing viable business plans for the water plants and, secondly, to provide affordable good quality water.

While the business case for these water businesses seems valid enough – plenty of demand for their product from offices and factories – their pricing strategy and market positioning (in between mineral water and tap water) does not seem to present a viable social logic. In our interviews some of the owner/managers indicated that 'some' of the jars would be distributed for free, or for nominal amounts, to nearby villages, but this seems to be a typical example of 'a drop in the ocean', a nice gesture but not an element in a more sustainable approach to deal with the problem of non-access to safe water for poor people. Therefore, while the water businesses can provide a good business opportunity and a good return on investment, we do not see the 'value added' of the fact that they deal with a socially desirable product.

Business logic of present lending strategy

The present lending strategy works well for CSS, with its clear separation between charity/development programs on the one hand, and business programs on the other to generate funds for the former. While the SMED program appears to have been initiated more by Woord & Daad SMED, CSS has taken the lead on developing the SMED Small initiative as an innovative attempt to offer a 'next step' to successful MCP clients. Several advantages are associated with developing this program: first, it provides an opportunity to MCP clients to get larger loans for expansion, second, it provides new incentives to MCP staff who got frustrated by not being able to grant larger loans to the few firms that could absorb such loans, and, third, it provides a way for CSS to position itself again as a more innovative NGO within the Bangladesh development scene.

We feel the present lending strategy has less to offer to Woord & Daad. As we will discuss in more detail below, we feel Woord & Daad needs to be able to show more directly how its SMED program contributes to one of the central goals of Woord & Daad.

3.4.a Outcomes for entrepreneurs and firms

In this section we discuss the main direct findings from our interviews with entrepreneurs. Probably the most important question for this evaluation has been to identify outcomes for targeted entrepreneurs, their firms, and their workers. In this section we focus on the outcomes for entrepreneurs and firms, the next section (3.4.b) deals with outcomes for workers.

Performance by supported firms

The first basic but not easy to achieve outcome is for firms run by supported entrepreneurs to perform relatively well. Relatively well means it is found plausible that firms run by supported entrepreneurs perform better than a) they would have performed without support, and/or b) otherwise similar firms that did not receive support.¹⁰ In the interviews it became clear that almost without exception entrepreneurs have been able to use their loan effectively. Almost all visited entrepreneurs report that they have never applied for a commercial bank loan and would not be able to access formal bank loans. The reason is not so much the official interest rate as such (13% compared to CSS's 8%) but especially additional issues like complicated bureaucratic procedures, the need to pay bribes, etc. The availability of capital at a reasonable rate has allowed them to *expand faster than their competitors*; this was confirmed by some informal interviews in non-supported firms. The effect is even more pronounced in SMED Small, at least in relation to the capital invested. Some enterprises were started without a bank account and/or licence, but were formalized well before entering the SMED programmes. CSS demands conscientious tax payments; however some business lines are exempted from taxes, and in a few cases in SMED Small earnings are still below the threshold of 150,000 BDT.

For the water plants, as discussed above, it is a bit early to judge the situation. While the previous technology was clearly not successful, the present and more expensive reverse osmosis technology still needs to prove itself in the market. To reach their break-even point with the present type of installation, the supported firms need to sell 600 litres a day, which according to CSS BDO is not feasible in rural areas. Therefore, more emphasis has been given to water plants in (semi-) urban areas that need to sell at commercial rates. Moreover, the as yet not solved problem with the reverse osmosis technology is to find a sustainable way to deal with the arsenic that has been removed successfully from the water.

Catalytic contributions by supported entrepreneurs

At a next level, it is expected that entrepreneurs do not simply make a profit, but also provide a catalytic contribution to the local private sector. We found a remarkable large number of relatively innovative and leading firms and entrepreneurs (by local standards), both in SMED and SMED Small. In SMED Small this is at least partly a result of a bias in the sense that we have been shown the most promising firms in this category, and partly because the MCP staff know exactly who are the more promising entrepreneurs, as they have known most of them already for four years. This bias is not problematic as we were not trying to find a representative sample of MCP clients, but we wanted to see the few percent of MCP clients that have graduated to the SMED Small program (and the again few percent of that group that might have the potential to graduate to the SMED category). Therefore, for us in this situation the bias has served our purpose of seeing whether there would at all be such a group of firms in this large pool of ex-MCP clients. The answer is a clear yes.

Small clusters are forming around for example *Famous Poultry* and *Bajsakhi* (whose owner is himself an imitator, but now supports newcomers and has become a leading figure). In other

¹⁰ We have focused on looking at differences in firms over time, before and after getting the loan, which proved to be a more meaningful comparison than to compare with 'otherwise similar' firms, also because we had no way of establishing that control cases were in any way 'typical'.

cases the evidence on a catalytic role of supported enterprises is inconclusive. Successful businesspersons may be accepted as role models in their networks, but would hardly claim this in an interview. Many entrepreneurs are members (but not leaders) of location-based (e.g. Market Association) or professional (e.g. Poultry Association) organizations, but consider this to be a formality rather than a chance to express and pursue their interests. If the associations are active at all they are oriented towards service provision (e.g. organizing security), thus not an instrument of entrepreneurs' collective action.

Ethical role models

Moreover, entrepreneurs are also expected to act as ethical role models, in terms of respectful behaviour of entrepreneurs towards workers, suppliers and buyers. Towards workers entrepreneurial ethics refers to ensuring decent working conditions, timely payments at least at par with the highest local/sectoral standards for specific skill levels, and assistance in times of crisis. The findings on this issue are inconclusive and fuzzy.

SMED beneficiaries are aware that good treatment of their employees is expected, and many claim that they pay more than the market wage; the figures mentioned, however, do not strongly support these claims. A next step might be for CSS to actually develop a list of such market wages for various sectors and skill levels, and during our visit in November 2007 Mark Munshi has made it clear to us that he sees this as a priority activity in the near future. One of the difficult issues to deal with is setting realistic localised poverty levels, along the lines we have discussed in section 2.1.

In contrast, all SMED Small entrepreneurs say that they pay the same wages as competitors. There is no indication or claim of above-average social engagement. We conclude that it is very difficult to operationalize a program desire to work preferably only with entrepreneurs that inculcate high norms and standards.

Direct employment generation outcomes

A final issue at the level of the firm is the generation of additional employment. The employment effects of the SMED and SMED Small programmes are remarkable. Almost all businesses have hired a significant number of additional workers, and plan to continue to do so. Moreover, competition is widely considered a non-issue as demand is growing faster than supply; thus there is no indication of job losses in competing firms. To qualify this positive finding of 'no crowding out of existing firms' by firms supported by CSS, it is important to realize that we are talking about support to 23 SME's in multiple locations and spread over various sectors, in an economy with tens of thousands of similar enterprises all around. To put things in perspective, to go from one supported SME to another in Dhaka could take as much as one hour travelling (20 minutes to half an hour in Khulna), while one would see a stream of similar businesses along the way. Therefore, employment impacts can be significant in terms of percentages at the level of the enterprise, for example an expansion from 3 to 5 or from 7 to 10, but in terms of impacts on overall employment in Bangladesh, in Dhaka or Khulna, but also in a particular neighbourhood, these impacts are obviously negligible. Therefore, to make the interventions count, it seems important to be able to point towards either a clear direct poverty reduction impact of these additional jobs, or a clear intervention chain logic that provides significance to these specific jobs (like hiring vocational training graduates).

This also means that we do not see how CSS can, on its own, significantly contribute to ‘a better business climate in Bangladesh’. It might, however, try to set a few modest but coherent good practice examples that can serve as sources of inspiration in developing a broader business-climate policy.

Employment generation through forward and backward linkages

In terms of its effects on buyers and suppliers, employment generation impacts are negligible. Most SMEs do not buy materials or other inputs from small local businesses that might hire poor people. On the contrary, most firms – retailers, often with some own processing or production – use a business model based on exploiting information asymmetries on prices and overcoming logistical hurdles of transport and levies in moving products from wholesale to retail. We found it quite striking to see that most Dhaka-based businesses rely at least partly on imported products and inputs (and themselves go abroad to buy these products and inputs), and that the same pattern holds true for most Khulna-based SME’s in that they source their inputs and products from Dhaka wholesalers. Therefore, very few forward and backward linkages exist that may deliver further employment generation effects at local level, with or without a poverty focus. Moreover, given the present sectoral mix of the supported enterprises, there is relatively little scope to change this situation, also because we do not believe in a system where supported firms would be ‘forced’ to buy inputs from specific firms, simply because that would suit the Woord & Daad or CSS intervention logic. Clearly, it is crucially important to let entrepreneurs take their own entrepreneurial decisions. Nevertheless, CSS might explore whether there are situations in particular sectors and locations where such forward and backward linkages between MCP clients, MED clients, SME Small clients and SME clients potentially offer win-win situations. If such situations exist, it would be worthwhile to try and foster such linkages, also to achieve a focused demonstration effect of a ‘Woord & Daad/ CSS way of poverty-reducing enterprise promotion’.

3.4.b. Workers and poverty reduction impacts

This section deals with the outcomes for workers and the extent to which employment generated in supported SMEs is likely to contribute to poverty reduction. To state the obvious first: None of the entrepreneurs in SMED were poor when they received their loan. But even in the sample of SMED Small enterprises (most of which have been promoted from the Microcredit programme) we found no cases of graduation from the necessity-driven businesses typical for the poor. Thus, effects on poverty have to happen through employment of poor workers. However, we did not find evidence for a deliberate attempt to promote this in the design of the programme. Specifically, there is no visible focus on low-tech, labour-intensive enterprises in the selection of firms; and there are no incentives for entrepreneurs to give preference to the poor in recruitment, or to invest in additional training and/or compromises on (initial) productivity.

The outcome in this regard is nevertheless not at all negative but leaves much room for improvement. We found significant employment of poor people in certain SMED and SMED Small businesses. These employment opportunities for poor people were usually concentrated in the processing/production activities and in the distribution (transport and delivery of goods, if and when done through manual labour (cycle-vans!)). In confirmation of our approach in Chapter 2, workers with no formal education are almost only found in these labour-intensive processing/ production and distribution activities. Most other workers have at least primary

and often also (partly) secondary education, and earn regular salaries of at least 2000 taka/month, which puts them squarely in the category of ‘social poor’. Therefore, as discussed in Chapter 2, direct poverty reduction impacts through employment – achieving the shift from ‘hard core poor’ to ‘social poor’ - is mostly found in labour intensive processing/production activities and manual distribution.

Within **SMED**, *Alaska Water* is the lone case of proactive targeting of poor people in recruitment. The owners/managers claim that they consciously hired day labourers and migrants for delivery, requiring only primary education and basic numeracy. The workers’ income is now 2-3 times higher than before but, per day, not more than experienced van pullers earn. The main advantage is the regularity of income, which is a critical advantage to the persons involved, and in the terminology of Section 2.1 this would mean a shift from hard-core poor to social poor, which is a major improvement. One delivery person was actually promoted to supervisor when his talent was detected. Along with social responsibility the policy makes entrepreneurial sense; workers are highly motivated and willing to work hard.

Other businesses in SMED require at least 8 years of education, and owners state that skills were the only criterion for recruitment. We can still not rule out (except in the case of Zakir Medical Hall) that some workers come from a poor background.

The **SMED Small** entrepreneurs do not claim to pay higher wages than competitors. They are not concerned about poverty, but look for skills and experience when selecting workers from the job seekers who come by their premises. However, at least most of the production businesses fit the ‘low-tech, labour- intensive’ profile that makes employment of poor people likely. Little or no formal education is necessary in such jobs, skills are basic and can be acquired in a few days’ on-the-job training. The inevitable flipside are low wages, bad and sometimes dangerous working conditions, and occasional child labour (notwithstanding genuine attempts by CSS to prevent for example child labour on a regular basis).

As expected the retail enterprises by and large do not employ poor people in their core business. Sales personnel needs to dress and behave properly, calculate and bargain with customers, and record sales – all this independently during the absences of the owner, e.g. when he is sourcing goods in Dhaka or abroad. However, as noted above, most of the shops produce part of their goods themselves and offer some opportunities to poor people in the production process. Finally, some opportunities for poor people also exist in the distribution and transport spin-off activities.

3.5. Civil Society and Policy Influencing objectives

CSS so far contributes little to Woord & Daad SMED objectives on Civil Society Building and Policy Influencing. In principle CSS is willing to contribute to these objectives, and all concerned parties are in agreement that the present situation in Bangladesh makes it difficult if not counterproductive to be too visibly engaged in these policy domains at this point in time. In terms of strengthening the W&D intervention chain coherence we see potential for future synergies with the vocational training school, depending on the more strategic choice as discussed in Chapter 4.

3.6. Monitoring and Learning

In this section we discuss briefly evaluation questions 6, 7, and 8, which deal with issues of monitoring and learning by CSS, Woord & Daad SMED, and Woord & Daad, respectively. We have lumped these last three evaluation questions together, not because they are less important, but because we found that monitoring and learning is well-integrated and does not require much discussion from our side. We found that both in CSS and in Woord & Daad good mechanisms exist to enhance learning and these mechanisms are also used effectively as both organisations express a clear willingness to learn and are open to new ideas. More specifically, both the Woord & Daad SMED manager and the CSS BDO had no problem in describing a few examples of situations in which feedback they had given to their directors had led to the fine tuning of policy. Moreover, both felt they could always approach their director directly, have no hesitations in actually doing this, and get relevant and timely feedback. At the same time, both felt they are given sufficient room to manoeuvre and are allowed to develop new initiatives. In turn, the directors both made clear that they strictly monitor whether staff cross their boundaries, but that at the same time they allow staff a lot of freedom to experiment within these boundaries. As the boundaries appear to be clear to the staff, this system works well. Finally, a similar approach is followed by Woord & Daad SMED (Gert Wiggelinkhuijsen) in working directly with his counterparts at CSS (Shankar Sidker as BDO and Mark Munshi as Executive Director).

It should be pointed out that the above observation provides real strength to these organisations, also because our experience shows that many development organisations are less successful in this domain. It left us wondering whether the clear entrepreneurial and non-bureaucratic attitude of both directors would be one factor to explain this strength. Another remarkable element is that both Gert Wiggelinkhuijsen and Shankar Sidker are fast-learning relative newcomers to development work.

4. Key issues or Where to go from here?

The primary aim of this evaluation is to contribute to improvements in the Woord & Daad SMED program at two levels: as a new and rapidly expanding activity within Woord & Daad and, more specifically, in terms of enhancing the likelihood of achieving the goals in 2010 as set out in the MFS application. Therefore, next to the more detailed findings in terms of the SMED program as carried out in Bangladesh with CSS as reported upon above, this chapter aims to tease out some possible broader implications of our findings.

Our point of departure for the following discussion is that we feel the new SMED component in the Woord & Daad portfolio has a lot of potential, and that after an initial period of experimentation we are now at a point in time to take stock of the situation, to consolidate what works well in the program, and to systematize and prioritize attention for poverty reduction and intervention chain integration. Some of the issues discussed below have already been raised in a discussion note we wrote for Woord & Daad SMED in preparation for this evaluation (See Appendix 4).

SMED with a direct poverty reduction focus

As a way forward, we see basically two options that are not easily combined. First, to systematically develop a direct poverty-reduction focus in the SMED program, by lending to firms that undertake low-tech labour-intensive activities, with a further emphasis on SMED Small level of activities. Such a focus could build a niche for the Woord & Daad SMED program, as compared to ‘other’ or ‘normal’ SME programs which lack such a focus. Building such a niche would fit the general Woord & Daad positioning as an NGO with a clear poverty focus in everything they do (and some more critical persons might say: ‘even when they do SMED, than at least they do it with a poverty focus, to the extent possible for an SME program’). Developing this niche can be done relatively easily in Bangladesh, as the SMED Small program provides a good starting point. Moreover, the commitment and expertise in CSS makes it possible to take more risks in the lending portfolio, by strengthening conditionalities on employment and poverty while somewhat loosening conditionalities in terms of collateral, without taking irresponsible risks. At the same time it is important to avoid complicated conditionalities, and to keep it simple and manageable through for example setting sectoral priorities and pursuing a focus on maximizing employment for poor people through a focus on low-tech labour-intensive activities. CSS seems a very serious and knowledgeable partner, who is also ready for a new challenge in terms of taking the next step after micro-credit.¹¹

SMED as the final step in the intervention chain

The second option would be to return to the basic idea behind starting the SMED program, which was to provide a next step in the Woord & Daad intervention logic from Education, to Vocational Education & Training, to Job & Business Centres, to MED, to SMED. The logic here is that once you have provided (previously) poor people with (vocational) training, they

¹¹ Mark Munshi informed us that part of the motivation to start the SME Small program (as a possibility for a small Group of MCP clients to access larger loans) was to be able to 1) offer CSS staff a new opportunity as they sometimes got frustrated by not being able to assist the ‘high-potential’ MCP clients with something more appropriate to their needs, and 2) show the government and other NGOs that CSS is moving into a new and innovative area as a way to keep CSS on the map, and 3) as a tool to enable finding new funding agencies when necessary.

need to be able to either start a business or find a job. The general idea behind the intervention logic of the SMED program has been to provide such job opportunities. However, the present situation in Bangladesh is that very few if any of the supported SMEs would be able (even when they are willing) to provide suitable employment for the future CSS vocational training graduates. The future vocational training graduates will be overqualified for most of the jobs in the present portfolio of SMED and SMED Small. There are many good reasons why the situation is like this at the moment, and our point is not to criticize the present situation. After all, to mention only one fact, in Bangladesh the SMED program was launched before the vocational training institute had started. The point is that to be able to present (in 2010) a coherent intervention logic and a convincing set of related outcomes/ effects, one option is to make the SMED program a clear final step in the chain, by focusing primarily on supporting firms that can absorb specific types of vocational training graduates. In turn, the MCP/MED program could then focus on providing start-up capital and advice to those graduates that seem to possess entrepreneurial desires and skills.

These two options are not easily combined as SMEs in sectors that can absorb the types of vocational training graduates like presently trained by CSS are more capital- and skill-intensive. Moreover, they need to operate at a larger scale of operations to find it attractive to hire such graduates as (semi-)skilled workers. Finally, one would want these enterprises to participate in setting and adjusting the curriculum, and the very small firms will not be interested (and have no incentive) to spend time on such activities.

No all or nothing choice for one of these two options is necessary. Depending on the country, and on the partner(s) in that country, it might make more sense to choose the first or second option.

SMED usefulness to the Business Platform

Another crucial issue, but in our view not a third option, is also related to the origins of why Woord & Daad started an SMED program in the first place: the Woord & Daad Business Platform. To be able to at least potentially more effectively utilize the entrepreneurial, managerial and technical expertise from the members in the Business Platform, the SMED program would need to shift its focus to relatively even larger and more service, processing and production oriented businesses as compared to the firms now in the CSS SME portfolio. This might be a feasible strategy in countries like India, Vietnam, Brazil or South Africa (countries with a combination of widespread and chronic poverty but also a dynamic and increasingly 'world-class' private sector). In Bangladesh this does not appear to be a promising avenue. In short, a SMED strategy that focuses on increasing the usefulness of the expertise offered by Business Platform members would pull in the opposite direction from our first option of making the SMED program more poverty focused. In principle, one could envisage a synergetic combination of strengthening the intervention chain logic by focusing on firms that can absorb vocational training graduates and that provide more promising opportunities to put Business Platform expertise to use.

The bottom line here is that you cannot do all these three things with the same instrument. Woord & Daad could for example choose to orient its SMED program in different countries on these different options or priorities. However, this will put an additional strain on the Woord & Daad SMED staff, as these different options require different strategies and lending modalities. As we have only evaluated the SMED program in Bangladesh we are not in a position to make strong recommendations on this point in general, but we can say that in the case of CSS in Bangladesh, SMED with a poverty focus presents itself as the most obvious option.

5. Recommendations

In order to increase and systematize effects on poverty, Woord & Daad SMED/ CSS may consider to:

- Give preference to *low-tech, labour-intensive production* in the selection of beneficiaries. As several of the enterprises discussed above demonstrate this does not necessarily imply a compromise on business viability.
- Look for possible *synergies* and encourage supply linkages and clustering, including participants of the Microcredit programme. Find retailers for your suppliers and vice versa; see collective action of entrepreneurs as an opportunity rather than a threat.
- *Shift emphasis further from SMED to SMED Small*. Businesses that can absorb 10 Lakhs or more are less likely to employ poor people, and even if they do the cost-efficiency of the support is much lower. Moreover, larger-size loans impede risk-taking, while it makes sense to take higher risks with smaller loans to firms with more promising poverty reduction impacts even when such firms cannot fulfil all presently existing conditionalities.
- *Avoid crowding-in of new 'business-case-only' beneficiaries in SMED Small*. A new type of client seems to have discovered the SMED Small as a source of cheap and reliable loans without showing any evidence of generating additional employment for poor people.
- *Rethink ethical standards in terms of wages and work conditions*. Demanding firms to pay above standard wages increases the costs per worker and will push entrepreneurs to look for more skills and experience, effectively reducing the chances for the hard core poor to find employment in supported SMEs. SMED Small functions well without these ethical standards, and given the enormous difficulties in reliably monitoring these ethical standards, we do not see these ethical standards as a real value added to the program.

In order to further increase the relevance of the SMED program as an element in the Woord & Daad portfolio, Woord & Daad may consider to:

- Further sharpen the focus of the SMED program, and increase its relevance to the overall Woord & Daad mission, by either developing a more direct poverty reduction focus in the SMED program through sectoral choices, or by making the SMED program a more direct tail-end intervention to the Woord & Daad intervention chain logic through supporting forms that can absorb vocational training graduates. This choice might depend on country context and partner differentiation.
- Investigate where and when the SMED program can realistically support firms at a scale and level of sophistication that provide opportunities to utilize the entrepreneurial and managerial expertise in its Business Platform.
- Develop context specific proxy indicators for poverty in the regions where W&D SMED is active, in order to use these proxies to more easily and more convincingly monitor the direct poverty reduction impacts of its SMED program in various regions.

Appendix 1: Evaluation format to assess Woord & Daad SMED support to CSS SME interventions in Bangladesh

by

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In the MFS template, Woord en Daad (W&D) has chosen to include most of its SMED and MED under the heading of Direct Poverty Alleviation. The reason for this seems clear and valid: the other two intervention levels/strategies (Civil Society Building and Policy Influencing) do not seem to fit well with the core SMED and MED activity: business development. However, lumping most of the SMED and MED activities under the label of Direct Poverty Alleviation is not helpful for the present evaluation. We will distinguish between, on the one hand, the business development activities as such, and, on the other hand, the poverty alleviation outcomes from these business development activities. Our reasons for the separation are as follows:

- Lending and BDS activities need to be evaluated first of all in terms of the extent to which they have been carried out professionally, and lead to improvements in business performance. An important, intimately connected, but still separate next step is to assess whether such improved business performance also leads to poverty alleviation.
- Within W&D the SMED unit has been allowed significant room to manoeuvre, given its distinctive type of activities. Simultaneously, the SMED unit is to contribute to the overall W&D objective. Potentially, this could lead to tensions between the direct and short-term objective (business development) and the indirect longer-term objective (poverty alleviation). Therefore, this needs to be made an explicit element in the evaluation by examining whether this tension exists and whether it influences outcomes.
- More generally, a discussion on the advantages of distinguishing between private sector development or business development and direct poverty alleviation may provide W&D with ‘ammunition’ in future discussions with MFA on MFS monitoring.

We feel this separation also makes sense to emphasize the ‘cascading’ of potential outcomes and the high expectations surrounding the SMED program. The most basic (but not easy to achieve) outcome is for firms run by supported entrepreneurs to perform relatively well.¹² At a next level, it is expected that entrepreneurs do not simply make a profit, but also provide a catalytic contribution¹³ to the local private sector *and* act as ethical role models.¹⁴ Moreover,

¹² Relatively well means it is found plausible that firms run by supported entrepreneurs perform better than a) they would have performed without support, and/or b) otherwise similar firms that did not receive support.

¹³ Catalytic contribution refers to a situation where supported entrepreneurs do not simply run another few firms of which already plenty of similar firms exist in the local market, but that firms run by supported entrepreneurs also make a qualitative difference in the local economy by for example introducing locally innovative products, services, or business models.

¹⁴ Ethical role model refers to the respectful behaviour of entrepreneurs towards all workers, suppliers and buyers. Towards workers entrepreneurial ethics also refer to ensuring decent working

they are expected to generate additional employment¹⁵, and, last but definitely not least, this employment generation is to lead to poverty alleviation. In the table below we have identified these different expected outcomes as separate critical success factors (under heading 4: Outcomes target group). Finally, the SMED program also seeks additional outcomes beyond business development and direct poverty alleviation, in Civil Society Building, Policy Influencing, and enhancing W&D intervention chain integration.

Following from our earlier note on “Poverty Impacts through SMED?” from April 2007, we assume that supported entrepreneurs of SMEs have a growth-orientation. For the MED cases we need to establish whether supported entrepreneurs follow a growth- or survival-orientation in order to be able to assess relevance and effectiveness of interventions.

The evaluation will focus on the role and contribution of three actors in the development chain: 1) W&D, 2) W&D SMED unit, and 3) the SME activities of CSS. Next to interviewing persons that represent these actors, we will collect information from entrepreneurs and workers from businesses in Bangladesh that are supported by CSS or that seem to provide interesting similar or contrasting information to assess the relative performance of businesses supported by CSS.

This evaluation leans towards learning (and focuses less on accountability) as the program has started in 2006 and the main request from W&D has been to provide suggestions on how to (further) improve this relatively new and promising SMED/MED program. The ultimate accountability question seems treacherously straightforward: What has been the poverty alleviation impact of this program? The most difficult to assess part of this evaluation is to determine the extent to which possible poverty alleviation can be attributed to interventions by CSS, W&D SMED, and W&D. Therefore, we will try to analyse the contribution of each of the actors in the aid chain, and their interactions, in achieving the desired outcomes. So, while we will focus on the SMED/MED activities of CSS, we will also look at the other actors in the chain. This means we look at the following steps that make up a complete cycle:

- 1) How does W&D direct and support its SMED unit?
- 2) How do W&D and W&D SMED support CSS? What specific inputs does W&D SMED provide to CSS? What inputs does CSS receive from other organizations?
- 3) How does CSS select and support targeted entrepreneurs? How does CSS contribute to W&D SMED objectives on Civil Society Building and Policy Influencing and to W&D intervention chain coherence?
- 4) What are the outcomes for targeted entrepreneurs, their firms, and workers?

conditions, timely payments at least at par with the highest local/ sectoral standards for specific skill levels, and assistance in times of crisis.

¹⁵ Additional employment implies we will look not only at the number of jobs generated in and through firms run by supported entrepreneurs, but also investigate whether these firms have crowded out other previously existing employment to be able to estimate net employment generation.

- 5) What are the outcomes for W&D SMED and W&D beyond Business Development and Direct Poverty Alleviation?
- 6) In what ways does CSS monitor outcomes and systematically tries to learn from previous experience? How does CSS report back to the W&D SMED unit?
- 7) In what ways does W&D SMED monitor outcomes and systematically tries to learn from previous experience? How does W&D SMED report back to W&D?, and, finally,
- 8) In what ways does W&D monitor outcomes on and beyond direct poverty alleviation and systematically tries to learn from previous experience?

These steps contain related but analytically separate issues, which are *not* of equal weight. The evaluation will focus on CSS outputs (step 3) and **outcomes for the target group** (step 4). Within these issues the evaluation will focus on those critical success factors that deal with 1) the quality of CSS service delivery to entrepreneurs and 2) the poverty alleviation outcomes (these factors are listed in bold in the tables below). So, while poverty reduction impacts may look as only one item in a long list of factors, one member of the evaluation team will almost exclusively focus on the poverty reduction impacts, while the other member will collect information on most of the other items.

We gratefully acknowledge feedback received from: CSS (Mark Munshi, Shankar Sidker), Woord en Daad SMED (Gert Wiggelinkhuijsen), Woord en Daad (Wouter Rijnveld), and Evert de Blok. We take full responsibility for the present content.

Peter Knorringa and Erhard Berner

The Hague, 16/10/20

Overview of Steps in evaluation process, basic evaluation questions and Critical Success Factors per step in the evaluation process:

	Steps	Basic questions	Critical success factors
1	Output W&D/ Input W&D SMED	How does W&D direct and support its SMED unit?	<ul style="list-style-type: none"> W&D offers relevant and effective support to W&D SMED in developing and implementing the SMED/MED objectives as an integral part of the overall W&D objectives
2	Output W&D SMED/ Input CSS	How do W&D and W&D SMED support CSS? What specific inputs does W&D SMED provide to CSS? What inputs does CSS receive from other organizations?	<ul style="list-style-type: none"> W&D SMED offers relevant and effective support to strengthen CSS in its service delivery in lending and BDS to targeted entrepreneurs, and in strengthening CSS staff capacity building Business Platform exchange and support is well tailored to provide significant inputs to CSS SMED interventions
3	Output CSS	How does CSS select and support targeted entrepreneurs? How does CSS contribute to W&D SMED objectives on Civil Society Building and Policy Influencing and to W&D intervention chain coherence?	<ul style="list-style-type: none"> CSS SMED offers relevant and effective lending and BDS services to well-selected individual entrepreneurs CSS SMED small consciously and systematically tries to enhance employment generation and poverty alleviation outcomes of its SMED interventions CSS SMED interventions pro-actively search for upscaling opportunities and synergies through potential sectoral clustering and value chain integration CSS SMED pro-actively contributes to influence policy to enable a more conducive business environment, especially for MSMEs CSS SMED actively contributes to enhancing the W&D intervention chain (from Education to VET, JBC, MED and SMED) <p>For each factor: To what extent can CSS outputs be attributed to</p>

			W&D SMED and W&D support?
4	Outcomes Target group	What are the outcomes for targeted entrepreneurs, their firms, and workers?	<p>Business Development Outcomes</p> <ul style="list-style-type: none"> • Firms run by supported entrepreneurs perform relatively well/ better • Supported entrepreneurs provide a catalytic contribution to local private sector development • Supported entrepreneurs act as ethical role models in local private sector <p>Direct Poverty Alleviation Outcomes</p> <ul style="list-style-type: none"> • Supported entrepreneurs generate significant additional (self-)employment • Employment in (and subcontracting by) supported businesses leads to significant poverty alleviation and vulnerability reduction (at individual, household, and community level) <p>For each factor: To what extent can these outcomes be attributed to CSS and W&D SMED interventions?</p>
5	Outcomes W&D SMED and W&D (beyond Business Development and Direct Poverty	What are the outcomes for W&D SMED and W&D beyond Business Development and Direct Poverty Alleviation?	<ul style="list-style-type: none"> • CSS interventions significantly contribute to reaching policy influence targets on achieving a more conducive business environment • CSS SMED interventions are well tailored to provide significant opportunities for Business Platform exchange and support

	Alleviation)		<ul style="list-style-type: none"> • CSS SMED interventions are well integrated with other activities in W&D intervention chain <ul style="list-style-type: none"> ○ MED interventions provide significant opportunities for VET graduates to self-employment ○ SMED interventions provide significant apprentice, learning-on-the-job and employment opportunities for VET graduates/ JBC clients <p>For each factor: To what extent can outcomes be attributed to W&D support in enhancing integration?</p>
6	Learning CSS	In what ways does CSS monitor outcomes and systematically tries to learn from previous experience? How does CSS report back to the W&D SMED unit?	<ul style="list-style-type: none"> • CSS periodically reflects on its intervention strategies, updates its services and provides systematic capacity building opportunities to its staff and management • CSS systematically monitors intervention outcomes and provides W&D SMED with information-rich feedback
7	Learning W&D SMED	In what ways does W&D SMED monitor outcomes and systematically tries to learn from previous experience?	<ul style="list-style-type: none"> • W&D SMED periodically reflects on its intervention strategies, updates its services and provides systematic capacity building opportunities to its staff and management • W&D SMED systematically reflects with CSS on intervention outcomes and provides W&D with information-rich feedback
8	Learning W&D	In what ways does W&D monitor outcomes on and beyond direct poverty alleviation and systematically tries to learn from previous experience?	<ul style="list-style-type: none"> • W&D systematically incorporates feedback from W&D SMED and CSS in assessing and fine-tuning the role of SMED in its overall program

Performance Indicators per Critical success factor:

	Steps	Critical success factors	Performance Indicators
1	Output W&D/ Input W&D SMED	<ul style="list-style-type: none"> W&D offers relevant and effective support to W&D SMED in developing and implementing the SMED objectives as an integral part of the overall W&D objectives 	<ul style="list-style-type: none"> Involvement and time allocation of W&D director and staff in integration of SMED objectives Involvement and time allocation of W&D SMED in process of setting SMED objectives as part of W&D objectives SMED capacity of W&D director and staff Generic Development capacity of SMED staff Process interaction between W&D director and staff and SMED staff on setting integrated objectives
2	Output W&D SMED/ Input CSS	<ul style="list-style-type: none"> W&D SMED offers relevant and effective support to strengthen CSS in its service delivery in lending and BDS to targeted entrepreneurs, and in strengthening CSS staff capacity building Business Platform exchange and support is well tailored to provide significant inputs to CSS SMED interventions 	<ul style="list-style-type: none"> W&D SMED capacity to identify CSS needs (both expressed and unexpressed) W&D SMED capacity to transfer own know-how on lending and BDS W&D SMED capacity to organise and monitor other knowledge inputs to CSS Progress on planned financial independence of BDOs CSS capacity to articulate need for support Business Platform capacity to deliver tailor-made support Other knowledge inputs supplied to CSS
3	Output CSS	<ul style="list-style-type: none"> CSS SMED offers relevant and effective lending and BDS services to well-selected individual entrepreneurs 	<ul style="list-style-type: none"> Selection procedures (<i>SMED/Water/SMED Small</i>) Formal/informal elements of assessing proposals Capacity to assess business plans (<i>SMED/Water/SMED Small</i>) Capacity in offering (or contracting in) specific lending and/or BDS expertise (<i>SMED/Water/SMED Small</i>)

		<ul style="list-style-type: none"> • CSS SMED/MED consciously and systematically tries to enhance employment generation and poverty alleviation outcomes of its SMED interventions • CSS SMED interventions pro-actively search for upscaling opportunities and synergies through potential sectoral clustering and value chain integration • CSS SMED pro-actively contributes to influence policy to enable a more conducive business environment, 	<ul style="list-style-type: none"> • Extent of detailed involvement in entrepreneurial decision making and implementation (<i>SMED/Water/SMED Small</i>) • Regularity and specificity of monitoring targeted entrepreneurs (<i>SMED/Water/SMED Small</i>) • Exit strategies towards supported firms (<i>SMED/Water/SMED Small</i>) • <i>Role of W&D SMED support in selection and service delivery</i> • Extent of (in-)direct involvement of BDO in pushing to enhance employment generation in general, and specifically in hiring poor people <ul style="list-style-type: none"> ○ In working with existing enterprises ○ In selection of enterprises with relatively high labour intensity, high opportunities to hire poor people • Nr and depth of initiatives taken to identify upscaling and synergy opportunities • Extent to which these initiatives are becoming integrated into ‘normal’ practice • Role of W&D SMED support in developing pro-active attitude on upscaling and synergy opportunities • CSS (participation in) initiatives to establish a more conducive business environment at national level • Role of W&D SMED in supporting such initiatives • CSS responses to W&D initiatives on enhancing its
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		<p>especially for MSMEs</p> <ul style="list-style-type: none"> • CSS SMED actively contributes to enhancing the W&D intervention chain (from Education to VET, JBC, MED and SMED) <p>For each factor: To what extent can CSS outputs be attributed to W&D SMED and W&D support?</p>	<p>intervention chain.</p> <ul style="list-style-type: none"> • Initiatives by W&D and W&D SMED to develop/ strengthen its intervention chain in Bangladesh
4	Outcomes Target group	<p>Business Development Outcomes</p> <ul style="list-style-type: none"> • Firms run by supported entrepreneurs perform relatively well/ better 	<p><i>Firms:</i></p> <p><u>(to be recorded for start phase, pre-intervention and present)</u></p> <ul style="list-style-type: none"> • Years of starting business and of receiving support • Location (non-slum, slum) • Level of technology (none/primitive, intermediary, sophisticated) • Investments in upgrading • Total asset value, loans and pay back rates • Market outreach (neighbourhood, district, city, beyond) • Main competitors/ Changes in competition • Interruptions and major shifts of business activities • Bank accounts (none, micro, household/business combined, business separate) • Permit/concession • Taxation (informal/formal). <p>All the above need to be contrasted with a few ‘random’</p>

		<ul style="list-style-type: none"> • Supported entrepreneurs provide a catalytic contribution to local private sector development • Supported entrepreneurs act as ethical role models in local private sector 	<p>non-supported local firms with ‘comparable’ basic features</p> <ul style="list-style-type: none"> • Innovativeness of supported firms, use of technology, choice of product, mode of organisation, market approach in local context • Supported entrepreneurs as business role models in local context: behaviour, approach, leadership in for example business organisations, change agent • Respect towards employees, suppliers and buyers • Actively promotes ethical values as described in MoU between W&D and CSS in attitude and action • Goes beyond the ‘average’ expected social behaviour of members of their social group • Seen by business/ civil community as ethical role model • No. of employees (permanent, occasional, of these: how many non-family members?)(to be recorded for start phase, pre-intervention and present) • Estimated job losses in competing non-supported firms • Criteria for recruitment (skills, acquaintance, poverty) • Provision of training (none, on-the-job, apprenticeship period)
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	<p>Direct Poverty Alleviation Outcomes</p> <ul style="list-style-type: none"> • Supported entrepreneurs generate significant additional (self-) employment • Employment in (and subcontracting by) supported businesses leads to significant poverty alleviation and vulnerability reduction (at individual, household, and community level) <p>For each factor: To what extent can these outcomes be attributed to CSS and W&D SMED interventions?</p>	<ul style="list-style-type: none"> • Wages <p><i>Workers in supported SMEs:</i></p> <ul style="list-style-type: none"> • Gender, age • Education (illiterate, primary, some secondary) • Place and status of residence, occupants per room • Relation to employer • Occupation history before present job (self-employed, employed, combinations) • Income before present job • Present income • Occupations and incomes of other household members • Period and quality of training received • Perceived options of finding other occupation. • Additional work for micro enterprises as subcontractors
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5	Outcomes W&D SMED and W&D (beyond Business Development and Direct Poverty Alleviation)	<ul style="list-style-type: none"> • CSS interventions significantly contribute to reaching policy influence targets on achieving a more conducive business environment • CSS SMED interventions are well tailored to provide significant opportunities for Business Platform exchange and support • CSS SMED interventions are well integrated with other activities in W&D intervention chain <ul style="list-style-type: none"> ○ MED interventions provide significant opportunities for VET graduates to self-employment ○ SMED interventions provide significant apprentice, learning-on-the-job and employment opportunities for VET graduates/ JBC clients <p>For each factor: To what extent can outcomes be attributed to W&D support in enhancing integration?</p>	<ul style="list-style-type: none"> • Nr of CSS initiatives and achievements towards a more conducive business environment in Bangladesh • Identifiable efforts by CSS to tailor support requests to Business Platform exchange and support offers • CSS responses and initiatives to W&D attempts to strengthen W&D intervention chain
6	Learning CSS	<ul style="list-style-type: none"> • CSS periodically reflects on its intervention strategies, updates its services and provides systematic capacity building opportunities to its staff and management • CSS systematically monitors intervention outcomes and 	<ul style="list-style-type: none"> • Reports (written or verbal) from periodic reflection activities • Most recent major re-orientation • Identifiable recent updates/upgrades in CSS services or delivery mechanisms • Recent capacity building efforts • Monitoring and evaluation protocols CSS • Timing and content of feedback on M&E to W&D

		provides W&D SMED with information-rich feedback	<p>SMED</p> <ul style="list-style-type: none"> • Identifiable examples of fine-tuning internal CSS policy, based on information arising from M&E activities
7	Learning W&D SMED	<ul style="list-style-type: none"> • W&D SMED periodically reflects on its intervention strategies, updates its services and provides systematic capacity building opportunities to its staff and management • W&D SMED systematically reflects with CSS on intervention outcomes and provides W&D with information-rich feedback 	<ul style="list-style-type: none"> • Reports (written or verbal) from periodic reflection activities • Most recent major re-orientation • Identifiable recent updates/upgrades in CSS services or delivery mechanisms • Recent capacity building efforts • Monitoring and evaluation protocols W&D SMED • Timing and content of feedback on M&E to W&D • Identifiable examples of fine-tuning W&D SMED policy, based on feedback from CSS M&E activities
8	Learning W&D	<ul style="list-style-type: none"> • W&D systematically incorporates feedback from W&D SMED and CSS in assessing and fine-tuning the role of SMED in its overall program 	<ul style="list-style-type: none"> • Monitoring and evaluation protocols W&D • Mechanisms of incorporating feedback from W&D SMED and CSS • Identifiable examples of fine-tuning W&D policy, based on feedback from W&D SMED and CSS

Appendix 2: List of entrepreneur interviews in Bangladesh

Location, type and name of enterprise, name interviewer (EB = Erhard Berner, PK= Peter Knorringa)

Dhaka

SMED

Shops only:

Zakir Medical Hall	EB
Swapon General Store	PK
Khandker Watch	PK

(Also) Processing/ manufacturing:

Swajans BD	EB
Mohammadia Thread (Ghazipur)	EB
Venus International	EB

Khulna

SMED

Shops only:

Swapna Hardware Store	PK
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(Also) Processing/ manufacturing:

Famous Poultry Complex	PK
Blooming Dale	PK
Khulna Bedding House	PK
Tariq Trading	PK
Khairul Traders	PK
Bhaibhai Departmental Store	PK

SMED Small

Shops only:

Durobo Enterprise	EB
Baishaki Store	EB
Biddut Electronics	EB
Rael Shoes	EB
Al-Amin Seeds	EB

(Also) Processing/ manufacturing:

Tanni Lady's Corner	EB
Ishtil/Magura Furniture	EB
Bajsakhi Enterprise	EB
Meher Food Industry	EB
Janoprio Shoes	EB
Dhaka Poultry	EB

Gazipur

SMED

(Also) Processing/ manufacturing:

Standard Yes	PK
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SMED Small

(Also) Processing/ manufacturing:

Nahid Nursery	PK
Alamin Poultry Farm	PK
Anka Diary Farm	PK
Ladies and Children wear	PK

Water Plants

Alaska Water Plant, Dhaka	EB
Bagherat Water Plant, Khulna	PK
Gazipur Water Plant, Gazipur	PK

Appendix 3 Questionnaire

Survey of CSS-supported businesses

Name: _____

Main product(s): _____

Year of starting business: _____

Year of receiving CSS support: _____

Location: _____

non-slum

slum

Business development outcomes

Level of technology

at start none/primitive intermediary sophisticated

before support none/primitive intermediary sophisticated

at present none/primitive intermediary sophisticated

Investments in upgrading:

Total asset value

at start: _____ before support: _____ at present _____

Loans

at start: _____ before support: _____ at present _____

Pay back rates

at start: _____ before support: _____ at present _____

Market outreach

at start: neighbourhood district city beyond
before support: neighbourhood district city beyond
at present neighbourhood district city beyond

Buyers (% of value)

at start: end users _____ retail _____ gross _____ exporters _____
before support: end users _____ retail _____ gross _____ exporters _____
at present: end users _____ retail _____ gross _____ exporters _____

Main competitors/Changes in competition

Interruptions and major shifts of business activities

Bank accounts

at start: none micro household/business combined business separate
before support: none micro household/business combined business separate
at present: none micro household/business combined business separate

Permit/concession (--, -+, ++)

at start: _____ before support: _____ at present _____

Taxation (informal/formal; --, -+, ++)

at start: _____ before support: _____ at present _____

Suppliers (% of value)

at start: micro producers _____ small producers _____ gross/factory _____
before support: micro producers _____ small producers _____ gross/factory _____
at present: micro producers _____ small producers _____ gross/factory _____

(Self-) Employment Creation

For SMED Small/Micro Enterprises: Other income earning activities owner

at start: _____

before support: _____

at present: _____

No. of employees

at start: permanent _____ occasional _____ non-family members _____

before support: permanent _____ occasional _____ non-family members _____

at present: permanent _____ occasional _____ non-family members _____

Estimated job losses in competing non-supported firms

Criteria for recruitment of workers (rank)

at start: skills _____ acquaintance _____ poverty _____

before support: skills _____ acquaintance _____ poverty _____

at present: skills _____ acquaintance _____ poverty _____

Provision of training (% of workers)

at start: none _____ on-the-job _____ apprenticeship period _____

before support: none _____ on-the-job _____ apprenticeship period _____

at present: none _____ on-the-job _____ apprenticeship period _____

Wages

at start: _____ - _____

before support: _____ - _____

at present _____ - _____

Special Features

Indications of **innovative**

- use of technology: none _____ some _____ significant _____ Not applicable
- choice of product: none _____ some _____ significant _____ Not applicable
- mode of organisation: none _____ some _____ significant _____ Not applicable
- market approach: none _____ some _____ significant _____ Not applicable

Indications of special role of owner in local business context:

- local business role model: none _____ some _____ significant _____ Not applicable
- leadership (in)formal association: none _____ some _____ significant _____ N. a.
- leadership other activities: none _____ some _____ significant _____ Not applicable
- seen as ethical role model: : none _____ some _____ significant _____ Not applicable

Ethical standards:

Indications of 'beyond average' respect towards:

- employees: none _____ some _____ significant _____ Not applicable
- suppliers: none _____ some _____ significant _____ Not applicable
- buyers: none _____ some _____ significant _____ Not applicable

Indications of actively promoting ethical values of CSS/ Word and Deed in

- attitude: none _____ some _____ significant _____ Not applicable
- concrete action in last year: none _____ some _____ significant _____ Not applicable

Workers

(Note: Tick in direct interviews, record % when interviewing employers)

Gender

Age

Education illiterate _____ primary _____ some secondary _____

Residence non-slum _____ owner slum _____ renter slum _____

Occupants per room _____

Relation to employer none _____ acquaintance _____ relative _____

Occupation history before present job (self-employed, employed, combinations)

Income before present job _____ - _____

Present income _____

Occupations and incomes of other household members

Period(s) and quality of training received

Perceived options of finding other occupation

Appendix 4 Poverty Reduction through Small and Medium Enterprise Development?

A discussion note as part of preparing an ISS input to Woord & Daad SMED interventions in Bangladesh

Peter Knorringa & Erhard Berner

March 2007

1. Introduction

While SMED interventions are logically pre-occupied with enhancing performance of targeted enterprises, project staff often invoke assumed poverty reduction impacts of SMED as ultimate justification. This note aims to look critically at the extent to which one can expect SMED to deliver poverty reduction.

We feel it is necessary to investigate this because in more informal discussions one often hears something like: ‘.. as long as by far most people in a country like Bangladesh are poor, any job creation contributes to poverty reduction...’ However, in our view it is not as simple as that. We need to investigate whether the employment generation as a result of interventions has resulted in poverty reduction and we cannot assume this to be an automatic process. Moreover, such an assessment depends on our definition of poverty. In a country like Bangladesh it matters a lot which definition and income threshold one uses. For example, when using a strict MDG 1 or End of Poverty type of threshold to define the ‘poorest of the poor’, we would expect that very few if any people in that group would be able to find and keep a job in a SME. This does not mean that SMED is not relevant for development, but it does mean that its poverty reduction impacts need to be looked at carefully and systematically, instead of being assumed. Moreover, we need to avoid ‘throwing away the baby with the bathwater’, as even when the direct poverty reduction impact of SMED is (very) small, SMED may well play an important role in indirectly facilitating poverty reduction. The next sections will flesh out these issues, and aim to provide a frame for an open and useful discussion on how to more clearly position SMED in the Woord & Daad portfolio through clarifying its poverty reduction potential.

2. Entrepreneurs are not poor?

It is recognized that SME entrepreneurs are almost never poor themselves, by whatever local definition one might use. Therefore, in situations where interventions are restricted to SMEs (and when this is implemented systematically), the direct poverty reduction impacts need to be looked for at the level of the workforce, and not at the level of the entrepreneur and his/her family. However, the story becomes fundamentally more complicated when also micro and survival businesses become the target for interventions (either as a conscious choice or when these other types of entrepreneurs slowly but surely also find a way into the project). In this note we assume that Woord & Daad’s SME program deliberately does not include survival businesses, but in essence focuses on SMEs with growth potential. Nevertheless, recently a micro enterprise focus was added to the portfolio of the Bangladesh partner. As in our experience micro enterprise is a very fuzzy category with a quite fundamental rift in terms of different business logics of different types of enterprises, we will briefly put forward our basic ideas in terms of adding this category to an SMED profile.

While some micro enterprises have the potential to grow and join the ranks of SMEs, for most micro enterprises such a 'graduation' is unlikely as the main activity of the enterprise has no growth potential (because of saturated markets with intense local competition) and the entrepreneur uses the business as part of a livelihood strategy based on achieving economic security of the household. In trying to enhance or at least maintain existing levels of economic security for their household, the overriding logic of entrepreneurs of such micro and survival businesses is to look for ways to diversify sources of income (instead of specializing in one risky activity). Obviously, this business logic, rational within the context of poverty alleviation and economic security seeking by poorer households, goes against the grain of SMED, which is based on a business logic of further specialization and re-investing profits in the same business to enhance accumulation. Both logics make good sense within their own domains, but they do not mix well. This is one main reason for many failed SME interventions: pushing survival or micro entrepreneurs to further specialize often leads to disastrous results: either targeted entrepreneurs resist which leads to frustrations among SME project staff, or they do not resist, become more vulnerable to inevitable shocks and the households bear the brunt of having put all their eggs in one basket.

Implications:

- When targeting SMEs the direct poverty reduction impacts need to be found among the workers, as entrepreneurs are not poor.
- When targeting survival business, the entrepreneurs themselves might be poor, but then interventions need to use a different logic from the SME intervention logic.
- When targeting micro enterprises, it is initially unclear to which group entrepreneurs belong, which makes it also difficult to target interventions along either a SME logic or a household livelihood logic.
- Given the clear statements in Woord & Daad's SME policy – that it focuses on targeting SMEs with growth potential – direct poverty reduction impacts should be looked for among workers, and engaging in micro-enterprise interventions should be considered with the understanding that this is *not* an *extension* of the SME portfolio, but a basically different type of intervention.

3. a) Do the poor have jobs in SMEs? and b) Are all workers in SMEs poor?

a) Not as a rule, when using a strict definition of poverty. We would argue that, to start with, the 'poorest of the poor' usually are not employed at all, and do not have access to jobs in SMEs. Many of the 'poorest of the poor' have to make a living as self-employed 'entrepreneurs', and started some independent economic activity because of a *lack* of alternatives.

b) Obviously, workers in SMEs are not among the more wealthy groups in society, but that does not mean all of them are poor in terms of local conceptions and definitions used by donors. We list here three complicating factors in terms of the likelihood that workers in SMEs are poor. First, at least the somewhat more sophisticated and competitive SMEs have a workforce consisting of people with different skill levels. In South Asia these are usually labeled as skilled, semi-skilled, and unskilled workers. We feel it is reasonable to assume that most skilled workers in SMEs would earn an income that puts them above the most frequently used poverty lines. For semi-skilled workers it depends very much on other contextual factors, while for unskilled workers it is more likely that they are close to, or slightly below, relevant poverty lines (but have a much more regular income as compared to many other groups close to the poverty line). Second, many SMEs employ family members of the entrepreneur and/ or the skilled workers. While these usually unskilled helpers, often children or youngsters that are labeled as apprentices, earn very meager incomes as

individuals, they are usually not poor as they do not fully depend on their own income. This is related to the third point, which is the more general problem of measuring poverty at the level of individuals. One of the few things that poverty researchers seem to agree on is that poverty is most usefully measured at household level, and should not be limited to money income only.

Implications:

- Not all workers in SMEs are poor, and it is not that easy to identify who is poor and who is not. Moreover, a key characteristic of poverty is that people move in and out of poverty over time, and that measurements that focus on income only and measure at one point in time have limited credibility.
- Does this destroy the case for poverty reduction through SMED? No, not necessarily, but it does mean that one needs to build a more convincing case by:
 - Developing more modest and realistic policy goals in terms of the direct and indirect poverty reduction impacts from SMED in the context of the broader Woord & Daad policy objectives
 - Carry out empirical work on livelihoods and income levels of entrepreneurs and workers, to be better able to assess where and when direct poverty impacts might be expected (and where *not*). This does not mean we need to know all sorts of details about all workers – as this would not be cost effective from a project implementation perspective – but to experiment with a simple and smart methodology to assess in what types of enterprises, sectors, situations SMED is more likely to have direct poverty reduction impacts.

4. Does this mean SMED is not relevant to poverty reduction?

No, but it does mean Woord & Daad would need to find ways to show how and where SMED fits into its chain approach, as a useful component in its overall portfolio, even though its direct poverty reduction impact may be very limited. In this section we provide some ideas for a discussion on this issue.

Direct poverty reduction is only one element in a broader development strategy. For example, in a country like Bangladesh getting out of poverty as an individual or household is one thing, but *staying* out of poverty is even much more difficult to achieve. Therefore, relatively stable employment for non-poor (or not anymore poor) workers is a crucial element in supporting a local economy. In general terms, without economic growth and dynamism, so without an increasing size of the cake, sustainable poverty reduction is basically impossible. Economic dynamism among local SMEs is a necessary but not sufficient condition for successful further poverty reduction among those who are otherwise close to the poverty line, and/ or keep moving in and out of poverty.

In other words, we feel Woord & Daad can argue that also (or even) SMED, especially when concentrating on local and labour-intensive activities, is a necessary part of a broader localized development which makes a more focused poverty reduction program possible, even though the direct poverty reduction potential of SMED is very limited.

Implications:

- We advise Woord & Daad to invest both in developing a better database on these limited direct impacts [by finding smart ways to assess the extent to which (previously) poor people find employment in supported SMEs], and

- To invest in developing a convincing argument around why SMED can/should be an integral part of the Woord & Daad intervention chain approach, which has poverty reduction as its overarching objective, but realizes that some components may have a more indirect contribution to this central objective.

We think it is possible to do this. In practical terms this means we can use the trip to Bangladesh (in October) to develop some ideas around identifying and operationalizing indicators to measure the direct and indirect effects of SMED on poverty reduction.

Most of all, we hope that this note can be the beginning of an interesting and constructive discussion from which all parties can benefit.

Appendix 5. Terms of Reference Evaluation SMED programme of CSS

Name of evaluation study	Evaluation SMED program
W&D Project number	1694003
Contact person/programme	Wouter Rijnveld
Partner organization(s) involved	Christian Service Society, Bangladesh
Contact person(s)	Mark Munshi
Other agencies involved	
Contact person/programme	
Leading organization	
Evaluator / evaluation team / organization	Peter Knorringa / Erhard Berner, Institute for Social Studies, The Hague
Date of application	October / November 2007

This TOR has been discussed and agreed upon by the parties involved.

1. Introduction and Context

In 2006, Woord en Daad (W&D) started its Small and Medium Enterprise Development department. Partner Christian Service Society (CSS) was one of the few existing partner organisations of W&D that was already involved in some sorts of business development, including a microfinance program and commercial water plants. CSS organised its business development activities in a separate Business Development department at the end of 2005. A memorandum of understanding is developed between W&D SMED and CSS.

Three different kinds of enterprises are distinguished:

1. Water plants. The first water plants were started in 2002. A total of 9 plants have been installed. Most of these plants are reversed osmosis systems. Plants are run by groups of appr. 5 people in various areas where CSS also has its microcredit programme. Incomes of owners were reported to have increased from appr. Tk 4,500 (situation before plants) to Tk 10,000. In 2007 there have been problems with licenses that the government started requiring. An average of 10% (range 1 – 44%) of the loans has been repaid. The first plants are planned to have repaid the full loan by June 2010 and the last plants by February 2012.
Apart from the individual water plants, CSS has a water service unit which facilitates testing of the water and monitoring of the plants. This unit is planned to be self supporting as from 2011.
There has been technical input from several Dutch business men in this project.
2. SME's. Till date 32 SME's in various sectors are being supported with business loans ranging from Tk 200,000 – Tk 1,600,000. An average of 12% of the loans is already repaid (range 0 – 30%).
Most businesses are around Khulna and some in Dhaka.
3. SMED small. In 2006 a new program was started in which the most successful entrepreneurs of the microcredit program of CSS are selected for larger loans (€ 1,000 – 2,000, term of 1 year). A policy paper for this program is developed and signed. Current criteria for selection of businesses refer to successfulness of the business and a minimum size of 5 employees. In 2006 133 small enterprises were selected and in 2007 the program is extended to include another 225 enterprises.

Total financial payments of W&D till date:

BDM unit:	€ 10,309
Water plants:	€ 136,859
Water service unit:	€ 22,238
SME's:	€ 291,270
SMED Small	€ 371,398

2. Objectives of the evaluation

Objective:

The direct objective of the evaluation is to learn about the relations between the small and medium enterprise development programme and poverty reduction. This is done with the following possible outcomes in mind:

- to be able to sharpen the focus of the program on poverty reduction.
- to develop a stronger argument toward internal and external stakeholders about the impact of SMED on poverty reduction. A first approach toward such argument is given in the note 'Poverty reduction through Small and Medium Enterprise Development?' which is included as appendix 1 of this TOR.
- to be able to adjust the current monitoring tools or develop additional monitoring tools in order to monitor indicators that are relevant for poverty reduction.
- to prepare a planned follow up evaluation for SMED Small in 2008.

Evaluation questions:

The evaluation focuses on the SMED program of CSS from the perspective of the chain, as follows: W&D → W&D SMED → CSS → targeted entrepreneurs / firms / workers.

In the evaluation, 8 steps are distinguished, connected to the cycle of program development, implementation and learning throughout the mentioned chain. These steps are shown in the table below with the basic questions for each of the steps:

	Steps	Basic questions
1	Output W&D/ Input W&D SMED	How does W&D direct and support its SMED unit?
2	Output W&D SMED/ Input CSS	How do W&D and W&D SMED support CSS? What specific inputs does W&D SMED provide to CSS? What inputs does CSS receive from other organizations?
3	Output CSS	How does CSS select and support targeted entrepreneurs? How does CSS contribute to W&D SMED objectives on Civil Society Building and Policy Influencing and to W&D intervention chain coherence?
4	Outcomes Target group	What are the outcomes for targeted entrepreneurs, their firms, and workers?
5	Outcomes W&D SMED and W&D (beyond Business Development and Direct Poverty	What are the outcomes for W&D SMED and W&D beyond Business Development and Direct Poverty Alleviation?

	Alleviation)	
6	Learning CSS	In what ways does CSS monitor outcomes and systematically tries to learn from previous experience? How does CSS report back to the W&D SMED unit?
7	Learning W&D SMED	In what ways does W&D SMED monitor outcomes and systematically tries to learn from previous experience?
8	Learning W&D	In what ways does W&D monitor outcomes on and beyond direct poverty alleviation and systematically tries to learn from previous experience?

The main focus of the evaluation will be on steps 3 and 4. In step 4 a distinction is made between outcomes on the level of the businesses supported and poverty alleviation outcomes.

Each of the basic questions is worked out in Critical success factors and each of the critical success factors (CSF) is worked out in Performance indicators (PI) (quantitative or qualitative indicators). These CSF's and PI's have been discussed between ISS, Woord en Daad and CSS and are worked out in the document 'Evaluation format to assess Woord & Daad SMED support to CSS SME interventions in Bangladesh'. This document is included as appendix 2 of this TOR and the CSF's and PI's of this document are integral part of the TOR.

3. Expected results

Evaluation report of 25 pages (max of 40 pp). The report should contain at least an executive summary, clear description of methodology and data collection including numbers of interviews and or other tools used, findings, discussion / analysis separately from findings and recommendations. Findings, analysis and recommendations will be given separately for the three groups of enterprises: SME, Water and SMED-Small. Specific recommendations will be given for the follow up study for SMED Small which is proposed for 2008.

More details can be given in appendices. Appendices will at least contain this TOR and a list of stakeholders / entrepreneurs interviewed.

A draft report will be sent to CSS and Woord en Daad before the final report is produced. The final report will be addressed to CSS and Woord en Daad.

4. Methodology and Approach

Interviews will be held with relevant staff of Woord en Daad and CSS.

From the three types of businesses (SME's, Water plants, SMED small), a relevant sample will be selected. Enterprises included will be both in and around Khulna and in Dhaka. Selection will be done jointly by CSS and the consultants and the consultants take the final decisions on sampling and selection of enterprises. For each of the businesses, apart from direct observations, relevant documents will be studied and interviews will be held with the entrepreneur and with employees.

Comments:

1. In case no two processing/ manufacturing units among SMED can be found in both Khulna and Dhaka among SME's with CSS support, more SMED Small units will be included.

2. In case more than 25 business can be included, more SMED Small cases will be added.
The following sampling is proposed:

		Khulna		Dhaka		Sub-totals
		CSS support	Control group	CSS support	Control group	
SMED	Shops	2	1	2	1	12
	Processing/ Manufacturing	2	1	2	1	
Water		1		1	1	3
SMED Small	Shops	2	1	2	1	10
	Processing/ Manufacturing	2		2		
Sub-totals		9	3	9	4	25

5. Required expertise

Knowledge about Enterprise development in developing countries.

Knowledge about relations between poverty alleviation and enterprise development.

Experience with doing evaluations from a learning perspective.

Attitude focusing on learning and improvement with all stakeholders.

The evaluation study will be conducted Dr Peter Knorringa (Associate Professor of Local and Regional Development) and Dr Erhard Berner (Associate Professor of Development Sociology), both of the staff group 'Human resources and local development' of the Institute for Social Studies, The Hague.

6. Services to be provided

Woord en Daad:

- Access to and time availability of relevant staff for interviews
- Relevant project documentation

CSS:

- Access to and time availability of relevant staff for interviews
- Relevant project documentation
- Local accommodation (excl. food) and transport
- Provide interview facilitation
- Finding selected enterprises
- Providing introductions and translation in interviews

7. Planning and budget

Planning

The field visit is planned from 26th October – 3rd November (Erhard) / 30th October – 7th November (Peter) 2007.

The draft report will be available on 28th November 2007.

Budget

ISS:

Professional fees:	€ 27,968
PK 17 days NL x 684, 10 days Bangl. x 529	
EB 10 days NL x 623, 10 days Bangl. x 482	
Costs for subsistence (DSA): 2 x 9 x 51 (costs for accommodation will be provided by CSS)	€ 918
Costs for international travel / local travel in NL (on declaration basis)	€ 2,500

After signing the TOR, ISS will send a bill to W&D for 50% of the professional fees + DSA (€ 14,443).

After completion of the final report, ISS will send a bill of the remaining 50% plus the additional costs for travel and accommodation on declaration basis. This bill will be paid by W&D after a fiat from CSS is obtained.

CSS:

Costs for local accommodation, local transport BDT 150,000

After signing the TOR, this amount will be transferred to CSS. After completion of the evaluation, CSS will provide W&D with an overview of real costs for the evaluation and any remaining balance will be settled.

8. Approved by:

This TOR includes two appendices:

1. Note: 'Poverty reduction through Small and Medium Enterprise Development?'
2. Proposal of ISS: 'Evaluation format to assess Woord & Daad SMED support to CSS SME interventions in Bangladesh'

Gorinchem,	Dhaka,
On behalf of Woord en Daad	On behalf of CSS
Dicky Nieuwenhuis, director Advice and Research	Mark Munshi, Managing Director
The Hague,	
On behalf of ISS	
Louk de la Rive Box, Rector	

