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# EVALUABILITY ASSESSMENT OF THE USAID/BRAZIL MICRO AND SMALL ENTERPRISE TRADE-LED GROWTH PROGRAM

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## BACKGROUND

The USAID/Brazil Micro and Small Enterprise Trade-Led Growth Program is intended to demonstrate that targeted assistance to key small lead firms can open export markets and lead to increased sales. Because the lead firms selected for assistance involve large numbers of microenterprises, as suppliers of finished and semi-finished products, and hire low income workers, the increased sales will benefit small microenterprises and the poor through expanded opportunities to supply goods and services to the lead firms, increased employment, and income.

The program was initially selected to be the subject of one of two impact assessments of USAID-supported private sector development programs<sup>1</sup> under the AMAP BDSK&P project to test the application of USAID's impact assessment methodology to enterprise development programs. The USAID/Brazil Program was selected because it (1) is a relatively small, focused activity (\$1.7 million over a two-year period), (2) has a strong value-chain orientation that involves large numbers of poor, both as microenterprises and as employees in the value chains, (3) is taking an integrated approach to enterprise development, including non-financial services and linkage activities, (4) is being implemented by a DAI affiliate, guaranteeing full program management support, and (5) was scheduled to coincide with the timing requirements of the AMAP BDSK&P project and the India program.

An AMAP BDS team – consisting of Don Snodgrass, John Magill and Andrea Chartock – visited Brazil in July 2005 to conduct an “evaluability assessment” as a first step in planning an impact evaluation for the program. Following meetings with the program team, USAID/Brazil's CTO and the AMAP/BDS CTO in Rio, it was decided that the program was not well suited to the type of impact assessment envisaged for the AMAP/BDS K&P activity because the short time-frame of the interventions limited the usefulness of the program as a case study. The fact that the interventions were not fully planned and the limited scope of the program meant that it was unlikely to produce large-scale, quantitatively measurable results within the program's timeframe. In addition, the limited timeframe of the program that, even though it might be extended, did not meet the two-year minimum follow-up period for an impact assessment.

Nevertheless, the program contained a significant monitoring and evaluation (M&E) component, and planned to collect data relevant to impact assessment as part of its on-going M&E activity. Accordingly, a decision was made to scale back AMAP-BDS activities to a minimal effort that would support the program's existing M&E plans. AMAP-BDS will use this opportunity to learn about the feasibility of building low-cost impact assessments into on-going program M&E activities as an alternative to large-scale, independent impact assessments.

## DESIGN OF THE USAID/BRAZIL PROGRAM

The USAID/Brazil Program is a limited program, with few resources, a short time-frame, and limited objectives that is a pilot effort designed to demonstrate whether or not it is possible to help small firms in Brazil identify and access international markets for their products, and to provide assistance to those firms to help them meet the requirements of and compete successfully in those markets. The sectors selected for assistance<sup>2</sup> are located in poor areas of the Northeast of Brazil, and involve large

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<sup>1</sup> The GMED program in India, implemented by ACDI/VOCA, was selected for the second assessment.

<sup>2</sup> The program went through a lengthy process of examining 92 possible sectors and locations before making a final selection of four sectors in four northeast states – beach wear in Bahia, honey in Ceará, cashew nuts in Piauí, and açai in Pará.

numbers of poor – either as direct employees of the small lead firms or ancillary businesses associated with the firms, or as microenterprises providing raw materials, semi-finished goods and final products for export to the lead firms.

The program is designed specifically to have a direct, major impact on two levels of the value chain. The first and primary impact is on the lead firm/exporter-importers linkage: the program is designed to link selected lead firms to buyers in the United States and to provide assistance to the firms to help them meet design, quality, packaging and other standards necessary to sell to those buyers. The second major impact is to increase the demand by the lead firms (as a direct consequence of their new export markets) for products produced by microenterprises and thereby increase their income and employment. Another visible benefit that is expected to occur is increased employment (both formal, in the lead firms and informal, as opportunities to work in or operate microenterprises) as production increases to meet export demand.

Less tangible, though equally important, benefits might occur through improvements in the power relationships among several key actors in the value chains – particularly in the relationship between microenterprise producers, middlemen, and the lead firms – and in learning associated with quality standards for export-oriented production. For example, power relations will be affected if the lead firms are able to access financing (not provided directly by the program) and are able to purchase materials direct from the microentrepreneurs rather than from middlemen. This would reduce the microenterprises' dependence on the middlemen and increase income due to increased volumes purchased (not to changes in price). Learning (although the program's involvement in training microenterprises will be extremely limited), can be expected to result from the need to meet higher phytosanitary standards (in the case of açai), design and quality standards (in the case of beachwear), productivity and variety standards (in the case of cashew) and others that might arise. These are indirect benefits in that the program itself does not contemplate major activities directly targeted toward bringing about changes in these areas.

It is important to note that this program is not attempting to affect all aspects of the value chain or bring about broad-scale changes in the sectors.

## **CAUSAL MODELS AND PLAUSIBILITY OF INTENDED IMPACTS**

The USAID/Brazil Program is working to assist four regional value chains. However, for the impact assessment, it has been decided to focus upon three of these: honey, cashews and beachwear. At the time of our visit, the activities in the açai sector were being rethought due to a tense political situation in the producing region. As a result, it will not be possible to create a clear causal model of activities and expected outcomes in that sector until a later date. As the time available for the impact assessment is short, the possibility of research to study possible impacts in this sector must be reserved for future consideration.

The causal models for the honey, cashew, and beachwear value chains serve to clarify the links between program inputs, activities, outputs, outcomes, and impacts. Based on these causal models and our interviews and observations of the program, we think that there are plausible links between the program activities and the intended impacts on employment and income.

## **DESIGN OF THE IMPACT ASSESSMENT**

The original plan for the impact evaluation was to follow a longitudinal, quasi-experimental design based on a mixed-method approach focused on interviews. A sample of program clients and a comparable group of non-clients was to be surveyed twice, with at least a one-year interval between surveys. Quantitative data collected through these surveys would be supplemented by qualitative information.

Instead, the design of the impact assessment has been influenced by several factors, including a limited budget, the limited timeframe of the program, the extensive data that are being gathered through the program's M&E system, and widely available, high-quality statistics on the sectors being assisted and international trade. As a consequence, the design of the impact assessment was modified, tailored to the specific characteristics of the program and the limitations mentioned above. This entails a focus on the two levels of the value chains where direct benefits are expected to occur rather than a comprehensive study of the environment and all factors and relationships involved in the international markets for these products. Furthermore, the revised design involves a heavy reliance on small-sample qualitative research methods (interviews with lead firms and key informants and focus group discussions) to identify and understand the nature of benefits to lead firms and microenterprise participants in the value chains.

### **DIRECT BENEFICIARIES**

Data on the program's direct beneficiaries – lead firms and microenterprises – will be collected at two points in time to provide the before-and after comparison of an impact assessment. If the program is extended, a third round of data collection may be possible. A fixed questionnaire will be administered to the lead firms at the beginning of the interventions, and again at least one year later. In addition to these surveys, statistics on sales, materials purchased from microenterprises and the number of microenterprises materials were purchased from, and employment and wages paid to employees were collected from the lead firms. These data permit a separate assessment of the impact of the program, and a means to test data collected on the microenterprises.

Because the budget does not permit a formal survey of the microenterprises, these will be interviewed through focus group discussions. A panel of microentrepreneurs supplying the lead firms will be recruited in each sector, and will participate in focus group discussions at the beginning of the interventions, and again at least one year later.

In addition to the lead firm interviews and microenterprise focus groups, in certain instances other actors in the value chain were interviewed. In particular, in the honey and cashew sectors, intermediaries – who profit from purchasing material from the microenterprises and reselling it to the lead firms – are being interviewed to see if relationships have changed; for example if access to credit has reduced this role by allowing the lead firms to purchase more product directly.

### **CONTROL GROUPS**

The second component of any impact assessment is to demonstrate that observed changes would not have occurred naturally. This is done through disproving the counterfactual, and inevitably requires a control group – individuals or firms who are similar to the direct beneficiaries, but who did not benefit from the program's activities.

Control groups for the lead firms were selected as non-participating firms in nearby locations. In the case of cashew nuts, large exporting firms were also interviewed. Before and after interviews will be administered to these firms.

In addition to the interviews with non-beneficiary firms, Brazil has detailed trade statistics on the sectors studied – including data by state and by end market. From these statistics it is possible to draw inferences about the general trend in exports of the three products studied to the United States. While growth in trade comparisons are possible (since some of the firms already exported small quantities to the U.S. prior to the program, percentage growth in trade can be calculated) it will also be possible to ascertain the extent to which exports to the U.S. are growing in the three sectors, and assess the relative participation of the assisted firms in these markets.

For the microenterprises, control focus groups will not be conducted.

## **EMPIRICAL CHALLENGES**

While the study shares a number of generic issues associated with all impact evaluations, several special challenges are associated with this program:

1. Length of program—time to show impacts: The duration of the program is short. In the case of açai, which was undergoing a change in planned activities, we determined that the length of time would likely be too short to show concrete impacts.
2. Timing of study: Each of the sectors has marked seasonality. For this reason, there are at most two export seasons per value chain, which leave little time for learning and changes to take place. We need to collect the baseline data almost immediately before the harvesting and production season begins so as not to disturb the MSMEs during their high season. Also, as the value chains have different production seasons, the baseline period is not concurrent. The baseline collects information about the most recent crop or production period to when the research began.
3. Collecting information on impacts, employment, and income for MSMEs participating at various levels of the value chain. In each case, there are MSMEs that process or assemble the final product, along with MEs that are involved in collection, cultivation, or piecework. MSMEs may also participate at higher levels of the value chain.
4. New research methodology for scaled down cost. This will be a learning experience for us and we need to see how it works and what we can learn from the process. Even though quantitative information will be collected from beneficiaries, we will not attempt to do a large scale survey of beneficiaries which is statistically significant. It is our hypothesis that we will still be able to see some good impacts and create very much learning from the impact study.
5. Selection of the control group. It is necessary to select a group of firms that are not beneficiaries and are similar according to observable characteristics (export performance, market access, size, workforce capabilities, etc.) to compare their performance with the program's beneficiaries. However, it is a challenge to find similar firms, particularly in the case of cashew nuts. The lead firm (Unica) is unique and most cashew mini-mills are being supported by other programs, which also promote market access.

## LOGISTICS

**Persons Interviewed.** We met with program managers, the COP, the Deputy COP, Eduardo Freitas of USAID, Jeanne Downing, and M&E manager Joana Monteiro, and DAI technical backstopper Lara Goldmark. These interviews helped us to better understand the program, construct and verify causal models, and discuss the planning, design, and uses of the impact evaluation.

**Research Firms.** We interviewed several firms and individuals to assess their suitability as local research partners for the impact evaluation. We were surprised by the high costs proposed by local research firms. There was an additional problem in that travel to the regions for the research would be very expensive. In the end, after weighing price, ability to understand the program framework, research methodologies, and business, we selected two individual researchers based in Rio with whom we felt most comfortable working. DAI Brazil had used them before and felt confident in the quality of work they are able to produce.

**Training of the Research Team.** Training was limited by the amount of time the team had available during the brief visit. The DAI team conducted two workshops – one on the concepts of the conceptual framework of private sector development programs and one on the concepts of impact assessment. The team also worked closely with the sector managers in DAI Brazil and the M&E manager to plan the primary and control group selection, design of the questionnaires, and development of criteria for conducting the interviews and focus groups. Training of the focus group leaders and local facilitator were carried out by the DAI Brazil team following the DAI team's departure.

## CONCLUSIONS

The USAID/Brazil Micro and Small Enterprise Trade-Led Growth Program aims to promote economic growth and reduce poverty in four poorer Brazilian states by promoting the development of selected value chains. The planned impact assessment of the program uses an innovative approach, which builds on the program's M&E system and costs less than a full blown quasi-experimental impact assessment. The impact evaluation will generate information that USAID/Brazil can use to assess the effectiveness of the approach taken by the program and help inform decisions about the design of future programs. In addition, the descriptive information provided by the baseline survey will be useful to program staff and program partners to better understand the characteristics of the program clients (i.e., MSEs), possibly leading to program modifications in order to better serve these clients. Finally, given the severe resource constraints under which both the program and the impact evaluation must operate, the study will serve as a test of the feasibility and benefits of a scaled-down, lower-cost version of impact assessment.