

**RECOMMENDATIONS FOR PERFORMANCE MONITORING AND
IMPACT ASSESSMENT FOR USAID/KENYA SUBSECTOR
DEVELOPMENT PROGRAMS**

Submitted to:

USAID/Kenya
April 2003

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Executive summary

Subsector development programs seek to raise productivity, trade, and producer revenues within subsectors that have been chosen for their development potential, expected impact on poverty, and other broad social objectives. Program activities involve the development of sustainable supporting services in the areas of microfinance, business services, and policy advocacy. All these services should become sustainable when producers in the subsector demand them and are willing to pay for them. This in turn depends on the extent to which supporting services have been shown to benefit enterprises in the subsector. In the presence of demand for supporting services, sustainable provision by profit-seeking private enterprises and producer organizations becomes feasible. Following the widespread success with the ‘new paradigm’ of microfinance provision, the new paradigm of business service development seeks to strengthen markets for business services by simultaneously stimulating demand and enhancing the capacity of service providers.

Three subsector development projects in Kenya aim to use this approach to develop their chosen subsectors and thereby contribute to attainment of USAID/Kenya’s Strategic Objective 7, increased rural household incomes. In cooperation with its partners, the Mission has formulated a Performance Monitoring Plan (PMP), which defines a hierarchy of goals to be achieved along with indicators that will be used to measure achievements. Our proposals for performance monitoring and impact assessment complement the PMP by focusing on the relationships between program activities and the PMP goals and by addressing the question of attribution: the extent to which changes in PMP indicators can be causally attributed to project activities.

Subsector development programs are expected to achieve their results through a chain of interrelated causes and effects. Program activities facilitate the development of markets for supporting services (microfinance, business services, and policy advocacy) that address key subsector constraints and meet producer demand for services. Interventions on both the demand and supply sides of the business service market can be expected to expand the provision and use of business services, increase the quality and diversity of services available in the market, and increase the outreach of the market to previously omitted or underserved groups in the subsector. Performance monitoring can trace the process and outcomes through this stage.

If successful, the outcomes of these facilitation activities lead to impacts in the markets for business services, in markets for the products of the selected subsectors, and in the rural economy in general. The sales and net revenues of business service providers should increase, as should the sales and net revenues of MSEs in the targeted sectors. This, in turn, would be expected to contribute to a rise in rural household income and improved well-being for individual microentrepreneurs. Confirming and measuring these impacts is the job of impact assessment.

Building on this causal model, this report presents recommendations for designing a performance monitoring and impact assessment system for three subsector focused programs in Kenya. The report starts by stressing the importance of establishing common terminology in developing this system, and offers working definitions of key concepts: business services, the

market approach to developing business services, the ‘new paradigm’ of subsector development, the facilitation and provision of business services, performance monitoring, and impact assessment. It discusses principles that should guide the design and implementation of performance monitoring and impact assessment systems, including credibility, usefulness, cost effectiveness, flexibility, consideration of context, and stakeholder involvement in reviewing performance and impact findings.

Challenges related to developing a common framework for performance monitoring and impact assessment for the three projects are then addressed. The three projects differ in terms of types of activities to be facilitated, geographic coverage, the existing state of project preparation and availability of information, the provision of public as well as private goods, existing performance monitoring plans and indicators, and degree of orientation toward the new paradigm of business service market development. Yet they share two basic objectives: to develop their subsectors and to develop the supply of, and demand for, business services to serve those subsectors. Common performance monitoring and impact assessment systems are therefore feasible, as long as suitable allowances are made for differences among the programs.

The report recommends a common performance monitoring system that would include all the indicators in USAID/Kenya’s Performance Monitoring Plan (PMP), serve as a useful management information system, and not excessively burden the project managements. A specific list of indicators is proposed, from which shorter lists of adopted indicators can be selected. Proposed sources of information, responsibility for data collection, and frequency/timing of data collection are discussed.

Recommendations are also made for assessing the impact of these projects. Potentially, impact could be assessed in five different domains (the business service market, participating enterprises in the subsector, the related households, and the individual participating entrepreneurs). A list of potential impact indicators is provided; again selection of a shorter list from this menu is possible. A number of questions need to be addressed by the stakeholders regarding the scope and nature of the impact assessment to be undertaken. Consistency will have to be achieved between the answers to these questions and the magnitude of resources to be devoted to the impact assessment.

The report ends with suggested next steps. These involve further consultation with the AFE STTA team, USAID/Kenya, USAID’s Microenterprise Development Division, and the Kenya project partners to address important issues outlined in the report. The consultants are available to assist further in the development of a suitable performance monitoring system as well as to design and carry out appropriate impact assessments, beginning with baseline surveys to be conducted as soon as possible.

RECOMMENDATIONS FOR PERFORMANCE MONITORING AND IMPACT ASSESSMENT FOR USAID/KENYA SUBSECTOR DEVELOPMENT PROGRAMS

I. INTRODUCTION

The purpose of this consultancy was to help define and develop common performance monitoring and impact assessment systems for three agriculture-based subsector development programs in Kenya supported by USAID/Kenya. All three programs are expected to contribute to achievement of Strategic Objective No. 7 in the Mission's Performance Monitoring Plan (PMP), which is to raise rural household incomes. They are expected to do so by promoting achievement of the principal intermediate objectives under SO7, which are to:

- ◆ Raise productivity in key agricultural subsectors (Intermediate Result 7.1);
- ◆ Increase agricultural trade in domestic, regional, and international markets (IR 7.2);
- ◆ Improve access to business services for micro and small enterprises (MSEs) (IR 7.3);
- ◆ Increase the effectiveness of smallholder organizations to provide or facilitate business services to their members (IR 7.4).

Many activities are involved in the effort to achieve these objectives. The policy environment must be improved; the use of technology must be increased; financial markets must be strengthened; cooperatives and other smallholder organizations must be built up. Another important part of the strategy is to increase the role of private sector institutions in the provision of business services; this is to be achieved by promoting both the supply of and demand for private business services to serve the targeted subsectors (dairy, maize, and selected fruits, plus others still to be chosen).

The PMP that has been developed by USAID/Kenya in consultation with numerous local partners and authorities is a logically interrelated set of objectives. Our proposals for performance monitoring and impact assessment complement the PMP by highlighting the relationships between project activities and achievement of the various levels of PMP objectives. Performance monitoring can help program managers gauge the extent to which program activities are being carried out as planned and whether the immediate results expected are being attained; this will facilitate any mid-course corrections that may be needed. The basic purpose of impact assessment is to measure the extent to which observed changes in the main target variables (SO7 and the principal IRs) can be attributed to project activities. Both types of information are potentially valuable for decision makers in Kenya and also for those concerned with subsector development and poverty alleviation throughout the developing world.

The work was carried out by Don Snodgrass and Jennefer Sebstad as consultants provided by Action for Enterprise (AFE) under the Short-term Technical Assistance (STTA) project. Following initial discussion with USAID and two of the contractors at AFE's office in Arlington, VA, on January 8, the team visited Kenya from January 23 through February 7, 2003. While in Kenya, the team worked in close consultation with the three partner organizations that serve as prime contractors for the subsector development programs: Land O' Lakes (dairy), ACDI/VOCA (maize), and Deloitte Touche Tohmatsu (business services to three subsectors, beginning with selected fruits for domestic consumption and export).

During their visit to Kenya, the consultants spent considerable time learning about the three programs and their implementation environments and gaining a basic understanding of project related issues, some of which were complex. The analysis and recommendations in this report build upon information related to the individual projects, their contexts, and partner and stakeholder views on outcomes and impacts (obtained from interviews and participation in PMP workshops and meetings). Information sources included USAID project documents and work plans, as well as evaluation sources.¹ We are grateful for the unfailingly helpful and good-humored cooperation that we received from everyone with whom we worked during our stay in Kenya. Everything in this report is subject to further discussion and possible change. If we are incorrect or ill advised in anything that we say we will appreciate being corrected.

II. PERFORMANCE MONITORING AND IMPACT ASSESSMENT: GENERAL CONSIDERATIONS

A. Key Definitions

To facilitate exposition and improve communication with readers who may use slightly different vocabularies, we begin by defining the most important terms used in this report.

Business services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and the promotion of business linkages (Committee of Donor Agencies for Small Enterprise Development 2001, p.1). Others that have been incorporated into the definition are market-linkage, product-development, technical-training, financial, advocacy, management/organization, and infrastructural services. Further, some commentators argue that business services are also inherent in commodity transactions between businesses such as the provision of inputs or equipment and the purchasing of products. We do not distinguish between ‘development’ or ‘strategic’ services, on the one hand, and ‘operational’ or ‘routine’ services, on the other, because what is developmental depends on the context in which the service is delivered. Services that are routine for larger, better-established businesses may be developmental for micro and small enterprises (MSEs).

Businesses services can be obtained from a variety of sources and through a variety of payment arrangements. Informal sources include friends, relatives, kinsmen, and neighbors. Payment for informal business services, if any, is usually implicit and indirect. Formal sources of business services include consulting firms, individual consultants, suppliers of inputs and capital equipment, and customers for the business’s products. Government bodies, NGOs, and development projects can also provide business services. Payment for formal business services, if any, may be either direct or indirect. Fee-for-service business services involve a direct cash payment for the service acquired. Often, however, payment is implicit because the business service is either embedded in a commodity transaction, such as the purchase of equipment or inputs or the sale of outputs, or else tied to the provision of microcredit. Government agencies, NGOs, and development projects with program funding often provide business services free or

¹ See Annex 1 for a list of references consulted and Annex 2 for a list of persons consulted.

with a subsidy (that is, a payment is made that covers only part of the cost). Private for-profit bodies charge a fee that is intended to cover the full cost of providing the service, unless they too are subsidized (for example, through training vouchers) and thus can afford to sell at a lower price. Service provision at a price that covers all costs can be termed a commercial business service. Provision at a price that covers operating costs may also be considered unsubsidized, even when support was received for such expenditures as R&D and capacity building.

Until recently, donor and governmental efforts to promote the development of MSEs usually involved direct provision of services on a free or subsidized basis by either government agencies, development projects, or NGOs financed by donors. This approach suffered from widespread cost-ineffectiveness, low outreach, and lack of sustainability following the withdrawal of program financing. The *business service market development approach* – a new paradigm of enterprise development – seeks to remedy these shortcomings by promoting the development of commercial business services. Under this approach, which has been adopted by much of the donor community, non-commercial bodies such as NGOs that formerly functioned as business service providers are encouraged to become business service facilitators, whose role is to strengthen the supply of, and demand for, commercial business services. *Business service facilitators* strive simultaneously to increase the demand for business services and to strengthen the capacity of business service providers to provide services that respond to the needs of users and address key constraints. *Business service providers* deliver services directly to other businesses.

Program evaluation is any type of inquiry into the workings and outcomes of development programs. Program evaluation has two fundamental purposes: to provide program management with feedback that can be used to **improve** the operation and results of the program and to **prove** that the program is achieving its higher-level objectives (e.g., increased profits and productivity within the subsector; rising average rural incomes).

We deal here with two related but different types of program evaluation: *performance monitoring* and *impact assessment*. *Performance monitoring* tracks program activities and outputs to determine what was done and what effects project activities have had on *immediate* project objectives. Any development project has a hierarchy of objectives: project activities are expected to lead to the achievement of certain immediate and intermediate results, which in turn lead to the achievement of higher-level objectives. Performance monitoring looks at the means of achieving these objectives and tries to determine the extent to which lower-level objectives (e.g., the sustainable delivery of business services to a specific group of microentrepreneurs) has been attained.

For subsector development activities, performance indicators generally relate to the outcome indicators involving program outreach and the effectiveness of business services. Such indicators provide an important link between performance monitoring and impact assessment as they focus on the extent to which business services are actually being delivered, who is using them, and the client/service relationship. This is an important intermediate step in the impact chain, as the delivery of business services that respond to client needs should result in greater impacts. A critical dimension of effectiveness is reaching the intended target group and responding to their needs, preferences, and demand for business services. The effectiveness of

business services in responding to client needs can be assessed through outreach indicators (gender, location, enterprise type, socioeconomic status of clients), client satisfaction surveys, client transaction costs, or other cost data. Performance monitoring is best carried out on a continuing basis by program management, relying primarily on data generated by the program itself (Annex 6).

Impact assessment tries to determine what difference the project made for the attainment of higher-level program objectives. Was there an identifiable impact, and if so what was its magnitude? Did the program, for example, raise the productivity of microenterprises in its selected subsector? Did it contribute significantly to an increase in average rural income? Impact assessment involves defining what would have happened if the program had not been carried out and comparing that counterfactual with the actual outcome. This allows the evaluator to make a case that the project contributed to the observed changes – that is, to attribute observed changes to the project. Impact assessment can involve any of four major methodological approaches (discussed in Section II. C, below). It must be conducted with considerable care and is best done by someone who is independent of the management of the program being evaluated. Depending on the methodology selected, impact assessment can be expensive and time-consuming. Yet it is necessary if one wishes to know what effect the program ultimately had on higher-level objectives – as well as to identify any unintended and unexpected effects that the program may have had. This cannot be determined solely by project monitoring (Annex 6).

B. Guiding Principles

In developing a performance monitoring and impact assessment system for subsector development projects, it is useful to consider the following principles.

Credibility: Any credible program evaluation system must clearly indicate the types of changes that will be examined, the intended use of the findings, and the audience (Hulme 1999). It should specify an impact chain that conceptualizes the causal relationship between project activities, outcomes, and impacts. This provides the basis for framing specific research questions, developing hypotheses, and identifying indicators to study. A credible *performance monitoring* system should generate information on changes in outreach and effectiveness that can be used by project managers to track progress in relation to targets, obtain feedback from clients, and contribute to project learning and improvement. A credible *impact assessment* system should produce results that plausibly associate change in the indicators studied with the project interventions. This requires the identification of a *counterfactual* -- that is, a scenario of what would have happened without the intervention. The quasi-experimental method of impact assessment (see below) requires a clearly defined control group and identification of factors other than the project interventions that will affect outcomes. To improve the reliability and objectivity of the findings on impact, outside researchers rather than program staff should be responsible for data collection and analysis. Credibility is enhanced by the use of mixed methods (qualitative and quantitative) and data-gathering instruments that are well designed and clearly documented. The intended users of both the performance monitoring and impact assessment results should be involved in planning and designing the systems and in interpreting the findings. A credible system also should incorporate client perspectives on effectiveness and

impact. It should include clear documentation of the methodology and data collection strategy and problems encountered during implementation and analysis stages.

Usefulness: A useful program evaluation system should address the key questions and concerns of users in a clear and timely manner. A specific dissemination strategy aimed at the relevant audience should be planned ahead of time. The findings should be presented in a way that is comprehensible to users and disseminated as soon as possible after data collection and analysis.

Cost Effectiveness: Cost-effective program evaluation systems require consistency among evaluation objectives, study methods, and the resources available in terms of time, money and expertise. Cost-effectiveness can be improved by building on the lessons of previous business service monitoring and impact research and by limiting the number of variables studied to those that are most relevant. To develop a realistic estimate of costs, it is important to consider ahead of time data needs, sample size, sample location, and the expertise required at different stages of the evaluation process. These factors are largely driven by the choice of a methodology. Once a methodology is selected and plans for implementing the monitoring and impact assessment are worked out, the budget should be revisited to ensure that there is a fit. Sample size, especially the inclusion of a control group in impact assessments, is an important factor driving the budget and trade offs must often be made between sample size and the reliability of the findings. Frequency of data collection for both performance monitoring and impact assessment is also an important cost factor. The costs of transportation, time of staff and outside expertise for data processing, analysis, and write up, and dissemination are often underestimated. They should be considered ahead of time.

Flexibility: The differing features and maturities of the three subsector development projects supported by USAID/Kenya (see below) will necessitate some flexibility in the approach to performance monitoring and impact assessment. While a common framework can guide the design of these systems and the questions and hypothesis to be studied across projects, the specific choice of indicators and their definitions, the sources of data, the specific mix of methods used, the sample design, and the timing, sequencing, and responsibility for data collection should be tailored to fit each project.

The importance of context: The type of program; its size, age, complexity, objectives and activities; and the environment in which it operates are all important considerations in deciding what outcomes and impacts to study. Context factors also affect what mediating factors to include in the analysis, the sample design, and how to interpret the data.

Stakeholder review of findings: Performance monitoring and impact assessment should lead to debate and discussion prior to any decisions. It should not just be a written report, but a basis for informing stakeholder debate about forthcoming decisions. Stakeholders, including partners, should have the opportunity to challenge the findings and/or reinterpret the results.

C. Framework for Evaluating Subsector Development Programs

This section presents a general framework to guide performance monitoring and impact assessment for subsector development programs. It sets the stage for more specific discussion in the Part III of the report about how monitoring and impact assessment for the three projects in Kenya should be undertaken. The framework sketches out the impact chain, some key hypotheses, levels of outcomes and impacts, and indicators to monitor outcomes and assess impacts.

1. The Impact Chain

Project interventions have an impact on higher-level objectives through a chain of interrelated causes and effects. The chain starts with a list of *project activities*. These are the actions taken by the project that aim to achieve the desired impacts. Intervening between project activities and impact, however, are a number of intermediate outputs and outcomes, which measure the effectiveness and outreach of project activities. Project impacts, finally, can be defined and measured at two or more levels. In the case of subsector development projects, these levels correspond, respectively, to what happens in the targeted subsectors and what impact subsector development has on higher-level social goals.

Projects undertaken by USAID and other donors increasingly use market-oriented approaches to the provision of both microfinance and business services. This changes the principal role of the donor-funded organization -- be it an NGO or a private-sector contractor -- from direct service provision to facilitation of service provision by profit-seeking financial institutions and service providers. In some cases, NGOs may convert themselves into banks or other profit-seeking enterprises. Nonetheless, the goal is to improve access to services by facilitating the development of commercial markets in which both financial and non-financial services are bought and sold. This is done by working on both the demand and supply sides of the market.

Demand for microfinance and business services is a derived demand. That is, entrepreneurs use these services because (if) they believe that doing so will enhance the profitability of their businesses. If they so believe -- which is most likely if the services in question do in fact boost profitability -- they will be willing to pay for the services in question, provided that they have access to liquidity and/or can in a manner that suits their cash flow. Project interventions, therefore, should try to improve the quality and diversity of services available in the market, while promoting service designs and payment mechanisms that permit increased outreach to previously omitted or underserved groups in the subsector. "Downreach strategies" for business services can include many of the same approaches used by microfinance, including grouping clients, promoting group payment schemes, and -- in some cases -- networking providers. .

Performance monitoring traces the process and outcomes through this stage.

If successful, project activities lead to several types of impact within the targeted subsectors. The productivity, sales, and profits of enterprises within the subsector should rise.

This is particularly true for those enterprises that participate directly in the project, but others should benefit as well. Trade in the products of these subsectors (including regional and national trade and in some cases exports) should expand, resulting in improved profitability for primary producers. Access to business services should improve, especially for MSEs. Smallholder organizations and groups within the subsector should be strengthened in their ability to provide services to their members.

As a result of improvements in the targeted subsectors, projects are also expected to impact broader social goals such as poverty reduction, employment creation, and the increased economic participation of women and minority groups.

Confirming and measuring impacts at both of these levels is the job of *impact assessment*.

2. Key Hypotheses

Implicit in this framework are three key hypotheses.

Hypothesis One: An effective strategy for developing subsectors/industries is to promote the development of business services that address key constraints and opportunities within those subsectors/industries.

Hypothesis Two: Developing the supply of and demand for commercially provided business services can result in sustainable subsector growth

Hypothesis Three: An effective strategy for increasing rural household income is to improve the access of MSEs² to product markets and business services that enhance their competitiveness.

In keeping with our ‘impact chain’ and related hypotheses, the framework to guide performance monitoring and impact assessment of subsector development projects begins with a description of *project activities*. It should then specify expected *project outputs/outcomes/effects*, as well as the *impacts* expected at various levels and in various domains of economic activity (the overall subsector, MSEs within the subsector, households, other enterprises within households that participate in the subsector, individual entrepreneurs within the household). Another important task is to define *indicators* relevant to the hypothesized outcomes at each level. Finally, the framework should consider *context factors* other than project interventions that are likely to influence outcomes and impacts. These elements of the framework are further discussed below in the context of Kenya.

3. Defining Pre-intervention Activities

Because demand for business services is a derived demand -- meaning that the rate of return on investment must be positive for the entrepreneur -- subsector programs begin by selecting subsectors or industries with growth potential. Such industries offer investors the potential for increased income with improved productivity.

² Associated with rural households.

Secondly, subsector projects identify the constraints in the subsector, that if addressed will unleash new income. Business services are identified to address these subsector constraints. An assessment of the identified and prioritized service markets is conducted that analyzes demand- and supply-side constraints and identifies commercial solutions to these service market constraints.

The identification of effective facilitation strategies is also an important pre-intervention activity; examples of these are detailed below.

4. Defining Project Activities

The market development paradigm for business services calls for donor-supported project interventions to focus on facilitation rather than direct provision of business services, which should be commercial in nature. In subsector development projects, *business service facilitation activities* are intended to address constraints in the growth of an industry and in the supply of business development services to MSEs, as well as the demand for such services. They do so by improving the capacity of service providers to deliver services and stimulating the demand for business services. Examples include the training of trainers, product development, improved marketing, and the encouragement of business linkages involving leading firms and linked MSEs.

But while the market development paradigm warns against direct provision of business services, in practice, provision and facilitation roles often coexist within projects. For example, in two of the three Kenya projects, partner organizations have traditionally functioned as direct service providers and are only beginning to learn how to function as facilitators. Reportedly, “the vast majority” of all USAID-supported enterprise development projects still provided services directly to MSEs at no charge in 2001.⁴ Where direct provision of services on a free or subsidized basis still exists, USAID is asking its contractors to formulate ‘exit strategies’ for moving out of the service provider role into a new role as facilitator of business service provision by commercial, unsubsidized entities.

As part of project activities, the subsector development approach also facilitates strengthened linkages and competition between firms all along the value chain – including competition among service providers. As part of this effort, projects promote the development of embedded services, economies of scale to increase the cost effectiveness of service delivery, payment mechanisms attractive to poor customers, and improved MSE leverage or position in the market place. As shown in Annex 7, in the context of the three Kenya projects, examples of the types of facilitation that will be undertaken include:

- Training to strengthen capacity of business service providers

⁴ Based on information gathered for USAID’s and Microenterprise Results Reporting to Congress. Source: Catherine Neill, oral communication.

- Promoting business service innovations (e.g., developing delivery and payment mechanisms tailored to the clients, grouping small firms to reduce the transaction cost of delivering services, organizing or promoting payment mechanisms or insurance schemes to enhance affordability)
- Building networks
- Informing consumers to expand demand
- Advocacy for the subsectors and the business service industry

5. Defining Outputs

In articulating the impact chain, the actual *provision of business services* is a key activity that links facilitation activities to outcomes and impacts. Fundamental to market development is the concept of commercially provided services that improve the performance of enterprises, increase their access to markets, and strengthen their ability to compete. As already noted, business services include a wide range of strategic or operational services. In the context of the three Kenya subsector development projects, the types of business services that are likely to be facilitated include the following:

- Training, management and technical advice related to accounting, marketing, product quality, strategic planning, and production techniques
- Access to input supplies, market information, export and/or domestic markets
- Product development and design
- Improved technology
- Legal services, for example, access to mediation for breach of contract
- Industry advocacy
- Provision of inputs
- Sale of equipment and tools

5. 6. Defining Levels of Outcome and Impact

Developing markets for business services involves increasing the flow of formal business services from multiple providers to a growing number of client enterprises and especially to previously underserved enterprises. It requires that the cost of providing these services increasingly be met by client enterprises, either as a fee-for-service or as an embedded cost in another transaction. The objectives are the sustainable supply of and demand for business services that address the constraints to increased income and greater competitiveness. They also involve the development of a high quality, diverse and competitive service market and outreach to underserved groups. Values of indicators chosen to measure changes (see below) should improve for program-promoted business service providers, for MSEs within the subsector accessing services supplied by these providers, for the households associated with these MSEs, for the individual microentrepreneurs involved, and, finally, for the subsector as a whole. The logical model or impact chain that determines how these changes occur is depicted in Figure 1.⁵

The outcomes and impacts of subsector development programs can be assessed at several different levels.

Business services at the program level: Progress towards the development of business services can be measured at two different levels: the *program level* and the *market level*. Program-level indicators focus on business service providers directly assisted by the program and MSEs acquiring services from them. Indicators relate to the number of users, quality, satisfaction, diversity, and outreach of business services to previously underserved groups. Indicators can also include the gross sales or net revenues of these providers. These can be seen as the immediate effects of subsector development programs and can be measured through performance monitoring systems.

Business services at the market level: Indicators focus on MSEs that have acquired any product within the service category from any provider in the last year, with a focus on overall changes in commercial provision. As this is a higher-level impact, it requires an evaluation

⁵ Figure 1 deviates from the USAID Kenya's Performance Monitoring Plan (PMP) in four respects. First, we refer to the sales as well as the productivity of producers in the subsector. We believe this is necessary because in addition to producing larger physical quantities they must be able to sell their output at a reasonable price. Second, we refer to 'producer organizations/groups' instead of 'smallholder organizations.' The purpose of this change is to highlight the need for flexibility in the organizational modes that small-scale producers might choose to adopt. Third, we refer to the 'well-being' of households in addition to the PMP's reference to household incomes. The reason is that income by itself is not an adequate measure of welfare and other indicators such as health, nutrition, and education might also be considered. Finally, we mention the possibility that projects may have impacts on individuals, for example women in participating households, in addition to their impacts at the enterprise and household levels; this is an additional domain of potential impact that might be addressed if it is considered to be important in the present case.

methodology that attempts to attribute this change to the program activity and thus crosses the line from program monitoring to impact assessment. With respect to impact on the business service market, for example, the sales (or volume of embedded services) of both business service providers facilitated by the program and all business service providers providing that service within the subsector should be taken into account.

Subsector product markets and linkages: Subsector development programs seek to promote commercial services that address key subsector constraints. If successful, they should lead to expanded product markets and improved linkages in the subsector as a whole. Constraints removed through program-facilitated business services could be one indicator of change. The method of studying this would depend on the nature of the constraint. Other subsector-level indicators could include change in final sales or in sales along the supply chain.

Assessing subsector market-level changes poses some methodological challenges. For one thing, services promoted by the project are likely to have indirect as well as direct impacts. There may be a demonstration effect as microentrepreneurs who did not purchase business development services learn from those who did. This complicates impact assessment since a control group that is assumed not to have benefited from the project may in fact have done so. It will be important to address this issue when designing the impact assessment.

Micro- and small enterprises, including smallholder farm enterprises: Within the targeted subsectors, the performance of firms that acquire business services from targeted business service providers should improve. Indicators that can measure enterprise performance include revenues or profits of MSEs; enterprise assets of MSEs; employment in MSEs, and the quality of MSE transactional relationships. The transactional relationship indicator links the MSE to the subsector value chain.

Rural household incomes: the overall objective of USAID-supported subsector development projects (SO 7) is to increase rural household incomes. Improved enterprise performance, reduction in subsector constraints, and new skills and knowledge can contribute not only to increased incomes, but also income smoothing, asset building, and improved ability of households to manage risks. Income and asset indicators can be combined with qualitative studies on household risk management to assess impacts in these areas.

Well-being of individual microentrepreneurs. The use and impact of business services at the enterprise and household levels can contribute to the well-being of individual men and women microentrepreneurs by improving their business knowledge, skills, and practices, expanding their mobility, increasing their individual control over income or assets, or improving labor productivity. Access to and use of business services, combined with growing subsector markets, may result in women entering into (previously) gender segregated activities or markets within the subsector; or competing equally with men in taking advantage of new subsector market opportunities when they open up.

7. Mediating or context factors

Program impacts at all these levels are influenced -- both positively and negatively -- by many contextual factors. In recent years, Kenya has suffered from several negative influences, including slow and irregular economic growth, endemic corruption, poor-quality infrastructure, collapsing parastatals, drought, and socio-cultural factors that result in gender segmentation in production processes within subsectors and households. All these factors limit the ability of development programs to achieve their objectives. Deteriorating infrastructure, particularly roads, has resulted in high transportation costs and impedes many potential market linkages. Corruption has been widespread, with self-serving actors plundering key areas of the economy. Inter-regional imbalances within East African countries have resulted in low prices for certain commodities in some regions and high prices in others. With the recent democratic election and the assumption of office by a new regime, Kenyans are hoping that the business development context will be more positive in the future. Whatever happens, impact assessment must take account of contextual influences and not simply assume that all observed outcomes are program impacts.

Some context factors and constraints are picked up in the subsector analysis, for example, infrastructure and policy constraints. Yet they are unlikely to be addressed directly or immediately through these business service projects. This information can be useful in understanding the context of change, and interpreting the performance and impact findings. Other mediating factors – for example, some of the effects of gender discrimination – can be picked up in the analysis of performance monitoring and impact assessment data.

Finally, one should remember that the standard of comparison for impact assessment is the counterfactual: what would have happened in the absence of the program. If contextual factors are negative, a program's impact may be judged to be positive, even if program participants are not made better off. That is, their condition may have worsened over the period of the evaluation, yet the extent of the deterioration is less than would have occurred in the absence of the program. While this kind of situation is obviously not what development programs aim for, it nevertheless does constitute a positive program impact, achieved under difficult circumstances.

8. Methodological approaches to the study of impacts

We have argued that some form of impact assessment is desirable because performance monitoring alone cannot deal with the problem of attributing observed changes to program activities, but what methodological approach should be taken? There are four basic methods that can be used to measure the impact of a business service market development project (Oldsman and Halberg 2002). These are:

- *The experimental method.* This is the rigorous method used in the physical and biological sciences, for example to test the effectiveness of new drugs. It requires that program participants be selected **at random** to avoid the problem of selection bias (see below). Outcomes are then compared between a 'treatment group' (program participants) and a 'control group', which is also drawn at random from the same population as the

treatment group. Using this method, observed differences in outcome between the two groups can fairly safely be attributed to participation in the program. The experimental method has some strong advocates among development experts and has been applied in some cases. An example in Kenya is a Dutch-aided program that distributed supplementary reading materials to a randomly selected sample of rural primary schools. It is seldom desirable or even possible, however, to select participants in a development program at random. More commonly, people decide whether to seek participation in the program, while program managers decide, on the basis of criteria that they have defined, whom to accept. This raises the issue of ‘selection bias’: participants in a development program may well differ from non-participants in characteristics other than their participation in the program, so identified differences in outcome may not be solely attributable to the effects of program participation. For example, clients of a business service program may be inherently more entrepreneurial than their peers who choose not to participate or are not selected to do so.

- *The quasi-experimental method.* This is a somewhat less rigorous method that is commonly used in the social sciences. A sample of program participants is drawn at random and then matched with a random sample of non-participants (the control group) who are as similar as possible to the program participants in all respects that are thought to be relevant to program impacts. The AIMS project (Assessing the Impact of Microenterprise Services) used the quasi-experimental approach, incorporating a wide range of variables into its data analysis in an attempt to control for selection bias. In the end, however, quasi-experimental studies can always be criticized on the grounds that selection bias leads to overstatement of program impact.
- *Simple before-and-after comparison.* Both of the above methodologies involve longitudinal surveys, in which a baseline situation (ideally measured before the project begins) is compared with a later situation that is expected to reflect program impact. While the experimental and quasi-experimental approaches then infer program impact from outcome differences between participants and non-participants, sometimes there is no control group and the follow-up consists solely of an inquiry into changes in the state of program participants. With this approach, the problems of selection bias and attribution loom large. What happens to program participants after they join the program is the result of many causes, and it is hard to sort out the impact of the program from other influences. Qualitative inquiry, which should accompany and complement any quantitative approach, can lessen the problem somewhat, but it is likely to remain a large question with any impact assessment that relies solely on before-and-after comparison.
- *Expert and participant opinion.* The least rigorous form of impact assessment relies exclusively on qualitative inquiry. Many development projects are evaluated by hiring consultants who talk with those familiar with the program and perhaps also with selected (but not random!) program participants, and on the basis of those discussions attempt to say what the impact of the project has been. Certainly some insights can be gained in this way, but the conclusions of the inquiry remain essentially the opinions of the evaluators, and if others have differing opinions there may be no reason to think that the evaluators know better than anyone else.

These four approaches differ sharply in terms of their rigor and ability to deal with problems such as selection bias and evaluator subjectivity. Unfortunately, there also are major differences in the cost of applying these methods, which run in the opposite direction. The experimental method has often been judged prohibitively expensive, in that designing a program that can be evaluated experimentally would force too many otherwise desirable program design features to be abandoned. The quasi-experimental and simple before-and-after methods require two or three field surveys to be taken, with all the attendant costs of questionnaire design, sample, field-testing, enumeration with supervision, data editing, tabulation, and analysis. In the quasi-experimental approach, the survey is likely to be larger and some of these processes are more complex because a control group is involved in addition to a sample of program participants.

In the past, the reluctance of aid organizations to meet the costs of the more rigorous impact assessment methods has often meant that the true impact of their development projects – the difference that the projects really made – remained unknown. While it obviously would be too expensive to carry out a quasi-experimental impact assessment for every development project, selective application of the method to business service projects applying the market development approach could be justified by the additional light that it would shed on the effectiveness of this approach, which is theoretically appealing but still needs to be proven in a range of field applications. The three USAID/Kenya projects appear to present an excellent opportunity to carry out such a test, since each of these projects is making a serious effort to apply the new approach.

III. EVALUATING USAID/KENYA’S SUBSECTOR DEVELOPMENT PROJECTS

In our framework, business service facilitation activities are expected to result in immediate changes, or outcomes, in the supply of and demand for business services, the quality of services, and outreach to targeted groups in the subsector. They are also expected to result in increased effectiveness of producer organizations and groups and more equitable distribution of benefits from business transactions.

These outcomes contribute to intermediate and higher-level changes, or impacts, in the subsector product markets, MSEs, households, and individual microentrepreneurs. Below, we discuss a performance monitoring system that would focus on immediate changes, or outcomes; and the design of an impact assessment focused on intermediate and higher level changes that can be attributed to the projects.

A. Issues and Challenges

Two of the three Kenya projects (dairy and maize) are typical of many development projects sponsored by USAID and other donors, in that they grow out of old-style direct service provision strategies and are now switching over to the new business service approach. The third project (Deloitte) is one of the first USAID projects anywhere to have been designed from the ground up with the new approach in mind.

Aside from the known difficulties associated with designing sound performance monitoring and impact assessment systems (e.g., data quality and management, selection bias, attribution), the development of common performance monitoring and impact assessment indicators and systems for the three Kenya subsector projects poses several additional challenges.

Different project emphases: In terms of business services, the focus of each project differs. The Deloitte Touche project is most explicitly focused on promoting sustainable, commercial business services. The development of business service markets is the main goal of the project and all activities are designed to lead to this objective. The maize and dairy projects are both focused mainly on raising productivity and increasing growth within their subsectors. As later ‘entrants’ into the business service approach, they are working to conform to the business service principles and guidelines, but this is not their main focus. Although indicators focused on sustainable business services and subsector development thus may not be equally important across subsectors, all three projects are nevertheless committed **both** to development of their chosen subsectors **and** to the creation of sustainable business services to serve those subsectors. Given these similarities, it seems appropriate to apply common performance monitoring and impact assessment systems, at least within some limits.

Different types of activities: While all three projects have planned activities to address subsector constraints through the promotion of business services for MSEs, they differ in terms of many specifics, including:

- ◆ The types of constraints that business services are to address;
- ◆ The types of business services that are to be facilitated or provided;
- ◆ The previous experience of partner organizations and business service providers in providing the particular types of services;
- ◆ The number of business service providers already active within the subsector;
- ◆ The quality of services;
- ◆ The extent to which services are (or have been in the past) provided on a commercial basis;
- ◆ The current outreach of these services to MSEs; and
- ◆ The roles played by MSEs along the value chain within the subsector.

These differences pose considerable challenges for performance monitoring and impact assessment, for example in defining input variables (project activities); in deciding on key outcome variables appropriate for each project and then identifying relevant cross-cutting outcome variables; in designing a sample and deciding on sample size.

Existing state of project preparation and availability of information: As indicated earlier, systems of performance monitoring and impact assessment flow logically from a process model or impact chain that has been defined for the project. In this case, however, we have been asked to recommend monitoring and impact-assessment systems, while work on the projects’ process models is still ongoing. Following the workshop on the business service approach that AFE led last November, work plans for the dairy and maize projects are still in the process of being adapted to the new paradigm. Both projects have sub-contractors who will need to change their

traditional ways of doing business. In the case of the maize project, this has caused delay in the signing of sub-contracts.

AFE carried out a subsector study in 2001 that contributed significantly to our understanding of the dairy project, and documentation received made it possible for us to trace a reasonably clear and complete process model for that project. While the management of the maize project undoubtedly possesses an excellent understanding of the subsector and probably has good rationales for its proposed interventions, no formal subsector study has been carried out and we were unable to obtain, in the limited time available to us, a good understanding of the project's process model.

The Deloitte project is a different case again, since it is based primarily on a commitment to the business service approach, rather than to any specific subsector or type of facilitation. The selection of the three subsectors in which the project is expected to work is part of the implementation process in this project. At the time of our visit, the first subsector – selected fruits (mango, avocado, and passion fruit) for domestic consumption and export – had just been chosen and a subsector study was scheduled to take place during the month of February. The second subsector will be selected later in the project's first year, while the third subsector will be chosen early in the second year of the project.

The provision of public as well as private goods: Most of the business services to be promoted under the three projects are what economists call *private goods*. That is, they are utilized by specific entrepreneurs (program participants) and are not utilized by others (non-participants). This difference facilitates impact assessment because the outcomes for participants can be compared to outcomes for non-participants. However, some of the services provided under the projects – for example, consumer or producer market information disseminated by radio or television – are *public goods*, in that no one can be excluded from using them. When public goods are supplied, quasi-experimental impact assessment methodology becomes problematic, because it is impossible to separate potential beneficiaries into treatment and control groups. In these cases, simple before-and-after comparisons may be suggestive of impact, but the suggestion will not be conclusive. For example, if public awareness of the health benefits of milk increases after a publicity campaign and consumption of dairy products also rises, it is at least plausible to think that the campaign had a positive impact.

Measuring the impact of improved knowledge: Many business services involve information and training that improve knowledge. In many cases, it is hard to define indicators that measure improved knowledge, or how the knowledge leads to changes in other areas. Challenges relate to the amount of learning that takes place as well as to the ways in which knowledge is used, by whom, and when. Established 'benchmarks' of learning for the wide variety of training activities anticipated and their identification through an ongoing process of analyzing subsector constraints and developing responsive business service facilitation activities are important. Many benefits of improved knowledge do not accrue immediately, but will appear in the future, beyond the life of the project. Moreover, since knowledge spreads by many means through a 'secondary market', the beneficiaries are seldom limited to those who participated in the formal training.

Multiple and bundled services: Some business service providers offer more than one type of service. Some users receive bundled services from one provider. These distinctions must be made in measuring changes on both the supply and demand sides of business services.

Measuring commercialization in relation to embedded services: When business services are supplied on a stand-alone basis, determining whether the service is being provided on commercial terms is relatively straightforward (although cost accounting issues still arise). When services are embedded in commodity transactions, however, disentangling the portion of the single payment that is attributable to business services is difficult or impossible.

Existing performance monitoring plans and indicators: As part of their project design process, all of the project partners have already developed some plans and indicators for monitoring their results in relation to USAID's Strategic Objective No. 7. They are also working with USAID/Kenya and its other project partners to identify one or two common indicators for each of the strategic plan's intermediate results under SO 7. Once there is consensus on what these indicators will be, a common subset of indicators will be used by all partners to track cross-cutting intermediate results. In some cases, the partners also have to conform to performance monitoring systems used by their headquarters organizations. Thus, the performance monitoring system proposed here will have to be developed in a way that complements, supports, and fits within the overall performance monitoring needs and work of each partner without overburdening them. This is a fairly complex issue to address.

B. Performance Monitoring and the PMP

Three selection criteria govern our recommendations of indicators to be included in a common performance monitoring system for the three projects.

First, the small number of indicators selected by USAID and its partners for inclusion in the PMP reporting system should be included in our list.

Second, other indicators should be added in consultation with the project managements. Taken as a whole, these indicators should comprise a useful management information system.

Third, the list of indicators should not be long. The system should not be a burden on project management or staff or an undue drain of project resources.

All of our projects have objectives that relate both to subsector development and to the development of sustainable business services. During our stay in Kenya, we were able to go through the process of selecting PMP indicators for Sub-IR 7.3.3, 'non-financial services delivered cost-effectively increased'. This was done for the Deloitte project on February 6 and was then to be discussed with the other two projects. PMP indicators for the other Sub-IRs, covering increased productivity in selected subsectors, increased agricultural trade and marketing, and increased effectiveness of smallholder organizations to provide business services to their members, had not yet been determined as of our departure on February 7.

Table 1 lists suggested common performance monitoring indicators. A shorter final list of indicators might be selected from this Table 1. The table is divided into two major domains of activity: development of business services and development of the subsector. Two different types of activity are involved in developing business services: facilitation and service delivery by commercial providers and business-oriented producer organizations. For each type of activity, a few specific indicators are proposed. Within the domain of business services, the list draws heavily on proposals made by Deloitte and related discussions with USAID. Proposals made within both domains require further discussion with USAID and the contractors, for which there was not enough time during our initial visit.

Table 1: Proposed list of common indicators to monitor performance of Kenya subsector development projects

<i>Level</i>	<i>Outcome/ Performance Indicators</i>	<i>Sources of information</i>	<i>Responsibility for data collection</i>	<i>Frequency/timing of data collection</i>
BUSINESS SERVICE: FACILITATION				
	Cost-effectiveness of facilitator program interventions – total program costs per MSE served	Program records; reports from facilitators and direct providers if any.	Program	Annual
	MSE awareness of available commercial business services	Market research	Contracted by program	Occasional
	Number of commercial BSPs participating in project	Program records (reports from facilitators and direct providers if any).	Program	Annual
	Total revenues of participating BSPs.	Program records (reports from facilitators and direct providers if any).	Program	Annual
BUSINESS SERVICE: PROVISION				
	# of MSEs acquiring business services through program assisted providers (by any means) Sub IR. 7.3.3	Survey	Program	Semi-annual
	# of MSEs acquiring promoted services.	Survey	Program	Semi-annual
	# of repeat clients using program-assisted providers.	Program records (reports from facilitators and direct providers if any).	Program	Semi-annual
	Annual sales of MSEs acquiring business services through program assisted providers Sub IR.7.3.3	Survey	Program	Semi-annual
	# of MSEs acquiring business services as a % of the target market.	Survey; estimate based on impact assessment	Program (for participants); STTA (for market)	Start, midpoint and end of program
	# of MSEs from previously omitted or underserved groups acquiring business services (women? other project-specific groups?)	Survey	Program	Annual
	# of business-oriented producer organizations serving participants	Survey	Program	Annual

<i>Level</i>	<i>Outcome/ Performance Indicators</i>	<i>Sources of information</i>	<i>Responsibility for data collection</i>	<i>Frequency/timing of data collection</i>
	# of active members in business-oriented producer organizations	Survey	Program	Annual
	# of women members in business-oriented producer organizations	Survey	Program	Annual
	# of women in leadership roles in business-oriented producer organizations	Survey	Program	Annual
SUBSECTOR DEVELOPMENT: PRODUCTION				
	Annual volume and value of production of program assisted MSEs in the subsector. Annual volume and value of production of all enterprises in the subsector.	Surveys	Program (for participants); official data (or Tegemeo?) for subsector	Annual
SUBSECTOR DEVELOPMENT: TRADE				
	Annual volume and value of exports of the major product(s) of the subsector.?	Survey	Program	Annual

In addition to the selection of indicators, several related issues require further discussion and eventual decision-making. These include:

- Data sources. Most project performance monitoring information can be obtained through reports from bodies involved in various stages of project implementation (facilitators and providers). In some cases, however, additional effort will be required to collect the information needed for performance monitoring. Possible data sources for indicators proposed in Table 1 are cited in the table. The frequency of data collection requires further discussion. The respective project managements may want to get some of the most important information on a quarterly if not a monthly basis. Other indicators might be measured less frequently. Reporting to USAID will be limited to PMP indicators and will be semi-annual.
- Assignment of responsibility for data collection. Facilitators will be required to report on their own activities and to collect and forward information from the providers whom they facilitate. Sub-contractors who function as direct providers pending their exit from the business service market will report to the prime contractor.
- Assignment of responsibility for data analysis and evaluation of data quality. This responsibility rests with the prime contractor. We understand that some provision for an M&E person has been made in each contract, but we did not have time to obtain precise details.
- Cost issues: Is there enough money in the project budgets to fund the recommended performance monitoring system?

We wish that we had had more time during this consulting visit to investigate and sort out these issues, but their resolution will have to take place in the near future.

C. Impact Assessment

1. Potential for Impact Assessment

Refer back to Figure 1 for an indication of the major levels of potential impact assessment for the three projects. Through impact assessment, we could ask what difference the projects are making at four levels of impact:

- *Subsector level*: Productivity and sales in selected subsectors. Trade in targeted agricultural products.
- *Business service level*: Development of and increased access to sustainable business services serving the subsector.
- *Enterprise level*: Performance of producers and other MSEs (e.g., traders and processors) acquiring business services in terms of productivity and revenues.
- *Household level*: The well-being of households that depend on the subsector for all or part of their income.
- *Individual level*: The well-being of individual microentrepreneurs who use business services.

The core impact assessments under the AIMS project, which tried to measure the impact of microfinance services (primarily credit), looked for impact in three of these domains: the enterprise, the household, and the individual participant (borrower and in some cases saver). It did not attempt to measure impact at the level of the subsector, market, or community; nor did it deal with the development of the financial market (corresponding to the supply of and demand for business services in the present case). A major finding of AIMS was that microfinance is fungible: that it frees up resources for many potential uses within the household economic portfolio. Fungibility meant that impact was often found in domains other than the enterprise for which a loan was nominally taken out: in other microenterprises within the household, or even in household variables such as purchases of consumer durables, nutrition, or children's education.

Business services may be less fungible than microfinance, since much (although not all) of the information conveyed to microentrepreneurs and many of the constraints addressed are subsector-specific. This is particularly likely to be the case, we believe, in subsector development programs. Thus, a key level for impact assessment is the microenterprise that operates in the subsector upon which the project focuses. Other domains of impact assessment are also significant, however. Because of SO 7, it is also important to see what difference the projects made for household income. An issue for discussion with USAID and its partners is whether efforts should be made to measure other household-level impacts (for example, on nutrition of children's participation in schooling) or impacts on the well being of individual microentrepreneurs within the household (e.g., women).

2. An approach to impact assessment

To study impacts on the supply of and demand for business services, we propose to focus on change in the provision of services using *business service providers* as the unit of analysis. This part of the impact assessment will build strongly on the performance monitoring indicators. The impact assessment would focus on changes over time in revenues of program-assisted providers and the contribution to changes in revenues of all business service providers serving the subsector. It further would compare changes over time for project assisted and non-assisted business service providers in the quality of services, diversity of services, the commercialization of services, and effectiveness in reaching underserved MSEs or other targeted groups within the subsector. One concern raised during the course of our discussions with USAID was that a rapid push to commercialize business services in rural Kenya might leave out poorer farmers and MSEs to the advantage of those in an initial position to afford the services. The ability to pay is one issue to explore. The willingness to pay for services for which the benefits are untested or unknown (at least at the initial stages) is another. These impact issues could be studied through qualitative case studies of poorer farmers and microentrepreneurs who are aware of the services but do not use them.

At the *enterprise level*, impacts could be studied by collecting survey data on changes in enterprise revenues, assets, employment, and transactional relationships. Another question to consider is the extent to which the provision and use of project assisted business services enables MSEs to overcome key subsector constraints identified at the stage of subsector analysis. This impact issue could be explored through case studies of MSEs.

At the *household level*, impacts could be studied by collecting survey data on changes in total household income, sources and flows of household income, household assets, and other context specific indicators of household well-being. In measuring rural households income, account should be taken of the income proxy approach developed by Tegemeo. If possible, the impact assessment will generate comparable household income data for participant and non-participants in the samples. Case studies or other qualitative research methods can be used to explore household (and enterprise) risk management strategies and the role of subsector development programs in this process.

At the *individual microentrepreneur level*, changes for women or other previously underserved groups -- resulting from improved knowledge or skills, their access to new activities or new markets within the subsector or improved enterprise performance -- could be explored through case studies. For example, changes in microentrepreneur's individual control over income and assets within their households, participation in household decision-making, mobility, or labor allocation could be explored. A key question for women or other disadvantaged groups is whether new or improved business services are playing a role in improving their access (breaking down the barriers) to subsector activities and markets. This also could be explored through case studies of the experience of individual microentrepreneurs, as well as through gender-disaggregated performance monitoring data. Further discussion with partners is needed to identify which types of individual level impacts could realistically be expected from subsector development programs and whether or not to include them in the impact assessment.

Table 2 presents a proposed list of indicators to assess impact. As with the earlier list of performance monitoring indicators, a shorter final list of impact indicators can be select from this

longer list. The present early formulation needs to be discussed with project partners and other stakeholders and refined in keeping with the contexts of the three projects, the objectives of the impact assessment, and resources available. Table 2 is divided into five levels of analysis: the subsector level, the business service level, MSEs, households, and individual microentrepreneurs. For each of these levels of analysis, a few specific indicators are suggested along with a data collection strategies and methodologies. This proposed approach to impact assessment will require further discussion with USAID and the contractors, as the time available for this during our visit was limited.

TABLE 2: Common indicators to assess the impact of Kenya subsector development projects

<i>Units of Analysis</i>	<i>Domains of Impact</i>	<i>Impact Indicators Change in...</i>	<i>Data Collection Strategy</i>	<i>Methodology</i>
SUBSECTOR LEVEL				
	Productivity and sales in targeted subsectors	Annual volume and value of production of program-assisted MSEs in the subsector Annual volume and value of production of all enterprise in the subsector	Annual review of performance monitoring and secondary data	
	Trade in targeted agricultural products	Annual volume and value of domestic trade in targeted agricultural products Annual volume and value of exports of targeted agricultural products of the subsector	Annual review of secondary data	
BUSINESS SERVICE LEVEL				
	Increased access to business services	<i>Commercialization of services:</i> Total revenue of all business service providers in subsector	Survey of project assisted and non-project assisted business service providers	Mixed methods - Quasi-experimental - Expert and participant opinion
		Total revenue of project assisted BDS providers	Case studies of business service providers	
		<i>Diversity of services:</i> Number and type of new service products provided by all business service providers and by project assisted business service providers	Client satisfaction surveys	
		<i>Effectiveness in reaching previously underserved groups:</i> Number and % of MSE customers acquiring business services who represent target populations		
		% of potential MSE target market acquiring the service		
		Number and % of repeat purchasers by all business service providers and by project assisted business service providers		
		Case studies of changes in the quality of business service provision		
		Client satisfaction with last purchase		

<i>Units of Analysis</i>	<i>Domains of Impact</i>	<i>Impact Indicators Change in...</i>	<i>Data Collection Strategy</i>	<i>Methodology</i>
MSES				
	Enterprise performance	<i>Quality of services:</i> Number and % of repeat purchasers for all business service providers and for project-assisted business service providers	<ul style="list-style-type: none"> – Program data; – survey; – case studies of clients 	
		Client satisfaction with last purchase	Case studies of clients	
		<ul style="list-style-type: none"> – Revenues – Enterprise assets – Enterprise employment (measured in hours and days over the past month and year) – Quality of transactional relationships (whether firms are able to buy inputs from wholesalers rather than retailers) 	<ul style="list-style-type: none"> – Survey of MSEs using and MSEs not using project facilitated business services – Case Studies 	Mixed methods - Quasi-experimental - Interviews with participants and non-participants
HOUSEHOLDS				
	Rural household income and well being	<ul style="list-style-type: none"> – Household income – Household assets – Household ability to manage risk 	<ul style="list-style-type: none"> – Survey of household linked to above MSEs – Case Studies 	Mixed methods - Quasi-experimental - Interviews with participants and non-participants
INDIVIDUAL MICRO-ENTREPRENEURS				
	Individual well-being	<ul style="list-style-type: none"> – Business knowledge, skills, and practices – Individual control over income – Role in managing assets – Participation in decision making – Labor allocation/productivity – Increased access by women to new subsector markets and activities 	<ul style="list-style-type: none"> – Survey of microentrepreneurs linked to above MSEs – Case studies 	Mixed methods - Quasi-experimental - Interviews with participants and non-participants

3. Design of the impact assessment

The impact assessment should be longitudinal in design, involving at least two rounds of data collection to capture change in impact indicators over time. Data would be collected on business service providers, MSEs, and households and microentrepreneurs linked to these MSEs in geographic areas (or representative geographic areas) covered by each of the projects. It would involve a sample of project assisted and non-project assisted business service providers. It would further involve a sample of MSEs that have used project-facilitated business services and those that have not. Data also would be collected on households and individual microentrepreneurs linked to these MSEs. The impact assessment will require a mix of *research methods* including quasi-experimental, before/after surveys, participant case studies, key informant interviews, and focus group discussions.

Given the complexity of the three Kenya projects in terms of outreach, geographic coverage, and mix of activities, *sample design* will be a challenging task. In finalizing the design of the impact assessment, it will be important to consider issues related to the sample frame, sample size, and the process of sample selection for both the project assisted and non-assisted providers and MSEs. This process will require careful thought and discussions with the project partners, USAID, and local research partners during the next stage of work. Since maize, fruit, and dairy production take place in different regions (although there are overlaps) and involve different activities, we anticipate that a different sample of actual or potential program participants will need to be drawn for each project. Each project will have its own area of operation, and some or all may move from one region to another as they proceed. In addition to the problem (discussed earlier) of determining *how* the project plans to bring about change, it is also important to specify as soon as possible *where* project activities will occur and where they are expected to have impact. In the case of the Deloitte project, where multiple commodities will be involved (even within the first subsector chosen, which covers three fruits grown in different regions), the design problem will be particularly acute. More work on sample design should be a priority issue in the next stage of work.

The *longitudinal design* also will require discussion and decisions on how best to capture baseline information, how many rounds of data collection to include in the impact assessment, and the timing of data collection. Seasonality is a critical issue to consider in deciding when and how often to collect data. Surveys should take place at an ‘average’ or ‘representative’ time of year and succeeding survey rounds should occur in the same season. The first round of the survey should be undertaken as soon as possible and the second round two years later. If results after two years suggest that a third survey round would be useful and adequate resources are available, a third round of data collection could occur after another two years. In considering the time frame of the impact assessment, it is important to give the projects enough time to get underway and impacts enough time to manifest themselves.

In planning the impact assessment, two or three options for a research design should be sketched out, ranging from a lower cost to a higher cost approach. Several dimensions of the activity will have an important influence on the cost of the impact assessments. These include:

- ◆ The number of levels and domains of impact that are examined: All four of the levels and related domains discussed above, or just some of them?
- ◆ Sample size: There is a trade-off between the statistical reliability of data analysis results and cost.
- ◆ Number of indicators collected and analyzed: To what extent do we look at alternative indicators of impact?
- ◆ Number of survey rounds: Two is the minimum; a third round can be considered later on.
- ◆ Methodological sophistication of the basic approach: We recommend surveying a control group of non-participating enterprises as well as program participants. Service providers, however, could simply be tracked.
- ◆ The extent of qualitative assessment to complement the survey results: The survey results can be deepened and interpreted through complementary qualitative assessment tools such as in-depth participant interviews and focus-group discussions among business service facilitators, providers, and clients. More or less of this activity could be done.
- ◆ Sophistication of analytic techniques used.
- ◆ Local collaboration and continuous on-site supervision of impact assessment: We can provide overall leadership for the design and conduct of the impact assessments, but much of the work will have to be done by a capable local survey research organization (Tegemeo?) and continuous day-to-day supervision will be required. Strong internal leadership from the right local organization will be required. Even so, it is important for the STTA project to assign a capable junior person to supervise the work on a daily basis and facilitate liaison with the visiting consultants.

The cost of the impact assessments will depend on the decisions made with respect to all of these dimensions. Costs could be cut in various ways. Some of the trade-offs would be lower levels of confidence in the reliability of the findings, less depth in understanding impacts and impact processes, and less scope for generalizing the findings.

Once the partners and other stakeholders agree on a framework, basic design, and resources available for the impact assessment, the next step will be to develop data collection instruments. The survey questionnaire should be designed with a common core of information, plus additional information to deal with the specifics of the subsector and the services to be facilitated by the project. General categories of data collection should include the *use of business services or program participation* (usage measures for the most important services targeted by the project); *target variable* (measures of the quantities that we would expect to be affected by the projects) and *mediating variables* (other attributes of the enterprises, households, and entrepreneurs that might influence observed values of the target variables).

C. Next Steps

- Work with the AFE STTA team, USAID/Kenya, USAID Microenterprise Development Division, and Kenya project partners to refine the framework and indicators, with special emphasis on building consensus on the impact chain, levels of impact, indicators, definition of indicators, and divisions (conceptual and practical) between program monitoring and impact assessment.

For performance monitoring

- Work with the USAID/Kenya mission and the Kenya project partners to integrate the business service *performance monitoring* indicators into their overall monitoring systems, as appropriate.
- Determine what human and financial resources are available to project partners for *performance monitoring* activities, and the ‘fit’ of the proposed monitoring system to these resources. Adjust the fit if necessary.
- Assist in the development of a six-monthly *performance monitoring* data collection and reporting system for the partners.

For impact assessment:

- Building on the preliminary framework and recommendations for an impact assessment in this report, and based on consultation with and inputs from USAID and the contractors, develop a terms of reference for finalizing the design and implementing a program of *impact assessment*.
- In developing the terms of reference for the *impact assessment*, further consideration should be given to:

A clear statement of objectives and intended users of the impact assessment

A statement of key research questions. This should be guided by the intended use of the information, views of users on the most important questions, and the resources available for the impact assessment.

- The method or mix of methods to be used for the impact assessment
- An estimate and rationale for the sample size. The location of the sample should also be identified, as the cost of transport of the data collection team to sites is an important budget consideration.
- An estimate of the level of effort and timeframe for the impact assessment. For each research method, sufficient time and resources should be included for its design, training of data collectors, implementation, and supervision of the data collection process. It is also important to realistically estimate the time required for analysis of the data, interpretation and presentation of the results, and dissemination. The timeframe should consider the time interval between each data collection rounds (assuming a longitudinal assessment) and seasonality issues, as well as the schedules and availability of project management and staff.
- Definition of key personnel needs and availability for the impact assessment. The skills of team members should be complementary and include Kenya field

experience, business service experience, impact assessment experience, quantitative (statistical) or qualitative methodology expertise, computer skills, and knowledge of local languages in project areas.

- The overall costs and how they will be covered.
- If deemed useful by the partners, develop a small manual that explains the meaning of the performance monitoring and impact indicators.

The design and implementation of a performance monitoring and impact assessment system for these three USAID/Kenya projects will be challenging and require strong commitment and support from the partners. However, improved understanding of subsector development program processes and impacts can lead to better programs in Kenya with far-reaching benefits for microentrepreneurs.

Annex 1:
LIST OF DOCUMENTS REVIEWED

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**Annex 3:
SCHEDULE OF ACTIVITIES (SNODGRASS AND SEBSTAD)
NAIROBI, JANUARY 23 – FEBRUARY 7, 2003**

Thursday 23 January	J. Sebstad arrives in Kenya (2:30 pm) D. Snodgrass arrives in Kenya (8:00 pm) Introductory meeting with AFE team
Friday 24 January	8-11 Meet with AFE team members Henry Panilbuton and Henri Van der land 11-1 Meet with Meg Brown and Pharesh Ratego, USAID/Kenya 2-4 Meet with partner organizations (ACDI/VOCA; Deloitte Touche Tohmatsu) 4-6 Discussions with AFE team and Land O'Lakes Country Manager
Saturday 25 January	9-3 Review and discuss background documents
Sunday 26 January	9-3 Review and discuss background documents
Monday 27 January	Set up appointments Meet with Yesse Oenga and Carolyn Lukalo, Land O Lakes Meet with David Knopp and Muli Musinga, Deloitte Touch and Tohmatsu Team consultations
Tuesday 28 January	Team consultations Meet with Steve Collins, Lucy Njuguna, Stanley Guantai, ACDI/VOCA
Wednesday 29 January	Attend USAID PMP Workshop
Thursday 30 January	Attend USAID PMP Workshop
Friday 31 January	Meet with Nick Moon, Approtec Meet with James Nyoro, Gem Argwings-Kodhek, W. Nguyo, Tegemeo Institute Team consultations
Saturday 1 February	Meet with Yesse Oenga and Caroline Lukalo, Land O Lakes Work on draft report Team consultations
Sunday 2 February	Work on draft report Team consultations
Monday 3 February	Team consultations with Henri Van der Land Meet with Catherine Masinde, David Ferrand, DFID Kenya Work on draft report

Tuesday 4 February	PMP meeting for Kenya BDS project (USAID, Deloitte, AFE, and FIT) Report writing and team consultations Phone call/update with Henry Panilbuton and Frank Lusby
Wednesday 5 February	Debriefing with Meg Brown and Pharesh Retege Report writing and team consultations J Sebstad departs for Ethiopia (7 PM)
Thursday 6 February	PMP Meeting with Deloitte, FIT and Pharesh Ratego Report writing and team consultations
Friday 7 February	Report writing and team consultations D. Snodgrass departs for US (11:35 PM)

Annex 4: SCOPE OF WORK

Developing Performance Monitoring Systems for Business Service Programs in Kenya

Purpose

The purpose of this consultancy is to engage two (2) M&E specialists to help define and develop a common performance monitoring and impact assessment system for three subsector-based development programs in Kenya. This system should be developed within the context of USAID Kenya's evolving Performance Measurement Plan (PMP) framework.

The goal of this consultancy is to develop the framework for a monitoring and impact assessment system that will help USAID and its partners in Kenya to measure the effectiveness of various approaches to business service development, to facilitate learning in the field, and to document and define emerging "best practices".

Background

USAID/Kenya has recently initiated three subsector development programs: dairy; maize; and a business service development (BDS) program for which the subsectors have not yet been identified.

All of these programs will adopt a subsector-focused business service development approach. This approach differs from earlier versions of "BDS market development" that have tended to focus on the business service markets themselves, with limited analysis of the product markets from which micro and small enterprises (MSEs) earn income. The subsector-focused approach to business service development recognizes that the demand for business services (and the potential for MSEs to benefit from those services) is linked to the income earning potential of the product market or subsector in which firms operate.

Identifying and developing business services that have a direct effect on strengthening the market for final MSE-produced products – it is hypothesized – is an effective strategy for increasing MSE income. Since this approach to business service development is new, the Mission has requested AFE to provide intermittent, short-term technical assistance (STTA). Initial interventions of the AFE STTA unit took place in November and December 2002 (see summary report of activities in appendix to this SOW).

A major aspect of AFE's STTA support is to ensure that adequate and effective performance measurement and impact assessments systems for business service development are in place.

Activities and Tasks

During this assignment, the consultants will conduct the following activities:

1. Review the following key documents:
 - AFE paper on the “Subsector/Business Service Approach”
 - USAID Kenya’s Integrated Strategic Plan (ISP) for 2001-2005
 - Subsector Program Proposals for maize, dairy, and BDS;
 - Performance Measurement Framework (PMF) documents
 - “BDS Market Development: From Causal Models to Monitoring and Evaluation of Intervention Programs”
2. Review and comment on the appropriateness of “the causal model for BDS interventions (subsector model)”⁶ for developing a performance measurement and impact assessment framework for USAID-funded subsector development programs in Kenya (i.e., maize, dairy, and BDS).

This activity will entail consultations and/or meetings (in the Washington DC area) with the AFE STTA team and USAID/MD staff, and simulating the application of the causal model to an illustrative business service program case study;

3. Review USAID Kenya’s Performance Measurement Plan (PMP) for Strategic Objective 7 (increased rural household income), and contribute to its refinement in relationship to the subsector programs, where appropriate.

Propose appropriate common performance indicators for business service development in USAID-funded subsector programs in Kenya—ensuring adequate fit and relevance to the Mission’s SO-7 PMP and its overall strategic framework.

4. Consultants will refer to the preliminary list of proposed common performance indicators proposed by Subsector Program and STTA staff during recent meetings in Kenya. They will comment on appropriateness of this list and propose changes and revisions as needed. The consultants will also ensure that there are clear, and agreed upon definitions for each indicator;
5. In collaboration with the subsector program teams, develop a system for monitoring the performance of their business service development initiatives. This system should include the following elements:
 - Plans for data collection;
 - Data source for each performance indicator;
 - Method of data collection for each indicator;
 - Frequency and schedule of data collection; and
 - Responsibility for data collection and reporting

⁶ See “BDS Market Development: From Causal Models to Monitoring and Evaluation of Intervention Programs”; Graphic 2 p 9; final version 9/20/02.

The system should also be integrated into the overall M&E system of the individual programs (consolidating indicators whenever possible).

The consultants shall use a participatory approach in developing the performance monitoring system for business service activities. They shall solicit the views of subsector program staff, USAID Kenya, Tegemeo Institute (currently conducting household surveys for USAID Kenya), and other relevant organizations in Kenya.

6. Develop an impact assessment system to determine the effectiveness of business service approaches to subsector development and increases in rural household income in Kenya;

In developing this system the consultants shall build on the on-going analytical work in business service development by USAID and practitioners worldwide.

7. Propose next steps for continued support: (i) to the individual programs on the performance monitoring of their business service activities; and (ii) to coordinate and manage the implementation of the proposed impact assessment system for business service approaches in Kenya.

Reports and Deliverables

The consultants shall be responsible for:

- Participation in a one-day consultation meeting with AFE and USAID/MD staff (in the Washington DC area) to review and discuss a causal model for business service development;
- De-Briefings of the USAID/Kenya's SO 7 Team to keep them current on the progress being made and to provide relevant input in the development of the PMP;

The consultants will also produce a Final Technical Assistance Report (in both hard and electronic copy) at the end of the consultancy.

This report will include an executive summary, a description of the assistance provided; it will also highlight significant accomplishments, problems encountered, solutions and recommendations. The appendices of the report will include a copy of the terms of reference, a work calendar, and a list of all persons interviewed, consulted and visited including the title of these persons and contact information.

Before the end of the consultancy, the consultants will present this report to AFE so that after review and discussion, suggestions and modifications can be incorporated into the final version.

Level of Effort

The consultants will be authorized up to twenty (20) days each to complete this work. The consultancy will take place between mid-January and February 2003. Travel to Kenya is planned to take place between January 24th and February 7th.

The proposed level of effort can be broken down as follows:

Prep work/Travel:	3 days
In-country work in Kenya:	14 days
<u>Post trip/Return Travel:</u>	<u>3 days</u>
TOTAL	20 days

Annex 5:
**LIST OF INDICATORS FROM SUBSECTOR FOCUSED BDS MARKET
DEVELOPMENT DOCUMENTS FROM PROJECT PARTNERS, USAID, AND OTHER
DOCUMENTS**

ACDI/VOCA Maize project proposal:

BDS market

Expanded access to BDS by smallholders

- Growing number and variety of BDS
- BDS promoted through FBOs, MCHs and MSCG meetings

BDS market

Increased Services provided by private sector used by maize farmers

- More farmers access services through FBOs and MCHs
 - New/improved products/services launched targeting small maize farmers
- Larger number of service providers employed on contractual basis by farmer organization

BDS market

Increased demand for services by maize farmers

BDS market

Commercial provision of BDS

Millers association increasingly paying for brokerage services

ME

Active and sustainable learning by farmers on technologies, business services, product quality, marketing arrangements

- Increased ability of farmers to assess potential profitability of services

Subsector

Producer organizations selling increased volumes of maize through DACE FBO trading boards

Land O'Lakes Dairy project

Deloitte, Touche and Tohmatsu draft workplan

Subsector

Final market for goods and services – annual volume of sales within given subsector

BDS market

Development of BDS market – total number of MSEs acquiring BDS through program assisted commercial providers

BDS market

Cost effectiveness of facilitator program interventions – total program costs per microenterprise served

BDS market

Capacity of BDS provider -

- # of commercial BSPs participating in Kenya BDS activities
- # of new or modified products introduced within program assisted subsectors
- Change in revenue of BSPs participating in Kenya BDS Activities

BDS market

Impact on ME client

Number enterprises aware of business service

of repeat MSE clients using program assisted service providers

ME

Total revenue generated by Kenya BDS assisted microentrepreneurs

USAID Microenterprises Best Practices project Field Research, Performance Measurement Framework, Outreach and Market Development Survey Guide

- Expanding the market for BDS
- Market size: Number of SEs acquiring the service through any transaction type
- Market size: Number of SEs purchasing the service
- Market Size, supply: Amount of annual sales
- Market Penetration: % of potential SE market acquiring the service
- Awareness: % of SEs aware of the service
- Reach: % of those aware who have purchased services at least once

Developing a high quality, diverse, competitive market

- Number of BDS suppliers
- Number of Service products
- Satisfaction with last service purchase

Deepening the market: reaching underserved groups

- Number and % of SE customers purchasing BDS who represent targeted populations
- % of potential SE target market acquiring the service

Suggested Evaluation Indicators for Subsector Model (BDS Market Development: From Causal Models to Monitoring and Evaluation of Intervention Programs)

Intervention activities:

- Facilitate Supply
- Facilitate Demand
- Facilitate Links

Outcomes:

Stronger BDS Market for Identified Services(s)

- Sales of BDS
- Market Penetration
- Percentage of MSEs benefiting from service
- Percentage of those aware of service who have purchased or acquired

Stronger Subsector

- Number of constraints removed
- Final sales
- Sales along the supply chain

Improved MSME performance leading to poverty reduction

- Revenues or profits of MSMEs
- Enterprise assets of MSMEs
- Employment in MSMEs
- Quality of MSMEs transactional relationships
- Household income per capita

AFE Short Term Technical Assistance for USAID/Kenya's Business Service Programs

Intervention Indicators

Number of enterprises acquiring business service from targeted/participating commercial providers

Number of commercial service providers (operating without a subsidy)

Revenues and/or profit of commercial providers (operating without a subsidy)

Number of linkages made (depending on intervention)

Program costs per enterprise acquiring business service from targeted commercial providers

Outcome Indicators

Number of enterprises acquiring business service from targeted/participating commercial providers in a sustainable manner (i.e. full cost recovery)

Percentage of enterprises benefiting from service

Sales (value and volume) of subsector product to final markets

Revenues or profits of enterprises in target group

**Annex 6:
DIFFERENCES BETWEEN PERFORMANCE MONITORING AND IMPACT
ASSESSMENT**

	PERFORMANCE MONITORING	IMPACT ASSESSMENT
Purpose	<p>Seeks to <i>'improve'</i> impact by:</p> <ul style="list-style-type: none"> • tracking program activities up to the point of BDS service delivery to determine progress and/or constraints towards the achievement of immediate project objectives and 'milestones' – often related to the outreach and effectiveness of BDS • promoting organizational learning to improve project performance 	<p>Seeks to <i>'prove'</i> impact by:</p> <ul style="list-style-type: none"> • making a case that the program contributed to higher level program objectives • establishing plausible association (causal link) between changes identified and project activities. <p>Seeks to <i>'improve'</i> impact through:</p> <ul style="list-style-type: none"> • better understanding of impact chains and the causal links between project activities and higher level objectives; • better understanding of mediating processes that influence impacts.
Audience	<p>Project managers BDS facilitators and providers involved in the project USAID/Kenya project officers and PMP team USAID/Washington Other stakeholders</p>	<p>Project managers BDS facilitators and providers involved in project BDS facilitators and providers beyond the project USAID/Kenya program office USAID/Washington microenterprise office USAID senior management Others donors Other BDS market development promoters and advocates Policy decision makers Academics</p>
Methods	<p>Sub sector analysis (to feed into baseline monitoring data on BDS providers and users MIS to track and report on activities, outputs, and indicators immediate outcomes or effects Client satisfaction surveys</p>	<p>Quasi experimental methods (for MSE and household level impacts) Before/after methods (for BDS market development indicators) Case studies Focus group discussions Key informant interviews</p>

**Annex 7:
DESCRIPTION OF PROJECT-SUPPORTED ACTIVITIES**

PROJECT ASSISTED OR PROMOTED ACTIVITIES	General definition	Examples of BDS market facilitation or promotion activities	Facilitators
Facilitation or promotion of subsector-focused BDS market development	<i>Facilitation activities</i> address constraints in the supply of business development services to MSEs, as well as the demand for such services by (i) improving the capacity of service providers to deliver services and (ii) stimulating the demand for business services.	Analyze subsector Undertake market research Train BDS providers Promote BDS innovation Build networks Inform consumers Advocacy (for the BDS industry)	Deloitte, Touche Tomatsu (and partners) ACDI/VOCA (and partners) Land O Lakes (and partners)
		Examples of subsector-focused business development services	Business development service providers linked to the projects
Provision of sub sector business development services	Provision of a non-financial strategic or operational service that improves the performance of an enterprise, its access to markets, and its ability to compete.	Train farmers/producers Provide management advise Provide technical advice Accounting Marketing Strategic planning Promote access to: - Input supplies - Market information - Export markets Product development and design Improved technology Industry advocacy Legal services: Access to mediation for breach of contract	Stockists Exporters Producer organizations Input supply companies Government agencies NGOs Irrigation Equipment suppliers Exporters Association Producer associations