



Creating a Responsive Environment for SME Competitiveness and Exports (CRESCE)

Performance Monitoring Plan

Prepared by

Development Alternatives, Inc.

for

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Rua Voluntários da Pátria 89 • Sala 803 • Botafogo • Rio de Janeiro • RJ
CEP: 22270-000 • Brasil • Tel: (55-21) 2286-2166 • Fax: (55 21) 2286-2653

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1.0 Introduction

“Everything matters for competitiveness”
- Cluster Greenbook¹

Social, technological, political, and economic context directly influence SME performance, especially in a country the size of Brazil, with its complex regulatory environment, and myriad government interventions. But as always, resources for performance monitoring are limited, and the CRESCE Project must select meaningful indicators that do not require tracking *everything*.

This document proposes a comprehensive approach to CRESCE’s Performance Monitoring Plan (PMP). CRESCE must strike a balance between the resources applied and the rigor and utility of the process, the resulting information and its ability to improve CRESCE and non-CRESCE SME interventions. Furthermore, since the project will be testing pilot initiatives and innovations, it is necessary to understand the impact of these initiatives in order to orient future investment of donors and Brazilian public and private sectors.

There have been few serious efforts to evaluate the performance of Brazil’s many cluster and export initiatives. **Serious performance monitoring and evaluation (M&E) against a baseline could, itself, be an important impact and methodology for others to follow**, especially considering the necessary focus on a limited number of sectors and initiatives. The process laid out below could be replicated with CRESCE partner institutions to improve M&E of cluster and SME initiatives in Brazil so that future interventions are based on relevant experience.

The indicators and process highlighted here derive from USAID/Brazil’s Performance Monitoring Framework, specifically:

- Strategic Objective 11: Economic Opportunities for SME Growth, Trade, and Poverty Reduction;
 - Intermediate Result 1: Small and medium-sized enterprise growth and employment

In addition to the Mission’s results framework, our approach is guided by the need for balance between cost and usefulness of the information to be generated in terms of the following:

- Producing reliable results for USAID reporting;
- Creating a M&E process that has value for the cluster or partner we’re supporting;
- Knowledge generation - understanding and disseminating best practice models that can be replicated.

Finally, we differentiate here between *monitoring* results (e.g. tracking growth in volume of exports, the number and type of linkages, etc.) and assessing project *impact*, which should derive from a causal model and test for attribution to project activities. Although this document proposes an approach to performance *monitoring*, it should be useful as well for setting a framework for the eventual evaluation of project *impact*.

¹ Örjan Sölvell, Göran Lindqvist, Christian Ketels, “The Cluster Initiative Greenbook” TCI Global Conference, Gothenburg, September 2003.

The document is divided into four sections. Following this introduction is a section on the model for the relationship between project activities, outputs, outcomes and impact is presented. Following that is a description of the proposed indicators, including the rationale behind each one and a brief description of how they will be captured and used. Finally we propose a methodology for obtaining the necessary data for performance monitoring.

As the specific project interventions are yet to be fully defined, approaches described here may change slightly, but if USAID approves this PMP, the general approach, it is unlikely to change significantly.

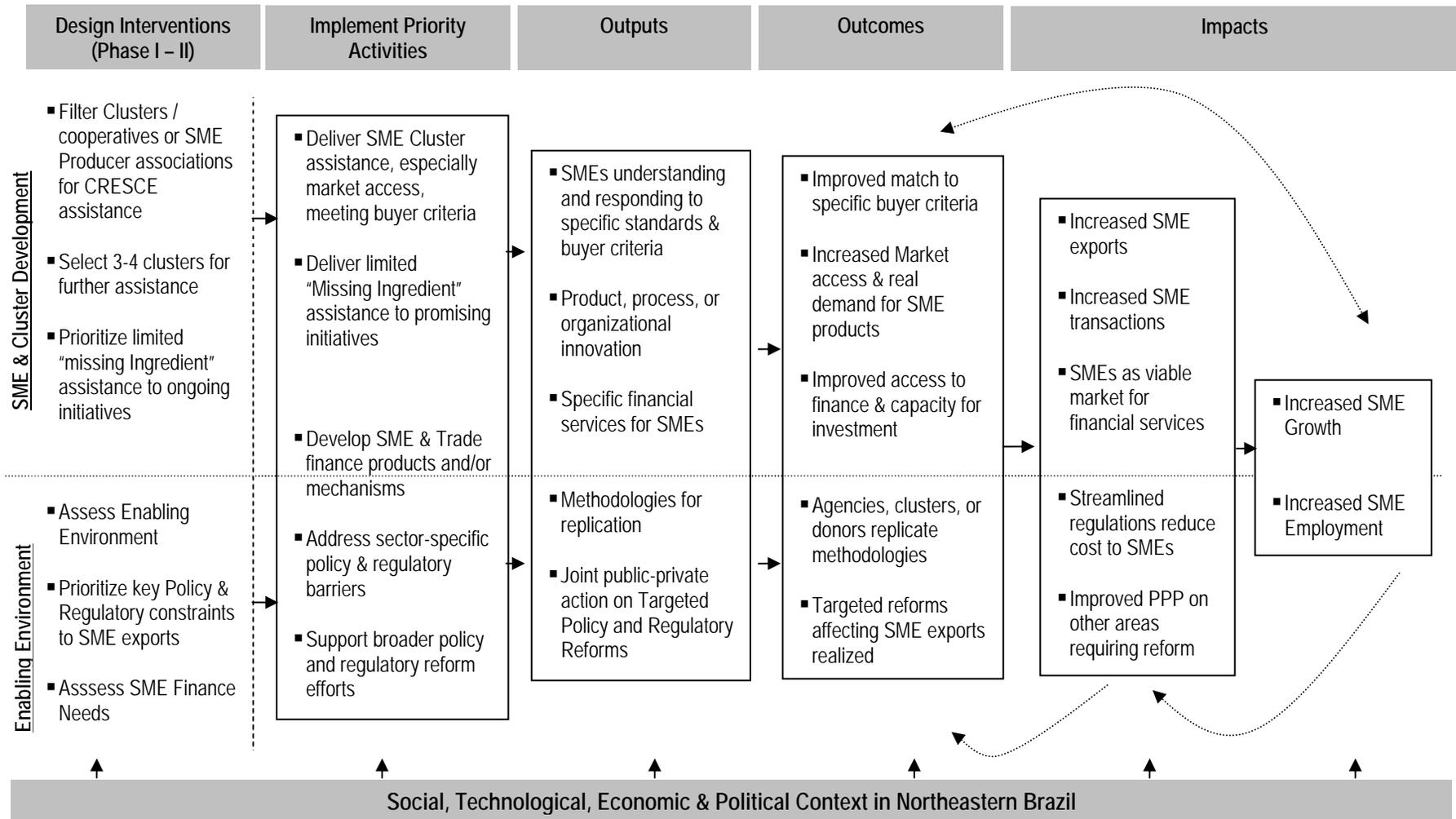
2.0 CRESCE PMP Causal Model

The CRESCE approach to monitoring & evaluation derives from a causal chain that links project activities to USAID/Brazil's IR 1 of SO 11, cited in the introduction. Figure 1 shows the relationships between CRESCE activities and targeted results.

In this causal chain, the **design** of the program (Phases I and II as specified in the CRESCE Year 1 Workplan) determines the **priority activities**, which are divided into SME activities and Enabling Environment activities intended to promote increased trade-led SME growth & employment. The priority activities will produce, in the first instance, **project outputs**, such as improved market access, compliance with specific buyer criteria, access to financial services, and replicable methodologies for SME export promotion. These outputs, in turn, lead to **desired outcomes**, such as improved match to specific buyer criteria, increased market access, improved capacity for investment, and targeted reforms affecting SME exports.

The outcomes, finally, lead to **project impacts**, such as increased SME exports, improved productivity, SMEs as viable market for financial services, streamlined regulations that reduce cost to SMEs, improved partnerships on other areas requiring reform and, ultimately, to increased SME profitability & employment.

Figure 1 – Causal Model for the CRESCE Performance Monitoring Plan



3.0 Proposed Project Indicators

The proposed indicators for the PMP, shown in Table 1 are divided into two broad categories:

- SME & Cluster development – indicators that are meant to give a sense of the project’s contribution towards the objectives of increasing export-based growth and employment among SMEs in the supported clusters;
- Enabling Environment – indicators of the project’s progress towards understanding and addressing major SME constraints.

We propose to collect data that can be disaggregated by gender, in order to track progress of women-owned firms, and also track employment of women. Most of the indicators in Table 1 are assigned quantifiable targets, which should the CRESCE team should ground-truth and revisit once the specific clusters are selected, in order to make sure they are reasonable and compatible with the cluster’s own objectives. Other indicators, such as value-added, have not been assigned targets, but will be necessary to track to build a foundation on which progress can be monitored and used to produce project case studies, highlight results and key success factors, etc.

Although not specified here, cluster-specific targets are important to track in order to capture unique objectives (e.g. spoilage rates for a fresh fruit cluster) as defined with the members of the cluster. Cluster-specific goals will vary significantly by industry and cluster members should be involved in setting these targets.² As stated in the Cluster Initiative Greenbook:

*Monitoring the impact of cluster initiatives (CIs) is increasingly critical to sustain the commitment of cluster participants. This is a complex task, because many effects of the CI on cluster competitiveness will take a long time to materialise and will depend on other external factors as well. CIs need to develop an indicator system that documents their activities on different levels and becomes an integral part of tracking the cluster’s performance over time.*³

Such indicators will be defined with the SMEs and their representatives once the CRESCE, USAID, and the project’s partners selected the clusters to support.⁴

Finally, in addition to the technical indicators presented in Table 1, the CRESCE team will track funding leveraged for CRESCE initiatives or those compatible with the project, through partnerships with the CRESCE Conselho Consultivo (CCC) or other project partners.

² One important indicator that can vary by sector is **productivity**, which in its simplest form is unit of output per unit of input. But the specifics will depend on the sector (e.g. for mangos the indicator would be yield of mangos sold per tree). Such indicators may be incorporated as appropriate once the clusters are selected.

³ Örjan Sölvell, Göran Lindqvist, Christian Ketels, *The Cluster Initiative Greenbook*. Uppsala University and Harvard Business School. August 2003. Page 14.

⁴ On a project monitoring level, meeting a goal established by the cluster itself would be another important impact, since it would provide an ongoing incentive to compete and collaborate to improve performance.

Table 1 – Proposed CRESCE Indicators, definitions and method of measurement

Indicator	Explanation & rationale	Data source	Method of measurement	Reporting Schedule	CRESCE Targets
SME Clusters or Producer Associations					
1. Export sales & volume	Track both the value of export sales and the export volume, so that SME sales can be understood in the context of market trends	SME Survey, CECEX data	Export growth per firm, on average, measured against a baseline for the cluster or producer association supported and compared to a control group. Count project-supported growth independently & compare to total sales. (quantitative)	Quarterly	15% growth
2. Employment Growth	Increased SME export-based employment is one of CRESCE's key impact targets to contribute to USAID's results framework.	SME Survey, CECEX data	Current employees / employees at baseline minus 1 (count full, part-time, and contracted labor at both periods) disaggregated by gender and by the type of employment agreement or contract. Measured against a baseline for the cluster or producer association supported and compared to a control group. (quantitative)	Quarterly	15% growth
3. Market Access	Successful clusters are linked to global markets, but this is a particular point of weakness of many initiatives in Brazil. SME clusters can learn and upgrade by selling through new channels	SME Survey; Interviews	Increased export transactions through new channels compared to a baseline and control group. Channels could include Integration into new global value chains, sales to new intermediaries, buyers, or direct to consumers. Count sales brokered with CRESCE assistance separately (quantitative)	Quarterly	20% increase in exports through new channels
4. Meeting buyer demand criteria	Analysis of Real Demand Focusing on Potential Buyers is key to improving market access. Currently, no SME initiatives in Brazil carry out this type of analysis.	Buyer survey	Surveys with buyers and potential buyers regarding the following elements: Overall satisfaction, Prices, Quality, Business Practice, Package through surveys with buyers & potential buyers (qualitative)	Annual	Improved match with buyer criteria
5. Value-added	Track change in the percentage of the total price (free-on-board - FOB) of the goods exported that SMEs are capturing.	SME Survey, Interviews	Change in price of units sold by SMEs as compared to total price FOB. Also compare to volume increase, depending on export strategy (e.g low cost vs. higher value) (quantitative)	Annual	N/A
6. Innovation	Application of product, process, or organizational improvement, leading to increased productivity. Use SEBRAE's calculation from PROMOS Project	SME Survey	# of firms introducing some type of innovation / total number of firms. An Innovation here is the introduction of new machinery, design, layout, process, etc. Compare to SEBRAE supported clusters, to baseline, and control group.	Annual	N/A
Enabling Environment					
7. Decreased red tape costs for Cluster pilots	Pilot efforts to support the decrease in time and cost to SMEs for regulatory requirements for exports. To be finalized with Clusters selected & CCC	Cluster-specific Regulatory Mapping	In terms of time and cash outlays for complying with regulatory requirements. Compare data to the World Bank's <i>Doing Business 2005</i> regional data for Brazil. Sample indicators for pilot Efforts could include reduced number of agencies involved. In the export environment – customs process simplification in terms of time & money.	Quarterly	% reduction in red tape costs
8. Approaches to Long-term constraints adopted by CCC	Some of the most binding policy & regulatory constraints (e.g. the labor code, which is written into the Constitution) will require sustained, long-term strategy. With the CCC, develop and support strategies in priority areas.	Project records, CCC	Public-Private partnership strategy (at national, regional, state or local level) developed to work on principal policy and regulatory constraints found in the CRESCE SME Assessment	Quarterly	2 detailed proposals adopted for joint action

9. Access to Financial services	SMEs require financial service providers offering SME and trade financial products and services on an ongoing basis	SME Survey, Interview w/ providers	% of supported SMEs indicating ongoing access to financial services Financial services products or mechanisms developed or made available to supported SMEs	Annual	10 % increase in access to appropriate services
10. Pilot products or mechanisms for SME exporters	Pilot financial services or mechanisms (e.g. guarantees) developed or adapted to SME Exporters as part of a longer-term plan to serve that market.	SME Survey, Interview w/ providers	# of SME exporters with previously inadequate access to finance benefiting from new commercial products.	Annual	Pilot products or mechanisms rolled out
11. CRESCE Approach Replicated	Project practices, methodologies, or tools replicated through CCC	Project records, CCC	# of CCC members collaborating, replicating methodologies, using CRESCE tools, or leveraging programming based on interviews with Steering Committee members to evaluate the willingness to use the methodologies in their initiatives (qualitative)	Quarterly	Majority of CCC

4.0 Methodology

The PMP should monitor changes through time, between a baseline and follow-up analysis. A comparison of the results will reveal the changes that have taken place in the variables in which we are interested. To carry out an impact assessment, however, it is vital that these observed changes be compared to a counterfactual—a picture of what would have occurred if the project had not been implemented. Then we may determine whether observed changes can be attributed to CRESCE.⁵

The PMP will be implemented through a couple of different methods, including a survey of SMEs in supported clusters, case studies, as well as a survey and interviews with current and potential international buyers, and review of secondary information. These are explained briefly below.

Baseline and follow-up survey of SMEs in supported clusters. This survey will be used to understand most of the SME and cluster-level indicators in Table 1. Because the application of a survey with a representative sample of SMEs would be labor intensive, we propose to design the survey and issue a small purchase order with the local associations to carry out the survey with their members. CRESCE team would then provide a brief training on its application and closely accompany the application of the survey. In this sense, **CRESCE will be responsible for quality control over the results, rather than applying the survey directly.**

This offers an added benefit in that the results will be useful to the association that is applying the survey, since it will allow them to provide an additional service to their members, permitting cluster members to benchmark their performance against peer groups, and possibly with the performance of global leaders in their industry (depending on the availability of secondary data for the particular industry).

The recommended approach for the survey is the **quasi-experimental method**, where results can be compared to a control group. Since the clusters to be supported will not be chosen by random, results for supported SMEs will be compared to results for a control group chosen to be as similar to the participant group as possible through a sample survey. If the CRESCE-supported groups do significantly better than the controls in the indicators specified in Table 1, we may conclude that the project had a positive impact.

The quasi-experimental method of assessing program impact is used relatively infrequently, partly because it is costly relative to the more usual approach of soliciting and evaluating expert (and sometimes also participant) opinion. However, they are probably more cost-effective because they offer a genuine opportunity to learn more about whether, and in what ways, enterprise development projects work to achieve their varied objectives⁶. This is especially the case when we consider the goals of CRESCE to leverage change with other actors in Brazil, which requires a solid foundation from which to show what can work.

We may also consider using **case studies** based on interviews and focus group discussions that elicit information on how particular project clients are faring and how the project has helped them

⁵ Ulrich Ernst, Marina Krivoslykova Donald R. Snodgrass James Packard Winkler. “Enterprise Growth Initiatives: Strategic Directions and Options (Handbook)”. Development Alternatives, Inc. Funded by USAID / EGAT. July 2004. <http://www.dai.com/about/newsroom.php?nid=32>

⁶ *ibid.*

to overcome their problems. In addition, case studies may be good ways to communicate CRESCE success stories.

Baseline and follow-up survey of Buyers. This is a separate survey with the individuals or firms that are buyers of the goods and services that the supported clusters are producing (both current and potential buyers). This element has not been given sufficient attention in Brazil's government-funded SME and export promotion initiatives, but is fundamental in terms of understanding and addressing real demand criteria. **Real opportunities are needed to create real incentives that drive real change.** Improved access to markets and meeting real buyer demand criteria offers incentives critical to improving cluster-wide performance.

The brief survey will determine specific demand for products and to identify buyer requirements with respect to product, quantity, and price points. The project will have a baseline against which progress can be monitored and the data can also be used to conduct demand forecasts to circulate to the supported clusters to help them orient their production.

Cluster-specific policy & regulatory export mapping – Mapping the regulatory process from the perspective of businesses, based on the concrete experience of the supported clusters in order to determine the costs to SMEs in terms of time and expenses to navigate the regulatory and export procedures. The initial survey will allow the project to address specific regulatory constraints while also testing the importance of, and adding evidence to further understand well documented constraints that might be addressed through long-term strategies. The survey will compare 'before' (baseline) and 'after' data in terms of cost and time to carry out major tasks involved in exporting. Results will be compared to general (regional) data from the World Bank's Study *Doing Business in 2005*, highlighting major constraints.⁷ This will be further defined through the Assessment in CRESCE Phase II.

In addition to these approaches, CRESCE will use secondary data sources available on the SMEs and clusters in Northeastern Brazil, for example:

- CESEX Database – FUNCEX to access and provide reports for the prioritized sectors;
- SEBRAE – project reporting for specific clusters;
- APEX – reporting for specific sectors or clusters;
- Other relevant reports or data on the specific clusters being analyzed (to be determined).

Finally, since impact assessments cannot go on forever, CRESCE will *estimate the sustainability of the benefits measured*.

As agreed at the first *CRESCE Conselho Consultivo* (CCC) meeting, once the final version of the methodology described below is approved by USAID it will be checked with the existing M&E systems currently in use by the CCC members (in particular with SEBRAE and IEL).

A final word on the use of the data

The test for what to track should be a practical one. The information sought should be useful on multiple levels, including:

⁷ See the Doing Business in 2005 results online at: <http://rru.worldbank.org/doingbusiness> . Brazil is one of only three countries (of the 140 in the study) for which the study compiles regional indicators. DAI has approached the World Bank team that carries out the study and they have agreed to make this regional data available.

1. USAID - reporting for the Mission's Results Framework;
2. Supported Clusters - to benchmark their performance against global leaders in their industry;
3. Clusters and SMEs to orient production through more specific buyer criteria and demand conditions;
4. Lessons learned for future initiatives and replication with the CCC;
5. Case studies to disseminate information and highlight important accomplishments and policy, regulatory and other constraints to address.

Although the process laid out above is relatively heavy in relation to CRESCE's size, a sound approach to performance monitoring and setting a framework for impact is an important goal in its own right, given how little has been done, and how little reliable monitoring of SME, cluster and export programs in Brazil.