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SED WORKING PAPER no 1

Developing indicators in small enterprise development projects

A tool for people involved in designing, implementing and evaluating SED projects

By Alan Gibson
The Springfield Centre for Business in Development

April 2001

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❑ CIP/SED Sector Policy (1992)
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WORKING PAPERS:

- Working Paper no 1 *Developing indicators in small enterprise development projects* - A tool for people involved in designing, implementing and evaluating SED projects by Alan Gibson

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PREFACE

The issue of 'How best to develop indicators in SED projects' is on the agenda of donors and implementing agencies for quite some time. Also, SDC recognizes that little progress could be made up to now when aiming at defining a set of common agreed indicators to measure the results and performance of SED projects.

Currently, every project develops its own goals, objectives and indicators at the planning stage and develops its own monitoring system and indicators as part of it. It is a task of SDC's 'Income & Employment' division to facilitate the common understanding of indicators for SED projects and with this reason in mind the division commissioned the Springfield Centre for Business in Development to propose a methodological guideline for developing indicators.

The following paper draws on the commonly accepted PEMT methodology, which is based on the logical framework tool and focuses on indicators able to measure results of those SED projects, which are designed to put into practice the 'market approach for BDS'.

While this paper is being edited there is a growing concern on donors' level related to 'performance measurement' of SED projects. At the Donors Committee for Small Enterprise Development level as well as on recent topical international conferences the concept of a 'performance measurement framework' was proposed. This framework is currently in a test phase with some selected projects. Yet, we are not in the stage to propose a 'good practice' for effective monitoring and evaluation of SED projects.

Inside the Swiss SED-Community, the discussion on this subject is on going and final proposals are not yet made, e.g. in 1999 a workshop of the Swiss SED Community took place on the same issue. Coming from a more general development perspective, on the one hand the scope of the proposed indicators for SME might have to be broadened to take more into account process- and context oriented indicators. On the other hand the 'heart' of performance measurement – efficiency, effectiveness, outreach and sustainability - should seriously be addressed and not all projects are already doing this.

As inside SDC there is no common understanding reached yet on how to develop and which 'core' indicators to use we want to share this Springfield Centre paper with the relevant actors. Wherever you see an opportunity to put this guideline or part of it into practice we would highly appreciate to learn from your experience especially in the field of:

- Practicability of the indicators
- Tangibility and transparency of the indicators
- Relevance of this paper for development of own indicators

Your suggestions would help us to develop further an instrument for indicator development in SED.

SDC Small Enterprise Development – Backstopping Mandate
Hilmar Stetter/IC, Bern, E-mail: hstetter@intercoop.ch, April 2001.

1. INTRODUCTION

The background

The experience of many years of development interventions has made one point very clear: we – the "development community" – will only have more success in our endeavours when we improve our approach to monitoring and evaluation (M & E). While by itself M & E achieves nothing, the design and delivery of successful development interventions does require that effective M & E is undertaken.

This tool focuses on a core building block of successful assessment – indicators – in the field of small enterprise development (SED) and specifically on how we can use indicators effectively to improve SED. It has been formulated in a context of two important trends:

1. **SDC's long-standing commitment to improving approaches to assessment in its work.** SDC's development philosophy is based on a detailed approach to ensuring that its work benefits from transparent learning processes; that M & E feeds directly into practical action to bring about improved performance. It is an approach manifested in a series of working instruments that have been developed explaining the detail of the Planning, Evaluation, Monitoring, Transference into Action (PEMT) process and in specific guidelines for some sectors of activity such as vocational training (1,2)

2. **A major change in thinking internationally in *how to* intervene to promote SED.** There is now a broad consensus among development agencies over the principles that underpin good practice in business development services for SED (3,4). One key principle of good practice is more rigorous and more appropriate approaches to M & E.

What the tool seeks to be

The objective of this tool is to provide a practical guide to developing indicators in SED interventions. SED interventions here are defined as aid-supported projects that aim directly to enhance the performance of micro, small and medium scale enterprises (MSMEs) by improving the services offered to them or the overall economic environment in which they operate. Ultimately, SED projects are concerned with enhancing incomes and employment.

For whom

The tool is aimed at people involved in designing, implementing and evaluating SED projects. It is therefore targeted at program officers in SDC and implementing organisations (in-country and head office), SDC's partners, consultants and researchers working in this field.

What it is not!

In explaining what the document is, it is also useful to outline what it is <u>not:</u>

- Not an exhaustive menu of indicators from which users can pick indicators appropriate for their situation: the focus here is to provide guidance on *how* to develop indicators, not to be a mechanical provider of standardised indicators.

- Not covering microfinance: there are many other guidelines that deal with operational indicators in microfinance and there is no point in repeating these here (Appendix 2).

- Not covering (in-depth) the process of how indicators should be developed among stakeholders, a subject that is addressed in other planning tools.

- Not covering monitoring and evaluation (M & E) methods: this is neither an M & E guideline nor a planning instrument but rather feeds into both.

Assumptions

Indicators fit into planning and M & E processes, for this to be a valuable tool for users it is important that they have knowledge of:

- Good practice principles in BDS for SMEs: the change in thinking in BDS provides an important context for indicator development.
- The broad PEMT philosophy and approach
- Logframe approaches to planning

The use of logframes requires some explanation. Logframes are used here as the basis for understanding the position of indicators in planning. While logframes are sometimes seen as "mechanical" in nature, they have the advantage of placing indicators directly at their core. Moreover, although they may "feel" different from PEMT, there is no basic contradiction between logframes and PEMT. The approach to indicators provided in this tool can be used in any planning context (see Appendix 1).

How to use it

The overall structure of the instrument is shown in Figure 1.

Sections 1-3: this establishes the background and context

Section 2 establishes what we mean by indicators and what their purpose is. Section 3 presents an outline of the key actors and processes in SED that we are trying to capture through indicators. Much of this analysis is not specifically about SED but it does lay the groundwork for the more detailed analysis that follows.

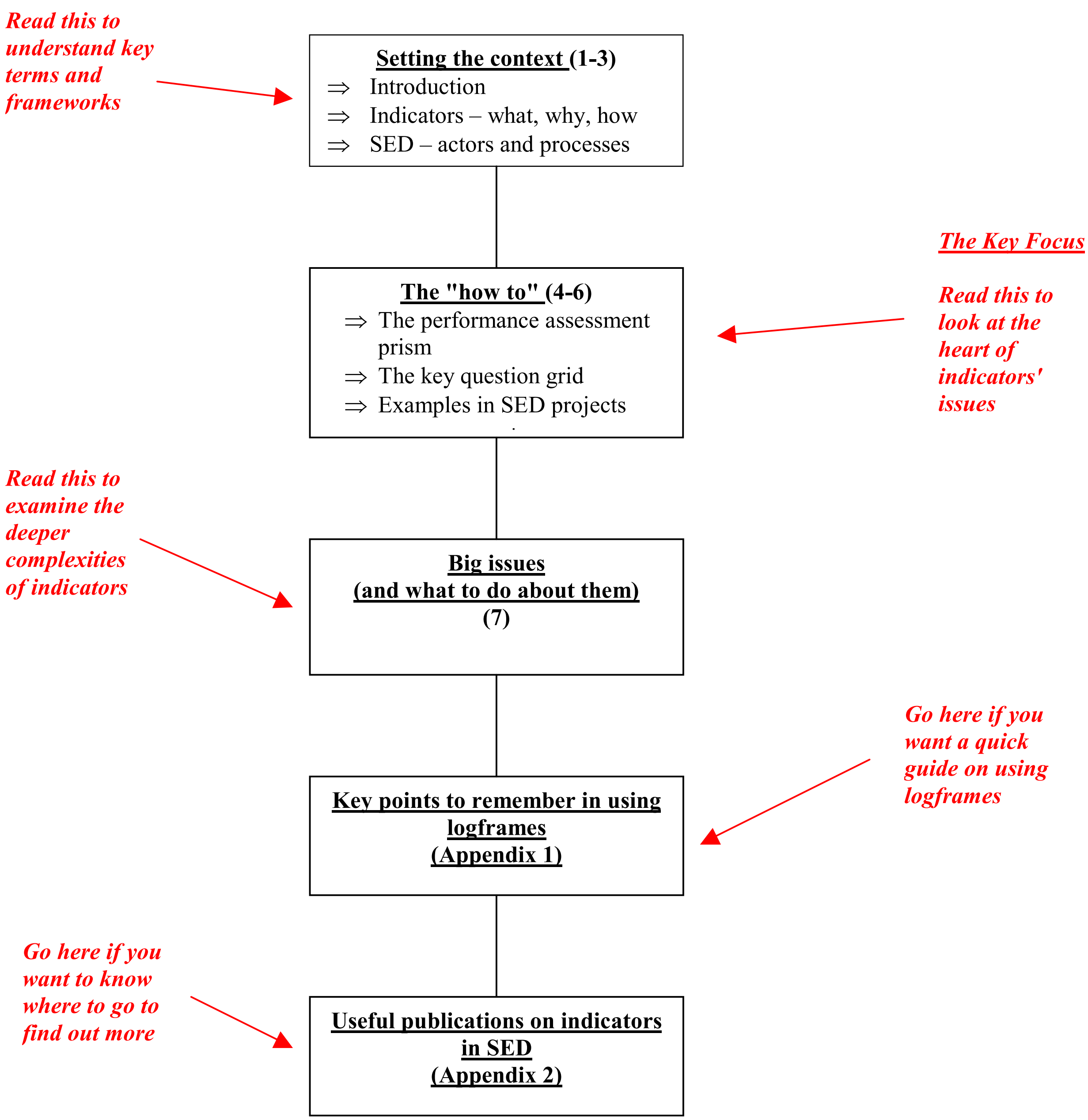
Sections 4-6: the key "how to"

In Sections 4-6 we deal with the *how to* of defining and selecting indicators and the factors that need to be taken into account in doing so; the broad performance criteria (the *performance assessment prism*) and the series of practical factors (the *key question grid*) that need to be taken account of in indicator choice, with practical examples of these in logframe format. Sections 4-6 are intended to be a detailed reference to which users of the tool may return.

Section 7: indicator problems
This addresses some of the outstanding difficult issues with respect to indicators for SED, highlighting the reality that there remain many areas of doubt over indicators for measurement. Where appropriate, it offers ways around these difficulties.

Appendix 1 offers a brief outline of the rationale for and use of logframes (but not an exhaustive guide). Since reference is made throughout the text to logframes, it is important that users of the tool unfamiliar with logframes read this first. Finally, Appendix 2 presents an annotated bibliography - a signpost - pointing to other useful publications relevant to indicators for SED.

Figure 1: Overall structure of the tool



2. INDICATORS: THE WHAT, WHY AND HOW

This Section defines indicators and establishes the role they play in the design and development of SED projects. Although not covered in detail, the reasons underpinning the importance of process in indicator selection are also highlighted.

What do we mean by indicators? - "If it is not counted, it won't get noticed"[1]

Although often used by people within the development sphere, the term "indicators" is seldom defined precisely. We need to be clear from the outset about what is meant.

Indicators:

- As a term is "drawn from the Latin verb, *indicare*, **to point out or proclaim**…….a device to attract attention, like the pointer on a gauge, or a warning light" (5)
- Are **signals of change** that show the extent to which a project or organisation is progressing towards its objectives;
- In **logframes**, indicators are in **column 2** - at the heart of a project's design - and can be used in column 4 to define the context in which a project is set[2] (Figure 2).
- Are **"the what"** in M & E. Any M & E system can be summarised through questions of "who needs what and when"; indicators are concerned with "what" (Box 2).
- Should always provide **specific meaning** to projects. While project objectives and the context may be expressed in broad terms, indicators must give tangible shape.
- Should always provide **transparency** and **clarity** to sometimes complex project situations. Indicators should illuminate a project's performance, objectives and context and therefore provide a rational basis for assessment and discussion.
- Should **encapsulate targets**. Indicators are inherently neutral; in order to provide a framework to define projects they need to be given values in the form of targets.

Figure 2: Indicators in the logframe

	Narrative summary	Measurable indicators	Means of verification	Risks/ Assumptions
Goal		**Indicators are here……**		**……… and here**
Purpose				
Outputs				
Activities		Inputs		

[1] J.K. Galbraith, quoted in (5)

[2] Defining information in the context column in a logframe as indicators is not usual. However, by doing so here, we emphasise the importance of not only assessing a project's performance but also the context in which a project is set.

Box 2: Indicators as the tangible "what" in M & E

In any M & E situation, essentially five questions need to be answered

1. What needs to be known: the specific information needs of the organisation (and other stakeholders): the indicators.

2. Who needs to know: the information needs of specific stakeholders: decision-makers ("I need to know"); other staff and groups ("I would like to know") and external groups ("It's my right to know").

3. When does it need to be known: while some information is required on a current, on-going basis to feed into regular operational decision-making (monitoring information), others may be only required on a periodic, retrospective basis (evaluation).

4. How should this information be collected: methodologies vary from basic administrative tools (e.g. attendance sheets) to more expensive surveys and focus groups, depending on the information required.

5. Who takes responsibility for collecting the information and administering the system: while monitoring should always be an internal operation, evaluation may involve external parties such as consultants.

Why are indicators important?

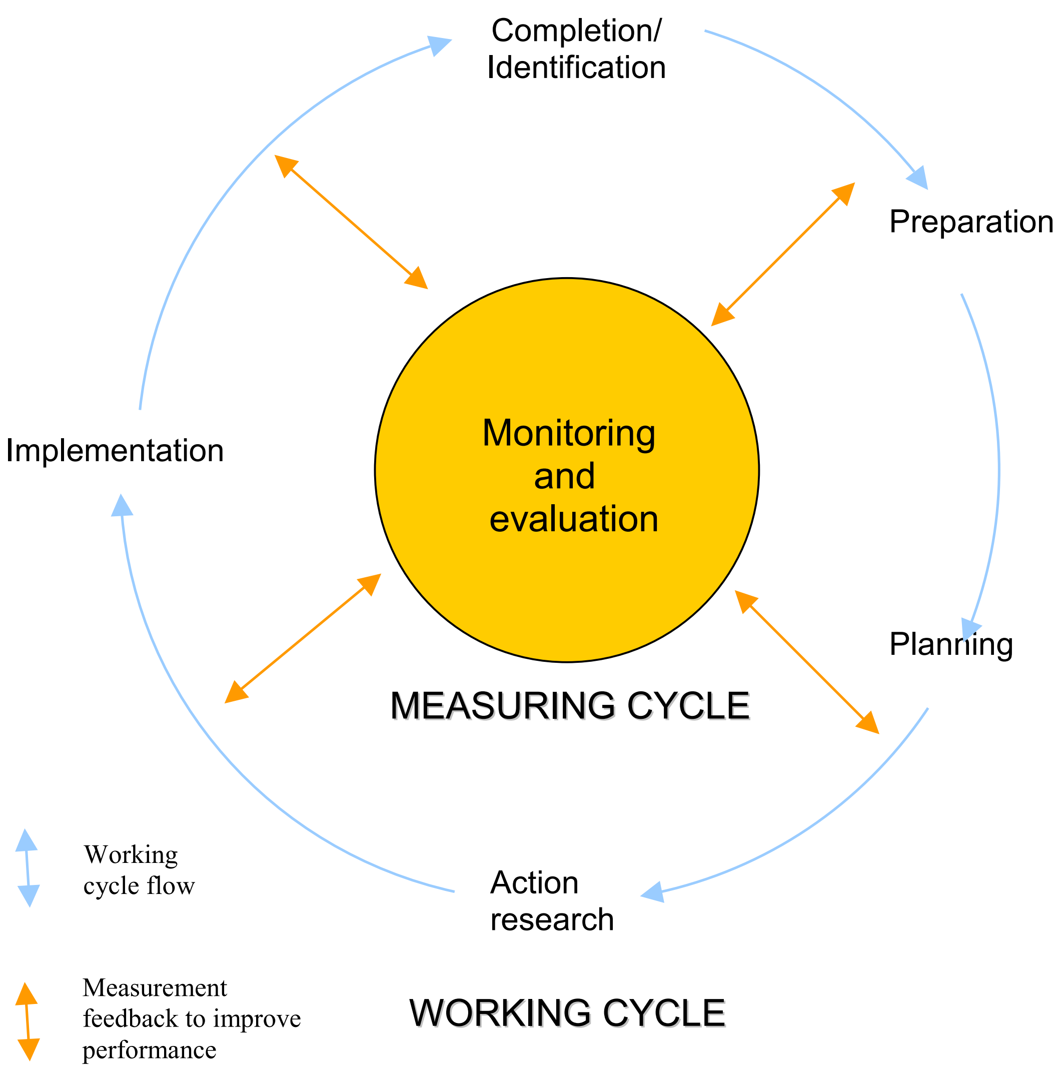
Indicators lie at the heart of the broad process of PEMT and, in particular, of M & E. As a key building block in M & E, indicators are important because M & E is important! M & E's importance stems from its role in feeding into three development objectives:

a) To improve performance: the entire link from planning to action inherent in PEMT is contingent upon effective measurement of performance against indicators. The standard project cycle can only be effective if it is accompanied by a complementary process of assessment that allows feedback to enable people to learn and make appropriate changes to improve performance (Figure 3). This is particularly the case with SED. Many aspects of SED are more measurable than other areas of activity such as community development. Moreover, a key principle of good practice in SED is that interventions should be designed and implemented in a business-like manner; it is not possible to be business-like without having a clear idea of basic performance indicators.

b) To enhance external accountability: all aid-supported projects have a range of external stakeholders to whom they are, more or less, accountable. This includes project clients, national governments and, of course, donors. To a large extent, the success of a project will depend on the degree to which it can successfully manage relationships with these stakeholders, recognising that some are more important to project success than others. Indicators should provide the basis for transparent communication with stakeholders and the starting point for effective relationships (9).

c) To improve wider learning: in SED, as in other spheres of development, there has often been a marked reluctance from donor agencies to share experiences and even less to collaborate actively in the design and implementation of interventions. Yet it is clear that managed exchange between organisations has the potential both to reduce learning costs and increase the effectiveness of our actions. Agreement on standard indicators in SED can provide a common basis for this exchange and allow real comparison and learning to take place. The best example of the benefits of enhanced learning facilitated by a common approach to measurement is in microfinance (Box 3) where a range of standard operational indicators provide the basis for relatively rigorous international analysis of performance of a number of microfinance organisations. This kind of *benchmarking analysis* is an accepted practice in business and used as a means to push performance upwards. The extent to which it can be used practically in SED is open to question but, without doubt, learning on the basis of transparent measurement is an important factor driving interest in indicators.

Figure 3: Monitoring and evaluation as feedback for project improvement



Box 3: Learning (and limits to learning) from microfinance institutions (MFIs)

The microfinance revolution has been built on rigorous measurement against a range of standard indicators that allow an objective basis for comparative performance assessment. Ranges of operational and portfolio indicators provide insight into MFI performance, among the most important being: the sustainability index, number of clients, number of loans, cost per loan, total portfolio size and number of clients per loan officer.

MFIs' experience with indicators (8) may have key lessons for SED broadly. For example:

- Focus on the things that can be measured, especially basic financial ratios;
- Use basic indicators to reinforce a managerial culture of efficiency; and
- Use proxy indicators of impact if direct indicators are too difficult or expensive

However, there are also limits to what can be learned from the microfinance experience:

- It's relatively standardised, permitting a benchmarking approach (whereas BDS is diverse);
- It's about money, and therefore inherently quantitative and measurable (BDS isn't always);
- It builds on a common consensus of the future picture for MFIs in a context of limited donor support and light government regulation (this consensus usually is not present with BDS).

How: the importance of process

Process is important in selecting indicators for the same reasons it is important in overall project design. An inclusive process can help to cement different stakeholders' ownership over objectives and clarify relationships (highlighting potential problems between stakeholders). Conversely, projects developed without transparency in indicators may sow the seeds of later conflict. Projects only become *real* when indicators are wrapped around them and their objectives and are given hard meaning as targets; only then is the nature of "the deal" apparent.

The process of selecting indicators as part of project design is beyond the scope of this guide. However, it is appropriate here to highlight the dangers of processes that do not result in clarity over indicators (Figure 4). While differences can be accommodated in an SED project, more basic contradictions cannot. Unless these differences are resolved at an early stage, they can damage the whole intervention process.

Figure 4: Differences in perspective over indicators

Same objective.........	.... different indicators from different perspectives	
To improve the competitive performance of MSMEs operating in a (specified) region	Donor Number (and %) of full-time new jobs created in SME sector	Facilitator % of MSMEs implementing significant and positive change related directly to the BDS
To improve the access of disadvantaged people to opportunities available from MSME sector	Donor Number (and %) of new jobs created for people from disadvantaged groups	Facilitator % of MSME customers purchasing BDS who represent targeted populations
To enhance the advocacy capacity of BMOs	Facilitator % change in business (member and non-member) perception of BMOs' role and effectiveness as advocates.	BMO % change in fee-paying membership
To improve effective and sustainable supply of BDS for MSMEs in a city	Facilitator Change in number of BDS providers offering unsubsidised services.	Provider % change in profitability from BDS

3. A PICTURE OF SED: WHAT IS IT THAT WE ARE TRYING TO CAPTURE IN INDICATORS?

This Section defines the picture of SED that indicators seek to illuminate. This consists of key actors at different levels, the main processes linking these, the changes brought about through interventions and the context within which interventions are set.

While we may be clear about the overall rationale for indicators and the function they can perform in SED, in order to bring more cohesion to where indicators *fit in* to SED, we need to be clear about what SED typically means in the context of Swiss aid. What is the process of SED that indicators are seeking to illuminate? Can we visualise SED and the position of indicators within it?

This is important. From the preceding discussion it should be self-evident that indicators in themselves achieve nothing! They are a means to an end and only this; as the philosophy of PEMT makes clear, they only have value if they can feed into learning and transference to action. Failure to take note of this basic point can lead easily to the familiar problem of "graveyards" of data. There is no point in looking at indicators in isolation from wider SED processes; they only have meaning in this context.

Moreover, while “bad” indicators in M & E often are diagnosed as a problem, more commonly, projects suffer from “bad” design. If the flow of logic contained in a project is not coherent or if a project's design does not observe key principles of good practice, then indicators won’t save it! All they may do is provide more clarity on its faults.

Any picture of SED should take account of the following aspects, illustrated in Figure 5:
a) Key actors at different levels
b) The main processes taking place linking the main actors
c) Changes brought about through SED interventions
d) The context

a) Key actors

SED interventions usually involve all or some of the following main actors.

<u>Facilitator:</u> this is usually an NGO or a consulting company contracted by a donor[3]. This therefore is the *intervening* agency, charged with designing and implementing a project. It seeks to facilitate progressive change to promote SED; to encourage sustainable and effective development among the other actors in SED. Facilitators are not (usually) seen as permanent agencies.

<u>Policy-maker:</u> governments, at local or national levels, are the key policy-makers in the SED environment, setting the governing framework for MSMEs and for providers offering services to MSMEs. They are also usually the providers of basic “public” services such as infrastructure. This corresponds to the MACRO level.

[3] On occasion the donor is also the facilitator.

Business membership organisations (BMOs) and providers: there has been a major change in prevailing thinking in this area in recent years. Whereas in the past, emphasis was given first to governments and then to BMOs as providers of (usually subsidised) services to MSMEs, now more importance is attached to the development of functioning, competitive markets of BDS around small businesses, with private sector providers taking the leading role. Increasingly, donor agencies regard the MESO level as being concerned not simply with the development of specific organisations but with the development of effective markets (Box 4). For BMOs, their role as providers of BDS is often limited, but they do have a unique role as advocates for their members[4].

MSMEs: the small enterprises that are the primary focus of SED interventions and who constitute the MICRO level.

The "beyond-enterprise" level: development interventions - including SED - are ultimately justified in relation to "big" development objectives such as employment generation and poverty reduction[5].

Box 4: Changing views of the meso-level in Nepal

There is a long history of donor agency support for SED in Nepal. In the early-1980s GTZ undertook pioneering work on training and counselling that eventually led to the development of the well-known CEFE model. In the 1990s, Swisscontact, supported by SDC, joined GTZ in becoming key players in SED. Throughout this period, a clear evolution is discernible in how agencies perceive the meso-level in SED:

- '80s-early-'90s: government and quasi-government organisations as the key deliverers of services (with donor and government subsidy for almost everything);
- early-late '90s: business membership organisations as the main players (with significant donor support for delivery);
- late-'90s-now: private sector and other market-oriented providers with market development as the overarching objective (and with donor support more focused on development rather than delivery)

Although perhaps less obvious in other countries, this shift in thinking that is so clearly evident in Nepal is representative of a wider trend that has major implications for indicator development.

b) The main processes

How do the above actors in the SED environment relate to each other? What are the processes that link them together? Several different processes take place (Figure 5):

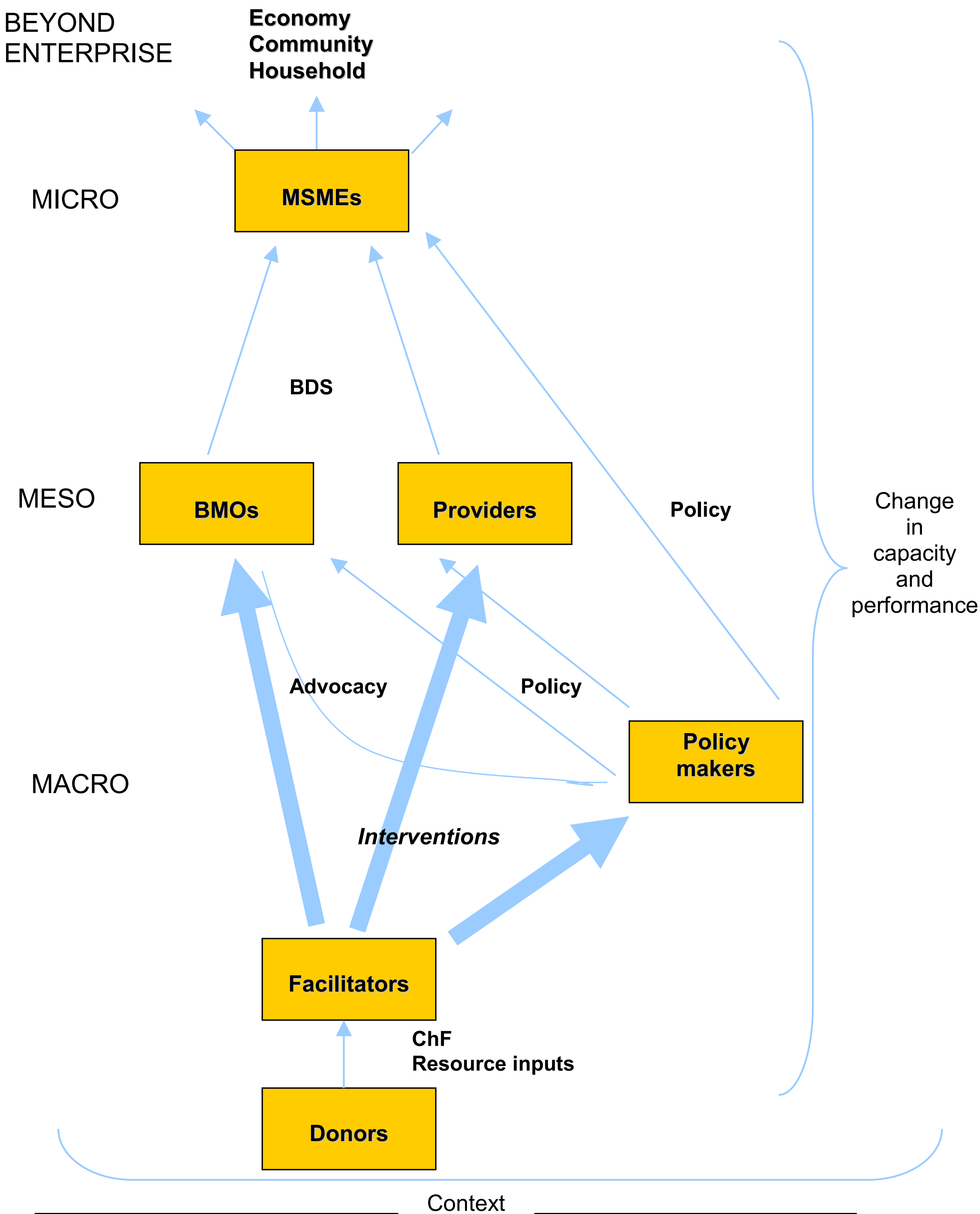
Donors to facilitators: resources in the form of money, expertise and equipment.

Facilitators to macro or meso situation: resources are manifested in the form of interventions through which facilitators seek to influence the process of SED. In practice, interventions are often mixed together in a way that makes categorisation difficult. However, we can differentiate between three broad types of intervention:

[4] Increasingly, BMOs' core roles are seen to be based around advocacy, information provision and facilitating networks - but capacities and traditions vary considerably from one country to another.

[5] The Donor Assistance Committee (DAC) has developed a range of basic indicators covering these core development objectives

Figure 5: The SED Picture: Actors, Processes and Changes



a) Macro-level interventions: these are aimed directly at improving the environment for SED shaped by the policies and actions of different arms of government. These may take the form of, for example, high profile policy studies and forums; public education campaigns; and capacity-building workshops with government personnel.

b) Advocacy interventions: these are aimed at enhancing the advocacy voice of MSMEs, usually in BMOs. The ultimate objective is to improve the policy environment for MSMEs and/or the providers of services to MSMEs. These may take the form of, for example, capacity-building for BMO leadership and secretariats; joint-workshops between BMOs and government; and sponsorship of studies on advocacy questions.

c) BDS-focused interventions: these are aimed at encouraging enhanced provision of different types of BDS for MSMEs. Their primary focus should be on addressing market constraints, on the supply and/or demand-side, that prevent the BDS market from functioning effectively. These interventions may take the form of, for example, vouchers, business centres, product development or information initiatives.

Macro and meso actors to MSMEs: interventions generally don't target MSMEs directly; rather they seek to reach them through working with policy makers, providers and BMOs. These players shape the SED environment through:
- Government policies (towards providers and MSMEs);
- The advocacy efforts of BMOs (towards governments and their policies); and
- Market-oriented BDS for MSMEs offered by providers and, to a lesser extent, BMOs[6]

c) The resulting changes
What should change as a result of SED interventions? What difference should they make to processes and organisations? Clearly, the specific answer to these questions will depend on the type of intervention. However, in general terms, SED is concerned with:

raising the **capacity** of key actors (governments, BMOs and other providers and MSMEs)

in order that

their **performance** can be improved

leading to

wider **benefits** for the economy, community and households.

d) The context
All of the above actors are within a context comprising everything on which the SED project has no direct power but which can influence the course of the project, either as opportunities or risks. Potentially, this can be a large list of factors and it is necessary to prioritise the most important of these in order to take account of them in a planning process. In general they will include, economic, social, political and institutional factors.

[6] Such as services dealing with market access, design, legal issues, financial management and communication

4. THE PERFORMANCE ASSESSMENT PRISM

This Section describes the four main dimensions of performance for any SED project - outreach, efficiency, effectiveness and sustainability - which form a prism through projects can be assessed. It gives examples of typical indicators for each of these and for the context, where a framework for assessing risk is presented.

Before looking at how to develop specific indicators to assess SED projects, it is important to reach a common understanding of the broad *dimensions* of performance in which we are interested (i.e. *breaking down* what we mean by performance into a number of key parts). This should provide the general framework through which indicators can be developed; a first filter or prism through which all SED interventions should be viewed[7]. Donors generally consider four main dimensions of performance in SED (3).

a) Outreach: how many (breadth) and who are they (depth)?

There are two aspects here. First, outreach concerns the quantitative scale of a project; the numbers of people, MSMEs or suppliers touched by an intervention; the *breadth* of a project. For example, how many providers have begun operations in the market? How many MSMEs are purchasing services? How many employees are working in these MSMEs? Second, it concerns the identity of people, MSMEs and suppliers touched by an intervention; the *depth* of a project. For example, how many providers are owned by women? How many providers are owner-managed businesses? What proportion of businesses represent targeted groups - microenterprises, disabled etc?

Outreach can be related both to the output (what a project delivers directly by itself) and purpose (what it enables others to do) levels of a logframe. Typical indicators of outreach in a SED project might include[8]:

<u>At the output level</u>

- Number of providers receiving project technical assistance
- Number of BMOs participating in training programmes

<u>At the purpose level</u>

- Change in number of MSMEs owned by women buying provider services (*depth*)
- Change in number of BDS providers offering services relevant to MSMEs (*depth*)
- Change in number of BDS products being offered (*breadth*)
- Change in size of fee-paying BMO membership (*breadth*)
- Change in aggregate market size (*breadth*)
- Change in number of organisations engaged in policy-making change (*breadth*)

b) Efficiency: are we doing things right?

This is a measure of the rate at which inputs are turned into outputs; a comparison of costs against certain outputs. For example, total project cost per MSME reached or per product developed. This principle is also sometimes extended to cover the cost of achieving specific impacts, for example, cost per job created. However, as we will see later, there are often serious weaknesses in these indicators that undermine their

[7] These dimensions could be used for *any* organisation's performance, not only SED projects using the logframe
[8] Indicators are presented in summary form

usefulness. Efficiency is concerned directly with the *productivity* of a project at the output level. Typical indicators of efficiency might include:

- Total project cost per MSME customer reached
- Total project cost per provider assisted
- Proportion of facilitator resources devoted to direct "services" to partners
- Change in BDS provider productivity

c) Effectiveness: are we doing the right thing?

This is concerned with the extent to which an intervention's *higher-order* impact objectives are being achieved. It is not therefore concerned with the extent to which it is delivering its stated outputs but rather about changes in the *real world* - in organisations such as providers, in MSMEs themselves and indeed on the communities and households beyond the enterprise. Effectiveness is about impact *caused* by a project on the world it is seeking to influence. In relation to the logframe, effectiveness is concerned with the achievement of objectives at the purpose (and goal) levels.

In practice, there can often be an overlap between indicators of sustainability and effectiveness at the level of the provider - for example, change in the proportion of costs covered by fee-paying services might be equally be classified as impact or sustainability - but this doesn't really matter. Typical indicators of effectiveness might include:

- Change in customer satisfaction levels
- Change in % of MSMEs improving practices as a result of BDS
- Change in MSME-related policies and regulations (and their implementation)
- Change in average profitability of BDS providers
- Change in BMO representation in economic development committees and organisations

d) Sustainability: will it last?

Sustainability is "the capacity to ensure that benefits continue beyond the period of an intervention". It is therefore about the capacity of organisations and the services they offer to MSMEs. In SED there is considerable debate over what sustainability really means. For example, how, if at all, do we try to take account of those aspects of sustainability that are not *immediately* concerned with financial performance such as product development and managerial capacity? The picture is further complicated by the involvement of subsidies given by governments[9]. The important issue with indicators of sustainability is that they offer transparency in any situation. Sustainability indicators - like effectiveness - are located at the purpose (and goal) levels. Typical indicators of sustainability might include:

- Change in % of total annual BMO costs covered by revenue from membership sources
- Further "positive" policy changes beyond initial project period
- Continued high levels of customer satisfaction beyond initial project period
- Continued growth in aggregate BDS market size beyond initial project period

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[9] The SDC tool - Designing and implementing BDS interventions - provides a framework to develop a transparent view of sustainability in SED.

e) Context: what are the external factors impinging on performance?

Although not fitting in within the above criteria, it is also appropriate at this stage to consider the assessment of the context for a project. Obviously, indicators of a project context are different from those related to project performance and require different measurement processes. The initial process of project design should identify critical external factors that impinge on project success and state clearly the assumptions being made about these in the design. Indeed, indicators are usually formulated as assumptions in a logframe. While it is important that projects do scan the environment for opportunities and risks, discipline is necessary to focus on priority indicators. Inevitably, many of these are qualitative in nature.

Typical indicators of context might include:

- Attitudes and actions from other donor agencies to intervention approaches
- Degree of "undermining" of BDS market by welfare-oriented NGO subsidy
- Condition of labour market for motivated and skilled personnel for facilitators
- Broad macro-economic conditions
- Broad political conditions

A common error in SED project design and management is to underestimate the importance of the project context. We often look passively on the project environment rather than seeking actively to monitor it (and therefore make appropriate changes if necessary). Certainly, planning tools such as the logframe can only work if our assumptions of the project context, manifested in indicators, are reviewed regularly. One useful way of clarifying the *riskiness* of assumptions/indicators is with respect to their:

- *criticality* – the extent to which these are crucial to the project's outcome; and

- *probability* – the extent to which these are more or less likely to fail and so undermine performance

Together these form a simple matrix that helps to focus and prioritise key contextual issues (Figure 6). One of the advantages of the logframe is that it forces project designers to focus on the most important factors ("killer assumptions") in the external environment and to monitor the probability of them changing.

Figure 6: Criticality and probability in assessing factors in the project context

Criticality	High	Low
Low		
High	Killer Assumptions	

Probability

5. THE KEY QUESTIONS CHECKLIST

This Section describes the key questions to be asked when developing indicators. Although in practice trade-offs will always have to be made, together with the performance prism, these form a framework of factors that help to define "ideal" indicators in SED.

Balancing the ideal with practical realities

Given the initial filter of key performance criteria, we then need to consider more detailed questions to ask in developing indicators for SED. Together these form an ideal checklist of factors (Figure 7) that should be taken account of in project design and implementation. Again, many of these are not unique to SED *per se*.

Of course, it should be emphasised that, in practice, SED projects always have to focus on the most useful indicators. Limitations in resources and data mean that projects need to make choices over what factors are most important. For example, while we may "like" to know about impact among final beneficiaries beyond the enterprise, in only a few situations is this likely to be affordable. There are always "trade-offs" in M & E and in indicator choice. This does not mean that the following list is irrelevant. On the contrary, practical concerns mean we should always prioritise on what we "need to know".

a) Are they relevant: throwing light on the right area

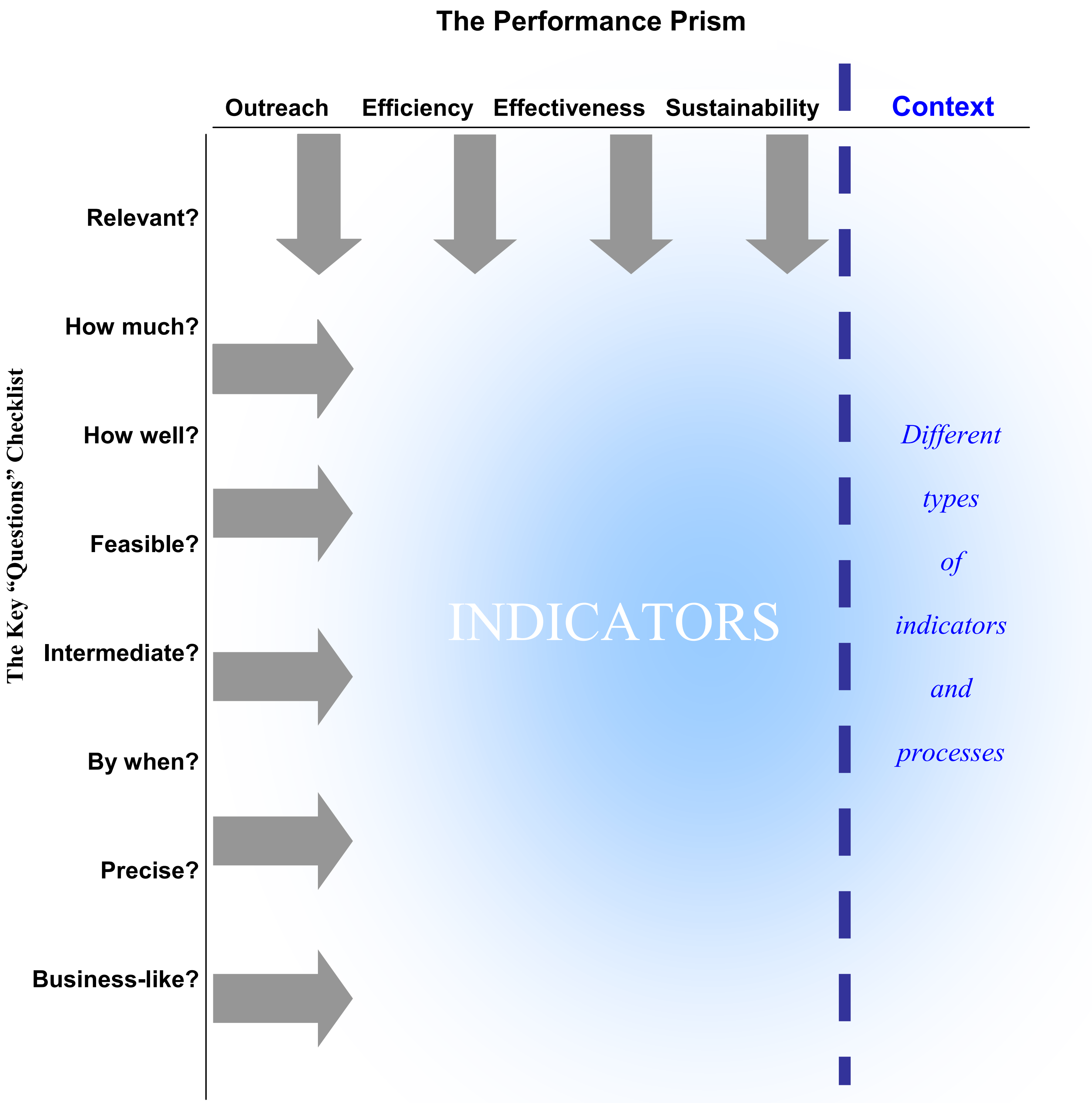
Indicators only have value if they are related directly to the objective they are seeking to measure. It is common in many projects for objectives and indicators to be mismatched. The example on Figure 8 illustrates a typical problem associated with capacity-building projects, where the project counts its own outputs as indicators of capacity development rather than changes in the organisation that have resulted from the project; i.e. the project has not distinguished between cause and effect, between outputs and impacts.

Figure 7: Relevance in indicators

Objective		Indicators
To increase the advocacy and other service-providing capacity of a business membership organisation (BMO)	✗	• Number of training sessions conducted by project for BMO staff and office bearers • New equipment supplied to BMO • Number of hours of technical assistance provided to BMO • Number of joint workshops conducted with government and BMOs.
	✓	• Number of new organisational changes directly attributable to project inputs • Change in range of services offered to members • Change in fee-paying membership • Change in proportion of total costs covered by fees.

Relevance, of course, depends on perspective and objectives. To be valuable, indicators need to be relevant to all the main levels and actors in SED. Donors may want indicators that can "prove" impact; facilitators stress indicators that help them improve their interventions. Identifying needs of different groups and specifying indicators to capture these is a key aspect of the process of indicator definition. Indeed, in developing management information systems, needs identification is the first step that should be

Figure 8: Selecting indicators in SED: the performance prism and the key questions grid



taken. Information needs assessments will usually show that there are considerable linkages between different levels; for example, performance at a provider and SME level is also relevant for facilitators (Figure 9).

Figure 9: Key indicators for different levels a business centre programme

	Outreach	Efficiency	Effectiveness	Sustainability
Facilitator (Swisscontact - SC)		A. SC selection cost for BC B. SC admin cost for BC C. SC performance incentives for BC D. Other SC investment in BC E. SC HRD cost for BC F. SC TA cost for BC G. % of SC TA hours for BC	H. Return on donor investment Other indicators that are a proxy for intervention effectiveness: BC outreach (I, J) BC sustainability (S,T) BC effectiveness (Q,R) MSME level indicators (W,X)	
Business Centre (BC)	I. Growth in client base J. Female clients: total clients ratio	K. Revenue-earning staff: total staff ratio L. Capacity utilisation M. Staff productivity N. Fixed asset productivity O. Staff cost: total overhead ratio P. Fixed cost: total overhead ratio	Q. Client repeat purchase rate R. Turnover direct from MSMEs: total turnover ratio Other indicators that are a proxy for BC effectiveness: MSME level indicators (W, X)	S. Contribution margin T. Net profit margin U. Source of BC capacity (internal: external) V. Focus on core competency
MSME			W. % clients purchasing BDS for first time ever X. % change in clients giving positive satisfaction rating	

Source: Swisscontact Indonesia

b) How much?: ambitious yet achievable

While it is important that indicators contain targets, what should the value of these be? Generally, project designers are urged to set targets that are realistic; in other words, that represent a *reasonable* level of expectation over performance. In SED the main problem of target setting is that there are few real benchmarks to guide us (as yet) over what is reasonable performance. In the absence of these "industry standards", more emphasis has to be placed on accurate target setting within the process of project design. This is really an issue of project design more generally rather than indicators specifically[10].

c) How well? - the quality dimension to performance

One of the most common failings in indicator selection is the absence of any "feel" for the quality of change that has been brought about by an intervention. Indeed, many project managers feel that it is always easier to count tangible things - people, money etc. - than to assess quality. Yet, often the main reason for a project is to improve the quality of SED and if we avoid this we ignore the *raison d'etre* of the whole intervention.

[10] There are currently a number of initiatives aimed at the development of improved data to allow more informed comparison between SED projects.

Moreover, often quality-focused indictors are themselves quantitative! Qualitative indicators should not be confused with indicators that tell us something useful about quality. Figure 10 illustrates the point for a training organisation that has been supported (in some way) to enhance its services. One common indicator could obviously be number of trainees; to know more about the quality of the training, a range of options exist. An alternative view of quality emphasises provider qualifications and standards, an approach pursued, for example, in public education and through ISO standards. While there may be benefits in this approach there are also potential disadvantages (Box 5)

Box 5: Whose standards (indicators) count?

A national enterprise promotion agency was established by an African government to co-ordinate and enhance non-financial services for MSMEs in the country. At the core of their work was support for localised providers of services. This support took two main forms: capacity building/financial support and accreditation. Under this last form of support, providers that met certain standards in relation to services, facilities, approach and personnel were given a formal badge of approval – *accreditation* – by the agency.

In 1999, agency staff visited a provider seeking accreditation. It had a small office, basic furniture and equipment, no vehicles, operated without subsidy and had a small number of staff sharing the same room who were kept very busy by a regular stream of clients wanting services and paying a commercial rate for these. Nearby, an officially accredited provider had more spacious and well-furnished offices, vehicles, operated with a generous subsidy from the agency (and others) and a peaceful atmosphere in the office untroubled by too many visits from potential clients.

Staff eventually decided that they could not offer approval to the first provider since it did not conform to the requirements of the accreditation standard. However, they were uneasy at the implications of this. Clearly, many MSMEs deemed it to be useful and said so with their payments for services. By MSMEs' standards, it was valuable. By the agency's standards, it was not acceptable whereas an underused, high cost, subsidy dependent and out-of-touch provider was officially classified as valuable. Agency staff wondered openly whose standards really mattered; MSMEs or their own?

Figure 10: Alternative qualitative indicators for a training organisation

Quantitative indicator	Qualitative indicator	Comments
No. of trainees	a) Change in selling price to clients relative to market average	*Proxy indicators for quality: higher prices indicate stronger willingness to pay and higher valuation from clients. Clients returning for further training do so because they are satisfied and want more.*
	b) Change in price in relation to direct costs	
	c) Change in % of repeat clients	
	d) Change in % of clients assessing the programme "excellent"	*Easy to collect but notoriously unreliable: so-called "happy sheets" tend to overestimate the quality of a programme.*
	e) Change in proportion of clients using training to improve business practices (as defined by provider)	*This requires follow-up and therefore can be expensive but provides the best direct means of assessing usefulness. Can be combined with customer research to feed into product design.*
	f) Change in customer satisfaction	*Requires systematic follow-up but can be combined with (e) above.*
	g) Change in % drop out rate	*For longer courses, especially if there is only a limited amount paid*

d) Is it feasible to measure?

As with all planning tools, the logframe approach requires that projects are developed incrementally and logically, with each section being linked to the next. Thus it is important that in specifying indicators we take account of column 3 in the logframe, the methodology for assessing actual performance against these. There is no point in defining indicators that cannot be measured; if this happens the whole planning process loses credibility. A basic rule therefore is that indicators need to fit our own capacity for measurement. Three implications flow from this statement:

1. Organisations need to have a clear view of the approximate cost of methodologies associated with different indicators. For example:

- Indicators dealing with change at a MSME level: often require that MSMEs are visited specifically for this purpose; this is expensive unless there are other valid reasons (such as counselling to follow-up training) why visits are taking place.

- Proxy indicators - such as price as a sign of consumer satisfaction - are relatively cheap to measure.

- Indicators dealing with wider economic development - net economic impact, new jobs created in the economy - may involve complicated economic analysis that is expensive in terms of data collection and technical expertise requirements.

2. Organisations need to have a clear idea of the resources they can devote to measurement, not just in terms of cost but in relation to expertise. This involves an honest assessment of their own capacities. A common tendency for donors is to overestimate what they can achieve and to assume that a simplified attempt at measurement can at least offer some guidance, that *something* is always better than *nothing*. This is incorrect; simplification can easily slide into misleading distortion.

Box 6: Text book donors out of touch with reality

A national NGO in Africa was set up to work with criminal offenders released from prison and help them (and their families) to set up MSMEs. Most had no business experience or skills; some were illiterate, many were mistrustful of authority and the kind of businesses they set up were informal and household-based.

In the mid-1990s the organisation received funds from a donor for a 2-year project. At the end of this period, an external consultant was hired to undertake an evaluation. The terms of reference were written by the donor project officer and defined the indicators against which performance was to be assessed. This included the following indicators: “cost per improvement adopted by client”; "ratio of client profit increases to total cost of service”; “ratio of client investment to total cost of service” and “cost per job generated”.

While these indicators indicated a keen interest from the donor in finding out what was going on, they also displayed a dangerous level of detachment from the reality of the organisation’s work. In reality, the nature of these types of businesses and clients meant that it was impossible to estimate performance against these indicators accurately. And although the consultant tried, his “guesstimates” were of little value to anyone.

A later review of the whole process criticised the indicators contained in the terms of reference, concluding that they were so unrealistic for this situation that they had prevented any real learning from taking place.

3. Organisations need to select methodologies appropriate to the data readily available. A common failing is for donors to (sometimes unilaterally) fix indicators that reflect a fanciful “text book” ideal (Box 6). In many situations, MSMEs don't know or don't want to divulge information. If indicators are defined that are overly ambitious, evaluators often respond with highly subjective assessments of limited utility.

e) Are there "intermediate indicators"? - the path to the bottom line

In SED we are concerned with improving the performance of MSMEs and so, naturally, it is common for SED projects to specify indicators that appear to reveal "bottom line" indications of performance such as, for example, employment or profitability. One of the main problems with this type of indicator is that they disguise the complexity of the path from service to impact. Figure 11 illustrates the point for a marketing training programme. The route from training programme to impact has several stages: attending training, learning, using this in the business (perhaps a revised marketing approach) resulting in a positive impact on business profits. However, self-evidently many other factors can affect this process. In fact, as ever with MSMEs, wider economic trends are likely to be more important than any single action of a facilitator. Quite conceivably, in this example MSMEs use learning in a positive way but because the economy has slipped this is not manifested in higher profits. Assessment of the programme in relation to this indicator might therefore suggest (wrongly) that it had not been successful[11].

To overcome these problems, intermediate indicators that focus on change closer to the point of service delivery can be important. Here there is a more direct cause and effect relationship and the risk of external factors "spoiling" findings is reduced. This is also a key argument for using market proxy measures; they circumvent the need to measure precisely by placing "evaluation" in the hands of the MSME client.

Figure11 can be applied to most types of SED intervention. For example, in market development situations, MSME customer awareness of available BDS could be perceived as an intermediary step towards greater use. And in advocacy situations, MSMEs' awareness of key problems could be seen as a step toward action to solve them.

f) By when? - giving indicators a time frame

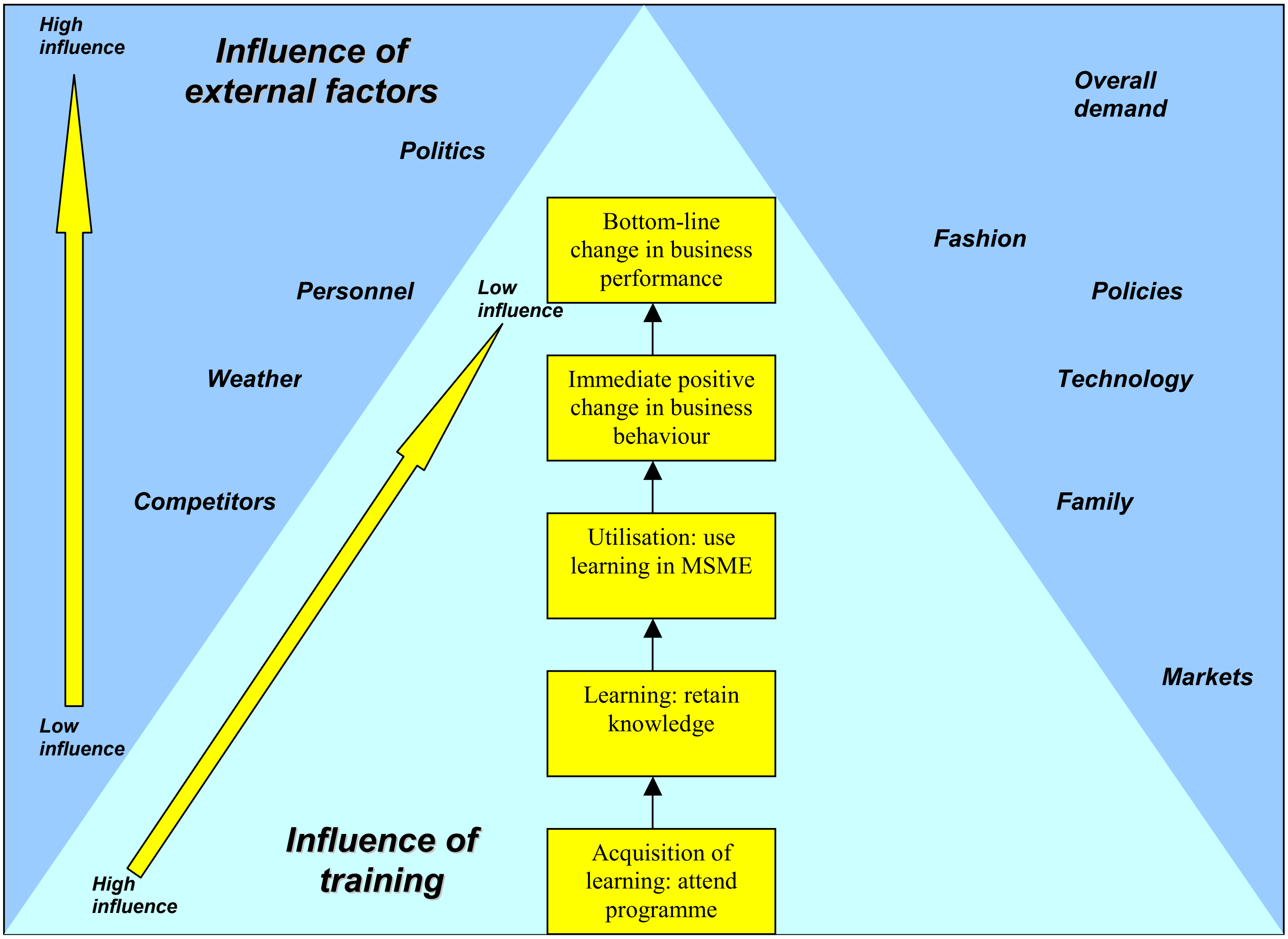
SED projects may well spread over several years and phases. The nature of indicators for each phase as well as the targets contained within them will clearly change over the period and this needs to be reflected in project plans and M & E.

g) Is it precise? - "tightness" in definition

Indicators in SED need to be defined as precisely as possible for two related reasons. First, it is indicators that give shape and meaning to any SED project. While it may be quite permissible to have some *generality* in objectives, if indicators are also loose, projects lack focus. Second, without tight definition of indicators, there is a danger of a vacuum at the heart of projects; instead of clarity for all stakeholders there is confusion

[11] In principle, use of control groups may address this problem but this is too expensive/difficult for most SED projects.

Figure 11: The influence of external factors versus training on business performance



and little rational basis for comparison with other SED projects. Without precision, indicators fail in their core function of illuminating reality (Figure 12).

The immediate priority in defining indicators is to focus on information that *can* be defined relatively easily; costs. There is no great methodological issue here; this is a matter of management discipline yet strangely these are often not well defined. Costs are a key part of efficiency and sustainability indicators as well as feeding directly into pricing decisions for market-oriented providers. In any situation, costs can be defined in a number of ways but the important point is for transparency in how costs are presented.

Extending precision to other types of data is more difficult, especially when focusing on impacts that differ from one situation to another. One key lesson from microfinance is to focus on common indicators and to use ratios rather than actual numbers to define change. For example, among the main indicators for market development in BDS are percentage change in: market size; market penetration; number of providers; and market distortion. Potentially, these indicators have wide application across different situations.

Figure 12: Precision in defining indicators

Lazy and loose	Tight and precise
% financial sustainability of a business membership organisation	% of total annual costs (including depreciation costs) covered by revenue from membership fees, services sold and other private sources.
% productivity change in business centres	% change in contribution of gross profit to cover consultant salary costs
% change in SME customer satisfaction	% change in SME customers reporting "exceeded expectations" in a random sample survey.
% growth in a business membership organisation	% change (year-on-year) of total businesses paying full membership fees in business membership organisation.

h) Is it business-like? - the overarching need to "think business"

A key principle underpinning good practice in BDS that has important implications for all aspects of SED is the importance of being business-like in relation to intervention design, partners, objectives and relationships. For indicators also, this principle is significant: indicators need to be business-like. Four points suggest what this might mean in practice:

1. Indicators should be *tight*, especially in relation to financial information, to provide a clear basis for relationships and performance assessment;

2. Indicators should focus on business priorities: we should not undermine the central business-like message to organisations by burdening them with the cost of measuring indicators that are beyond any real business need. This sends mixed messages and is also completely unfair! For example, asking providers to assess their MSME clients' financial performance does not serve them in a useful way; they don't need it.

3. In some cases, it may be possible to combine providers' needs for customer feedback with facilitators' needs for impact-related information. For example, market research tools may serve both purposes[12].

4. In prescribing indicators for change at MSME-level, projects need to be careful that they reflect business realities. In particular, despite the insistence of many donors, MSMEs do not exist primarily to employ people! Improved business performance is likely to be manifested in other ways rather than employment (Box 7). This does not mean that MSME development will not ultimately lead to higher employment; rather it means that the route through which it does so may not be as direct as envisaged.

Box 7: MSME performance improvement means what?

A project promoted by a donor in the 1990s focused on the provision of a variety of non-financial services and information to support MSMEs, especially in relation to export competitiveness. The project worked in several countries in three continents and was the subject of a major evaluation exercise. Key indicators for the project were, first, employment change and second, improved exports. In Africa, it was found that firms were able to use some project services to improve their efficiency and competitiveness. However, these efficiency gains had often resulted in reduced employment and stronger performance in domestic markets. This left evaluators with a problem: did these findings mean that the project was or was not successful?

[12] This idea has also been advocated in microfinance circles

6. INDICATORS IN THE LOGFRAME: SOME EXAMPLES

This Section provides four logframe-based examples of indicators in different project situations, highlighting the practical use of the performance prism and key questions checklist.

Ultimately, if indicators are to be of any value to project designers and managers they need to be used practically within the planning and M & E tools that SDC and its partner organisations use in their work. In this section we try to see how indicators can be developed that take into account the main dimensions of performance and the checklist of key questions. Examples are given for projects focusing on (1) business centres, (2) macro-level interventions, and (3) capacity building for advocacy. Finally, an example (4.) is given of how indicators might be used in defining the project context.

Several points should be made at the outset:

- Logframes are only a summary of project designs: not all the indicators associated with each project are given and some simplifications have been made in the definition of indicators.

- For reasons of space, columns 3 and 4 have been not been included here. In practice, indicator selection and definition is influenced by analysis of external factors (column 4) and the means of measurement (column 3).

- Indicators are included for the goal, purpose and output levels: in practice the outputs and purpose levels are the most important. Often goal-level indicators are too difficult or expensive to measure.

- Comments on each logframe focus on the extent to which indicators address the key performance dimensions and questions checklist and highlight any weaknesses and/or assumptions.

- While these are all fictitious projects, all of them draw on real in SED projects

Logframe example 1: Indicators in a business centre (BC) project *

This BC project focuses on developing the capacity and performance of providers (of a range of BDS). it is not aimed at the wider development of a BDS market (although it could be) and the indicators identified therefore do not address market development. The project is based around a tight, business-like relationship between facilitator and BCs and the indicators focus and shape this relationship. Key activities include the development of tendering processes and the project's "offer" to BCs in the form of financial incentives, HRD and TA.

	Narrative summary	Indicators -by end of project period	Comments
Goal	To enhance the performance of MSMEs in selected districts	a. Overall increase of x% in MSMEs receiving BDS from business centres. b. X% increase (and number) in MSMEs acquiring BDS for first time c. X% increase in MSME customer satisfaction with BDS d. X% of MSME clients changing business practices related directly to BDS	*Outreach and effectiveness are measured directly.* *Improved customer satisfaction and added-value contribute to greater sustainability.* *Efficiency is assumed to follow from changes in business practices.*
Purpose	To improve the performance of providers of BDS to MSMEs in selected areas	a. 8 out of 10 BCs record at least 50% growth in new direct clients b. Total cumulative growth in BC clients of 20% (per reporting period) c. 8 out of 10 BCs increase their capacity utilisation by 30% d. BCs average capacity utilisation (no. hours sold divided by hours available) is over 60%. e. 8 out 10 BCs record net profits of at least 10% of turnover f. 8 out of 10 BCs have introduced "significant change" in operations attributable directly to TA or HRD g. 8 out of 10 BCs have increased the proportion of their turnover derived from top-selling 2 products.	*Both BC and the donor share an interest in same indicators; practical and business-like.* *Higher profits (e), greater focus (g), growing efficiency (c,d) and higher outreach (1.2) should all contribute to sustainability.* *All of these require a close relationship between the facilitator and BCs; this may be a safe assumption here - but often in SED it won't be!* *Indicator f. is an intermediate indicator.*
Outputs	1. BCs selected (in agreed target areas) through a competitive tendering process 2. Financial performance incentive support delivered successfully 3. HRD support delivered successfully 4. TA support delivered successfully	1.a 10 BCs are selected 1.b Cost of selection process per BC is less than 10% of total BC support cost 2.a 10 BCs receive financial support at no less than 80% of performance-related targets. 2.b Cost of financial support per BC is 30-40% of total BC support cost 3.a 10 BCs participate in two HRD training events per year 3.b 90% of participants judging HRD events to be "excellent" 3.c Cost of HRD support per BC is 10-20% of total BC support cost 4.a 10 BCs receive on-going TA 4.b Cost of TA per BC is 15-25% of total BC support cost Project admin support cost is less than 20% of total BC support cost	*Major focus is on outreach and efficiency (costs-based indicators)* *2a is a proxy indicator for quality since BCs only receive financial support when they they have performed according to agreement.* *3b seeks to be a quality indicator for HRD but, if administered wrongly, can be easily manipulated.* *A clear weakness is the lack of any quality indicator for TA*
Activities	Not listed	Budget (CHFr)	

* Draws on Swisscontact's business centre projects, especially in Indonesia

Logframe example 2: Indicators in a macro-level policy project*

This project's main focus is on macro-level policy change through direct interaction with key government personnel but also including "joint" endeavours with government and BMOs. Key activities to produce the stated outputs might include Contacts with key ministers /deputy ministers; meetings with key government staff to focus on agenda; agreement on list of core people within and outside government; training needs assessment of key units within Ministry; and priorities assessment exercise on project targets

	Narrative summary	Indicators -by end of project period	Comments
Goal	To enhance the performance of MSMEs	• Increased value-added among MSME sector (in financial terms and as % of total value-added)	*Usually not measured*
Purpose	To improve the policy environment for MSMEs	a) "Discernible, significant" changes in knowledge of policy-related issues among core personnel engaged in policy process b) Regular meetings arranged between key policy stakeholders c) Policy initiatives - in general sympathy with project aims - taken and led by government d) At least 75% of policy targets (agreed at project outset) reached e) Higher satisfaction rating from MSMEs and BMOs of government policy	*a), b) and c) are intermediate indicators related to capacity in the policy-making organisation of government.* *d) is a proxy indicator for government policy effectiveness.* *e) is a more direct market-focused measure of effectiveness although the relationship between policy provider and 2consumer" is not as clear as in "normal" market situations.*
Outputs	1. Public servants in selected ministries trained in policy-related skills and knowledge 2. TA support delivered successfully 3. Policy forums supported successfully 4. Joint research studies initiated and undertaken with key ministry and business association personnel	1.a X civil servants trained 1.b Cost per trainee is, on average, no more than CFr X 2.a X civil servants receive regular TA inputs 2.b Cost of TA is between x% and x% of total project costs 3.a One policy forum organised per year with maximum 75% costs borne by project 3.b Participation in policy forum of at least 80% of all "core" personnel from within and outside government 4.a 2 research studies undertaken 4.b Findings disseminated to reach all stakeholders in practical, accessible form. 4.c Cost of research studies (to project) between x% and x% of total costs	*Major focus on efficiency (costs) and outreach for each output.* *No quality indicator for training or TA; ultimately this is manifested at the purpose level.* *3a and 4c test partners commitment to the project (through a requirement for shared costs) and are therefore proxy indicators for perceived effectiveness.*
Activities	Not listed	Budget (CHFr)	

* Draws on various SDC and other bilateral agencies' experience in various countries

Logframe example 3: Indicators in a BMO capacity building project*

This project seeks to enhance the capacity and performance of BMOs in relation to (1) their areas of core competence (such advocacy, information and local economic development) and (2) broader management functions. Its focus is on the development of "products"; i.e. its analysis of "what's wrong" with BMOs is that they need to have access to better ways of delivering services and capacity to develop these. Key activities might include internal staff briefings and capacity-building exercises on approach; developing guidelines for new approach; explanatory meetings with BMOs; identification of resource people and local providers; materials development and testing ; and skill enhancement workshops.

	Narrative Summary	Indicators -by end of project period	Comments
Goal	To enhance the performance of MSMEs	• Increased value-added among MSME sector (in financial terms and as % of total value-added)	*Usually not measured*
Purpose	To strengthen the organisational capacity of BMOs, especially with respect to their core areas of comparative advantage	a) ***General:*** significant increase in knowledge of "how to" for all four main sets of products in at least x% of BMOs. b) ***Advocacy:*** positive change in approach to advocacy situations in at least x% of BMOs. c) ***Information:*** x of additional information-based products developed and delivered by providers without support. d) ***Local economic development:*** increase of x% in number of concrete economic development collaborations between key stakeholders. ***e) BMO Management*** i) Increase of x% in revenue from members directly ii) Increase in real size of membership iii) Increase in satisfaction levels among members of supported BMOs.	*a) is an intermediate indicator of knowledge based on the view that increased knowledge and learning will lead to more effective and sustainable capacity.* *There is a definitional problem with indicators a) - d). While this may be okay in a logframe (i.e. a summary of a project design), "significant increase", "positive change", "additional information-based products" etc. all need tighter definition. For example, "positive change" in approach to advocacy might be broken down into change in content and in activities.* *e i), ii) and iii) make the link directly between capacity and performance; i.e. enhanced capacity results in more members paying more fees and more satisfied with performance*
Outputs	The following products developed and delivered successfully to appropriate BMOs: 1. A set of ***advocacy*** products 2. A set of ***information*** products 3. A set of ***local economic development*** products 4. A set of enhanced ***BMO management*** products	For each of the four outputs: a) No. of products developed b) No. of workshops undertaken to deliver products (with BMOs meeting all local costs) c) No. of BMOs participating in each. d) No. of individual participants e) Cost of development is below x% of total project costs f) X% of participants judging workshops excellent or above. g) No. of BMOs requesting additional workshops on related subjects.	*The main focus is on outreach and efficiency.* *b), f) and g) seek to test the quality of the outputs by either requiring contributions or measuring the demand for more workshops.*
Activities	Not listed	Budget (CHFr.)	

* Draws on GTZ BMO project in Nepal

Logframe example 4: Contextual indicators/assumptions in a business linkage project *[13]

This project is focused on improving market access for MSMEs to other, larger businesses by overcoming key information and skills constraints. The project design rests on assumptions about key indicators in the external environment. The logframe only focuses on factors that are **critical** to the logical flow of the project from activities to outputs to purpose and goal. These form indicators that need to be monitored continually to assess the **probability** that assumptions are wrong. Less critical indicators are not assessed.

	Narrative summary		**Assumptions**	**Comments**
Goal	To enhance the performance of MSMEs in District X			*At the "top end" - purpose to goal - indicators are related to bigger picture economic and political issues over which projects have virtually no influence.*
Purpose	To improve the networks and linkages between businesses of different sizes in the District		Political and social stability is maintained Wider economic and financial factors permit business development	*Indicators from output to purpose are crucial; this is the link between what the project controls and the situation (business linkages) it seeks to influence.*
Outputs	Yellow pages style of information publication produced and disseminated widely Linkages events organised for businesses Skills development and knowledge awareness workshops delivered.		Other donor-funded interventions do not undermine project's key message Wider economic environment does not divert business from linkages benefits. Key opinion-formers in business and media remain positive to project	*In SED, one key problem area has been the actions of other donor-funded projects that can often undermine more business-like interventions with "soft and easy" money.*
Activities	Initial market research Analysis on nature of constraints Discussions with key business and opinion-forming stakeholders Materials developed Large business and MSMEs audits undertake Etc		External political and social factors do not undermine business-to-business and business-to-project relationships Labour market conditions remains stable allowing the project to retain and develop good staff Financial flows from donor are not disrupted.	*From activities to outputs contextual indicators are primarily related to internal factors such as people and resources.*

* Draws on NORAD, USAID and other donor-supported linkages projects in southern Africa

[13] Columns 3 and 4 have not been included here for reasons of space

7. BIG ISSUES (AND WHAT TO DO ABOUT THEM)

This Section outlines six inescapable, difficult issues associated with indicators and provides brief suggestions about how projects should deal with them.

Indicators in SED are not a precise science. Our efforts to introduce more rigour to indicators do help to improve the design and management of projects but they do not provide a mechanical formula that guarantees the "right" answer. In practice there are many difficult *big* issues associated with indicators that represent significant challenges for SED projects.

a) Impact worries that won't (can't) go away

The world of MSMEs that SED interventions seek to improve in some way is inherently complicated. MSMEs do not exist by themselves; they compete in markets against other businesses, have relationships with a range of suppliers, are influenced by government actions and are subject to the whims of consumers and market trends. Their world is complex. Indeed, often in small informal businesses where the distinction between business and household is blurred, this complexity is greater than in the formal sector.

This complexity poses great challenges for M & E and for impact indicators in particular. Two questions illustrate this point: if an MSME has changed positively apparently as a result of a project, how do we know that:

- This change wouldn't have happened without us anyway; that all the other myriad influences on a MSME have not caused change rather than a project alone; and

- This change is not at the expense of another MSME nearby; that it does not merely displace economic activity from one place to another without any real net addition.

These issues of *attribution* are <u>always</u> relevant in SED and while there are methods from social science - such as control groups and econometric techniques - that seek to isolate the influence of a project from others, in reality these are difficult and expensive to use.

<u>What to do</u>

- Recognise the complexity of impact assessment; whether we like it or not, this is the reality in which we are working.
- Follow the checklist of key questions (Section 5) to prioritise those things we need to know and can realistically know.
- Be prepared to make more use of market-based proxy indicators that can act as indirect measures of impact on MSMEs.

b) Proxies in market situations: the way we are going

At the heart of the emerging new approach to SED is the recognition that market development and market-based interventions are at the key to good practice in SED. Furthermore, many agencies now also recognise the difficulty and expense of measuring indicators of final impact on MSMEs, let alone social impacts. These two factors lie behind the growing importance attached to market-based indicators in SED; "proxy" measures of impact based around MSMEs' own assessments rather than someone else's (e.g. ours or an evaluators); i.e. an indicator that does not *directly* measure a phenomena but provides an *indirect*, substitute measure.

At the heart of every functioning market are relationships and dynamics that allow use of proxy indicators. The so-called *profit-demand-impact proxy* is the most important of these. This works as follows:

IMPACT
on the MSME is assessed by MSME consumers of a service themselves
(rather than an outsider) and shown in their purchasing decisions.

DEMAND
is the manifestation of consumers' valuation of a service (i.e. greater
demand means more positive assessment of impact and vice-versa).

PROFIT
successful providers of services will have most demand for
their services and this will translate into stronger profits.

<u>What to do</u>

- Accept that the market development logic driving SED must also be reflected in the selection of indicators.

- The logic underpinning market mechanisms provides a strong case for using proxy indicators of impact on MSMEs such as volume of transactions, number of providers and provider profitability, that are focused on providers rather than MSMEs.

- Invest in market information to provide the information base for project design and useful baseline data to assess change

- Use market research tools to develop a detailed assessment of business use, awareness and impressions of services. Developing competence in these tools should be a high priority for agencies (Box 8).

c) The jobs problem

One of the most common indicators in SED is numbers of jobs created by a project. Donors are often motivated to support SED interventions because unemployment is seen to be a major symptom and cause of poverty and social imbalance. Job creation is seen to be a visible, tangible symbol of progress. Moreover, bodies can easily be counted. In the uncertain world of indicators, there seems to be a satisfying certainty about jobs.

However, in practice, jobs created are often not the neat indicator of impact that, at first glance, it appears to be. Its apparent simplicity is an illusion. Indeed, although many project logframes contain jobs created as a purpose or goal indicator, there is widespread dissatisfaction with its use. Often agencies will confess (in private!) that they have little

Box 8: Market research tools: at the cutting edge of the new paradigm in BDS
Good practice in SED emphasises market development as an objective and as a frame of reference for projects. Interventions need always to be designed with good knowledge of existing market conditions. Past failures in SED have often been caused by weak understanding of the factors driving MSMEs (as consumers of services) and providers leading to inappropriate project designs. Enhanced knowledge of markets in BDS requires greater use of consumer market research tools. While in the past development projects have tended to use specially developed development tools - such as participatory action research - these have often proved inappropriate for a market focus.

There are a range of market research tools that can be used in BDS (11). Uniting all of these methods is their ability to put the MSME consumer at the heart of the analysis and to give their perspective its rightful importance. Using these tools allows projects (and providers) to gain information on market opportunities, supply-side constraints and market size. It allows us to gain a picture of (a) what the market is, (b) why it is this way and therefore (c) highlights possible areas for project intervention. Among the many specific indicators that market research tools can measure are, for example:

- Proportion of MSMEs aware of particular services and different providers
- Amount spent on BDS by MSMEs
- Proportion of MSMEs satisfied with different features of services
- Proportion of MSMEs satisfied with providers

All of the above can feed directly into design and M & E. Working with these is a key challenge for SED projects not least because they actually do require that we listen to MSMEs rather than prescribe ourselves what we believe is "good" for them!

faith in the accuracy or value of the figures that they produce. There are a number of serious problems with the jobs created indicator:

- Not a business indicator - as earlier pointed out, employment for business is a means to an end; not an objective in itself.

- Nothing on job quality: is it part-time or full-time? Seasonal or permanent? Skilled or non-skilled?

- Nothing on attribution: is it a genuinely "new" job caused by a project?

- Nothing on the identity of the persons being employed: are they from a disadvantaged group? Were they previously unemployed or employed elsewhere?

- Nothing on earnings: family "employees" in businesses may receive nothing; informal sector apprentices often pay for training they receive in the working process.

All these factors are not only difficult to measure but have huge implications for the real value added to an economy by a project. Usually we don't really know what a "job created" means. Clearly, it may mean different things from one situation to another.

<u>What to do</u>

- As a direct, general indicator of project impact, job creation is unlikely to be most important in SED situations and it should not be used in this way. Market-based indicators are more likely to offer a reliable general measure of impact.

- Focus efforts more intensively on a small number of clients and for these develop a detailed picture (a case study) of how a project has influenced them thus gaining a closer insight into the employment dynamics of MSMEs.

- If we (or key stakeholders) need to know precisely and accurately about job creation, let's look separately. This will be expensive and probably needs to be managed and resourced outside "normal" projects.

d) The no baseline problem

Indicators assessing change resulting from a project require a comparison to be made between two points in time: between a *project off* scenario and a *project on* scenario. This is more than a simple "before and after" comparison (which can be very misleading); it means looking at change *apparently* caused by a project relative to what would have happened without the project. If a project has no baseline information outlining the SED picture at the start then it is difficult to make sensible comparisons over time and to draw conclusions over the project's progress. Yet, often it is the case that projects proceed without basic information on the situation that they are seeking to influence. Later attempts to assess progress are left "hanging", unable to make valid comparisons with previous measurements.

<u>What to do</u>

There should be baseline information! If a project has no baseline data concerning the SED context that it is seeking to improve one has to ask how successful it can possibly be! Baseline information does not necessarily imply that a survey of MSMEs is undertaken; it does mean that a project has good information on the problem that it is seeking to address; i.e. the financial performance of providers, level of transactions in the market place, existing advocacy activities etc. Interventions need to be grounded in SED realities; if there is no baseline information they probably aren't.

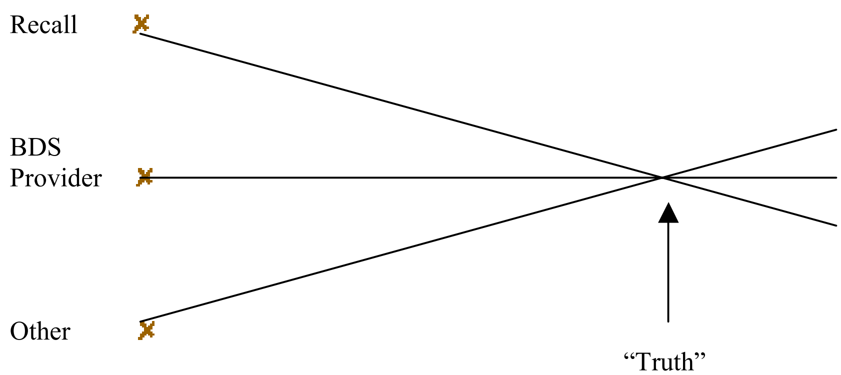
If there is no baseline established at the time of project design, be innovative. Gather information - both qualitative and quantitative - from a variety of sources and triangulate these to gain a *reasonably* accurate picture of the base situation. For example:

- Recall: either in individuals or groups, asking people about their recollection of a situation and what would have happened if there had been no project. Of course, this approach runs the risk of enticing people to say what they think they want you to hear ("the project has been wonderful") or indeed to distort their memories to suit their own ends ("the project has been awful") but skilled evaluators should be able to detect these weaknesses.

- Written records in partners: BDS providers, BMOs and governments should all have written records of some kind that throw light on *where they were* at the start of a project.
- Other written and verbal sources: especially in more developed economies, there may be general economic and other data that can be drawn on.

Triangulating these involves comparing the picture emerging from each source and reaching a compromise view that is relatively free from the biases of each individual source.

Figure 13: The (simple) logic of triangulation



e) Time has a value: how to account for it?

Efficiency - the comparison of inputs with outputs - is one of the main performance criteria in assessing SED. If we are serious about making this comparison, one clear implication is that development agencies implementing SED projects need to allocate their costs to different outputs or partners. This includes the costs of their own staff time which may be a considerable proportion of total costs. This suggestion is sometimes deemed to be impractical or bureaucratic by facilitators. However, if they are to become genuinely more business-like in their operations[14] this is precisely the kind of discipline that is required to ensure that limited resources are allocated appropriately and that the cost base of operations is transparent.

What to do

Facilitators - unless they are extremely small - should develop an accounting system that allows project expenditure to be allocated to key partners. This will usually require that, among other actions, a time sheet system is introduced to categorise the use of staff time.

f) The troublesome capacity question

Raising the capacity of partner organisations – such as BMOs, BDS providers or government departments – is often an objective in SED but, from a measurement perspective, is also one of its most difficult issues. Capacity building efforts can sometimes appear to be limitless black holes consuming resources with small returns. One of the key problems is the difficulty of defining what is meant by capacity building. There are several aspects here:

- Capacity building is a means to development ends, not an objective in itself; it is the route to achieving improved performance. This *intermediate* nature of capacity

[14] This is the direction urged on facilitators by BDS good practice principles

building means that *bottom-line* measures – improved advocacy, profitability or policies – that should be the ultimate manifestation of enhanced capacity may not be immediately appropriate.

- Attempts to break down capacity into smaller elements often result in a series of administrative functions/systems being identified as the *building blocks* of capacity – accounting, staff appraisal, service manuals etc. – that somehow miss the key qualitative dimension of organisational capacity (approaches to capacity building driven by ISO 9000 can have this effect).

- People – individually and collectively – form the key resource in many organisations and unfortunately, despite the best efforts of business investors and recruitment agencies, their capacity (skills, motivations, attitudes etc.) is not easily tied down to tight and widely applicable indicators.

All the above factors are unavoidable in relation to capacity building and mean that there is no set of universal indicators that can be used to assess it. However, there are still approaches to indicator development and to monitoring and evaluation of capacity building that are rigorous and useful.

What to do

Follow three basic steps in indicator development for capacity building:

1. Break down "capacity" into its main components such as vision, ownership, linkages, technical ability, service offer etc (12).

2. Within these groups, develop a set of key questions/issues. This has to be a prioritised list that focuses on the most important points only.

3. Within this, include a number of closed questions that allow yes/no or numerical responses and permit some comparison between organisations.

In some situations, projects have taken the above approach a further step, by allocating numerical weightings to responses so that it is possible to produce a final "score" for organisational development. While this approach may be useful for specific situations where organisations are alike and the project can use the same basis for more subjective judgements, it is not appropriate for wider use.

While it is frustrating to many that organisational capacity development cannot be reduced to a standardised universally-applicable scoring sheet, this – regrettably – is a reality. Beware those who say otherwise!

Appendix 1: Understanding and using logframes

Logframes[15] are the most widely used planning tool among development organisations generally as well as those engaged in SED. An understanding of how to use logframes assists not only to design and implement coherent successful projects but also to position and develop appropriate indicators within projects. Logframes *can be* a complex subject but a number of basic factors are critical to clarifying what they are and how they work and although they may *look* different, they are complementary to PEMT.

What is a logframe?

A systematic way of organising and presenting information related to a project design. It uses a matrix of four columns and four rows - sixteen boxes - although this can be changed for particular projects. The "logical" dimension in the approach is derived from the logical relationship between each of the boxes in the matrix, especially the flow of cause and effect which joins each of them.

The logframe links three key elements found in any project situation:

1. The project itself: its resources, what it does and what it achieves directly;
2. The impact the project seeks to have on the real world: the changes that result from directly from a project; and
3. The wider environment: factors outside the control of a project that impinge directly on its ability to generate a positive impact.

What it is

<u>A 16 box matrix …………covering three key elements in a project situation</u>

	Summary	Indicators	How measured	Risks/ Assumptions
Goal				
Purpose				
Outputs				
Activities				

<table>
<tr><td></td><td>Summary</td><td>Indicators</td><td>How measured</td><td>Risks/ Assumptions</td></tr>
<tr><td>Goal</td><td colspan="3" rowspan="2">The Impact</td><td rowspan="4">The Wider Env.</td></tr>
<tr><td>Purpose</td></tr>
<tr><td>Outputs</td><td colspan="3" rowspan="2">The Project</td></tr>
<tr><td>Activities</td></tr>
</table>

How to use the logframe

There are three main steps to using the logframe:

1. Going from impact to actions: planning down column 1, develop the initial hierarchy of objectives. Projects should start with the bigger picture that they are trying to address, proceed to the specific changes they hope to bring about through their

[15] Logframes are also referred to as the logical or project framework

interventions and then the specific outputs that they will deliver through their activities.

2. Take account of the wider environment: thinking up column 4, identify the key assumptions/risks inherent in the project's flow of objectives and, if necessary, change these to make them more realistic. This is easiest to understand by thinking of the process as shown overleaf (as shown below) of IF, AND and THEN. This is essentially a proposition (an hypothesis) for each stage of the project design. For example:

IF
a project's **outputs** are *existing providers of training trained in marketing skills*

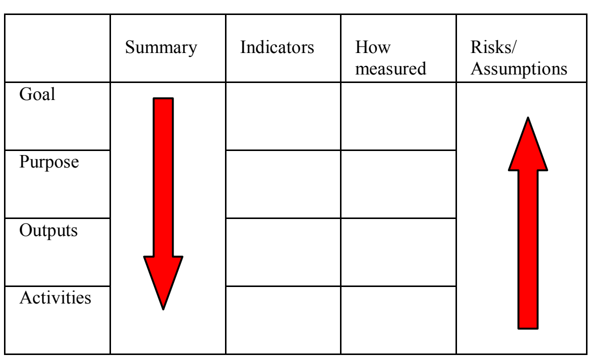
AND
we make the **assumptions** that *other donors do not undermine their efforts by offering vastly subsidised services*

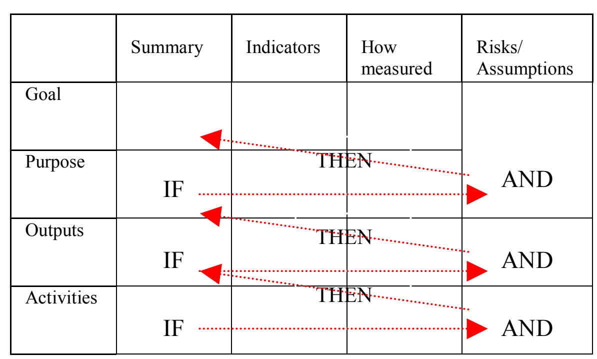
THEN
the project's **purpose**, *to increase the size of the MSME training market (volume of transactions)* might be achieved.

3. Focus on the M & E core: columns 1 and 3 form the essential planning framework for a project and a platform for thinking about indicators (column 2) and how we measure performance (column 3).

How to use it

Planning downwards, thinking upwards, realistically taking account of external risk





Key points to remember in using logframes

- Process is important: use the logframe as a basis for a participative process that clarifies the project's objectives, indicators and assumptions and, in doing so, encourages ownership and commitment.

- Its not fixed: since a project's environment changes, the flow of logic from activities to goal also changes. For logframes to be active management tools they need to be reviewed and to change.

- Clear language: in writing objectives, use simple, concise language; clarity not complexity is required.

- One goal and one purpose only: if there's more than one, have a separate logframe.

- Focus on the problem and not the solution (in goal and purpose): don't add to the simpliocity of goal/purpose statements by attempting to explain the solution, i.e. by adding a "by" or "through" part of the objectives statement (e.g. to increase incomes through improved market access). The solution is provided through outputs.

- Outputs and purpose, the key distinction: the major relationship in the logframe is between what a project delivers directly (and have control over) and the impact caused by it (through achieving outputs) in the external, real world of MSMEs and the economy.

- In writing assumptions, external factors only: column 4 is about factors that a project can't control but have to live with and manage; it's not about internal risks (such as "do we have the skills to undertake the work?")

- A sequential but iterative process: the process of developing a logframe is iterative - it proceeds bit by bit. However, if the relationship between each part and each box is not logical, then project designers need to go back to the first steps of objectives and assumptions

- Difficult but invariably worthwhile: the logic driving the logframe forces project designers to be disciplined and confront sometimes difficult choices in developing clear projects. However, this process is nearly always useful. Indeed, without it, projects are often faced later with the even more difficult consequences of failure.

APPENDIX 2: USEFUL PUBLICATIONS ON INDICATORS IN SED

Committee of Donor Agencies for Small Enterprise Development (2001), ***Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention***

This report summarises the key principles of good practice in the design and delivery of business development services (BDS), particularly from a donor perspective. It forms the starting point on which more detailed market development approaches have been built and sets the overall framework for all aid-supported work on BDS.

DFID (1995); ***Stakeholder participation and analysis*.**

This DFID technical note addresses stakeholder analysis in a comprehensive manner. It deals with the back ground to stakeholder analysis and its rationale, offers useful definitions and, most important, gives a guide to *how to* do stakeholder analysis.

Edgcomb, E., Cawley, J., (eds), (1993); ***An institutional guide for enterprise development organisations*, The Small Enterprise Education and Promotion Network (SEEP).**

This publication reflects research on the process of development of a significant number of private development organisations working in the field of MSME development. This included programmes of business development services, financial services, as well as combinations of these. The institutional guide provides a comprehensive framework for the development of NGOs in the MSME field, and is, as such, the most important publication concerning organisational capacity building in this area.

European Union (1993); ***Project cycle management; integrated approach and logical framework*.**

A detailed manual on project cycle management (PCM) based around the logframe. It is based around an integrated approach to PCM and, using clear and accessible diagrams, provides a useful guide through the logframe.

Harper, M and Finnegan, G (1998); ***Small enterprise development: value for money*?; IT Publications**

This book assesses practice in evaluation of MSME development. Comparisons of evaluation techniques and results are provided and of results, including ranges of values for key performance indicators. The book is one of the few to address "difficult" issues related to cost-benefit assessments such as the duration of benefits, the time value of money and the separation of effects. It concludes with some guidelines for evaluators.

Hitchins, R (2000); ***Designing and Implementing BDS Interventions*; SDC**

This tool represents the latest thinking in *how to* intervene to support BDS. Beginning with a definition of what we mean by BDS, the tool takes us through the key stages in intervention, from how to understand the market context in which interventions takes place and developing a realistic picture for sustainability to key issues in *how to* intervene. Eight different instruments for intervention are described in-depth. Overall, the tool's clear message is that BDS interventions have to be grounded in a good knowledge of markets and BDS good practice principles.

Miehlbradt, A.O (1999); ***Applying market research tools to the design and improvement of business development services*; Microenterprise Best Practices (MBP) Project, USAID (available free from the MBP website)**

Using market research tools to better understand markets, MSME consumers and opportunities for market development through interventions is seen to be one of the most exciting developments in SED. This technical note outlines some of the key tools such as usage attitude image surveys and product concept and price sensitivity tests and early experience in using them. It is an essential point of initial reference for SED projects that develop rather than distort markets.

McVay, M (1999); *Measuring the performance of business development services for small enterprises*; Microenterprise Best Practices (MBP) Project and ISEP, ILO, USAID (available free from the MBP website)
Emerging from a series of international consultations, this seeks to provide a common framework for assessing BDS and, hopefully, the basis for more rational comparison between BDS projects. It does so in relation to three major goals - increase outreach, sustainability and cost-effectiveness and impact (on MSMEs) - and for each of these identifies a number of indicators. Although the framework is still at an early stage of development and it is still being tested, it does help projects to assess their own work in a more rigorous manner.

SDC (1997); *Monitoring - keeping in touch with reality*
This is part of the PEMT series of tools and comes in two sections. The first - *Steps to monitoring* - outlines some key issues and frameworks; the second - Instruments and procedures - looks in more depth at "how to" issues associated with monitoring including the use of indicators. Although not specific to SED, many of the instruments and approaches are applicable to it.

SDC (1999); *Key questions and indicators*
Although not using a logframe per se, this tool on indicators provides useful guidance on how to develop and use indicators in a variety of development situations. It puts forward a *path* through which projects can develop indicators from objectives to filed sof observation to key questions to indicators and information sources.

Small Enterprise Education and Promotion (SEEP) Network (1987); *Monitoring and Evaluating Small Business Projects: a Step by Step Guide for Private Development Organisations*; PACT
Although published in 1987, this still remains the most comprehensive and useful monitoring and evaluation (M & E) guide for MSME development organisations. The guide develops a framework for project assessment and takes the reader through the approaches to M & E which view SME projects in the context of their overall environment. There is also an excellent resource section which illustrates many different tools for M & E

Technoserve (1989); *Measuring our Impact: Determining Cost-effectiveness of Non-Governmental Organisation Development Projects,* Technoserve, Connecticut, USA
This booklet illustrates an ambitious approach to assessing the cost effectiveness of development interventions, especially in the small enterprise field. It develops two separate indicators of effectiveness: the cost effectiveness ratio and the non-quantifiable benefits rating, the latter an attempt to take into account the more difficult qualitative impact of projects. The specific method advocated is not applicable to many organisations but useful lessons can be learned in how to develop a rigorous approach to difficult evaluation questions.

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