

## **Lessons learned and implications for alleviating poverty of the most poor and vulnerable**

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### **1. Background**

Following the devastating Tsunami of December 2004, and the immediate relief and reconstruction programmes, there has been a wide range of development initiatives, aimed at enabling affected individuals and communities to rehabilitate and resume the income generating activities that they depended upon before the tsunami struck. In recognition of the important role of self-employment and micro enterprise in the survival strategies of the poor and vulnerable, a large number of organisations, with the support of many donors have provided a range of support services to owners of micro enterprise – including the provision of grants (eg to replace fishing boats, other equipment or tools, stocks of raw materials), credit, training and other advisory services.

(Some commentators have observed that the extent of the humanitarian response to the disaster was so great and with weak coordination that – while there had been great need – some damage to the sustainability of the enterprises and the support services upon which they depend had been caused eg by creating a more dependent culture and increasing the number of fishing boats above the pre-tsunami level.)

However, in 2006 when this project was being developed, the two partners (Berendina and APT) observed that, despite the relatively high levels of direct support to micro enterprise owners, there was a significant gap in donor support that was not being addressed, which could have an impact on rebuilding the country and more specifically on the livelihoods of some of the poorest and most vulnerable community members affected by the tsunami. This gap was the rehabilitation of those small to medium scale enterprises<sup>1</sup> affected by the tsunami. At first glance, the owners of such enterprises were not considered to be the target group of humanitarian support or targeted poverty reduction programmes, because the owners – at least before the tsunami - were relatively well off. But the enterprises they had been running in the coastal areas of Sri Lanka were of vital importance to the poor for two key reasons – reasons that had been overlooked by many development practitioners and donors:

- They provided employment, regular income and the opportunity to learn useful skills for those unable to run their own businesses
- They provided valuable inputs to micro enterprise owners within their neighbourhood and/or purchased supplies or services from local micro enterprises (a mutual dependency of linked enterprises)

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<sup>1</sup> The term “small to medium scale enterprise” used throughout this document refers to enterprises targeted by the project. Most had between 5 and 15 workers although the largest had around 100 workers.

Thus, the forced closure or serious curtailment of these small to medium scale enterprises by the tsunami not only left many poor people without gainful employment, but also denied many micro enterprise owners access to the essential supplies or markets needed for their survival.

Following research into the specific constraints facing owners of tsunami-affected small to medium scale enterprises, the reduction in the number of employees resulting from the tsunami, and the number and nature of the linkages to micro enterprises that had existed, this project was designed and funding secured from the Big Lottery Fund (UK) for a three year programme of activities.

## **2. Key Components of Project Design**

- Working with the owners of 200 selected small-medium scale enterprises affected by the tsunami, to rehabilitate those enterprises and create a total of 2,000 employment / re-employment opportunities for workers within those 200 enterprises and the micro enterprises linked to them (as suppliers or customers)
- Although the project was not focused on a particular production sector or value chain, the approach drew upon value chain / sub sector analysis approaches, by targeting those enterprises with good prospects for employment and incomes for the poor both directly and in linked enterprises in the production-marketing chain
- Support services included: financial services (credit services with a grant component); technical / business services (training, business planning, counselling); education / awareness of workers' rights.
- Commitment to improving workers' conditions

## **3. Results**

A detailed evaluation of the project after 3 years found that a total of 2,124 jobs had been created, with good prospects of being sustained into the future. These are made up as follows:

- Within the 211 selected small-medium scale enterprises: 1,228 (697 permanent jobs and 531 casual / part-time). Approximately 40% are female and 60% male.
- Within forward-linked micro enterprises (those purchasing from the selected enterprise): 602
- Within backward-linked micro enterprises (those selling to the selected enterprise): 67
- Additional employment created through investment of increased profits in other enterprise activities, and directly attributable to the project: 227

The cost of the project over three years (excluding costs of evaluation and sharing of lessons) was £466,363. Thus a conservative estimate of the cost per job created was £220 (or approx. 40,000 Sri Lankan Rupees)

Note: these figures do not include any increase in levels and quality of employment of existing workers (or the enterprise owners) within the targeted or linked enterprises. But we are confident that increased production and sales have reduced the levels of underemployment amongst those workers

A follow-up survey (recommended by the external evaluator) looked more closely at the nature and impact of the project upon the owners and workers in the linked enterprises. This was undertaken for a sample of the 211 targeted small-medium enterprises – particularly those that were known to have a significant range of linkages. This survey revealed some

very impressive numbers and variety of income earning activities (employment and self employment) that depended in one way or another on the targeted enterprise for their survival or growth, as illustrated case 1 (see box). The survey also revealed and documented significant benefits to households associated with those linked enterprises that were attributed to the revival of the targeted enterprise. These benefits included increases in household income and expenditure on health care, home improvements and children's education.

**Case 1: Algewaththa (coconut husk processing business)**

a) Backward links (suppliers)

- 150 enterprises employing 300 individuals supply Algewaththa with coconuts

b) Forward links (customers)

- 7 collection enterprises employing 21 individuals, purchase coconut fibre to on-sell
- 50 weavers employing 100 individuals, use coir fibre from Algewaththa in their looms
- 3 mat makers employing 9 individuals, use processed coir from Algewaththa
- 40 individuals collect coconuts for Algewaththa

The above figures indicate a total of 470 people earning incomes in enterprises linked directly to Algewaththa

In addition, the survey revealed a further 460 people earning

#### **4. Lessons learned**

The above results (and an independent evaluation) show that the unusual approach – of working with selected small-medium scale enterprises to improve the livelihoods of the poor – adopted by this project has achieved its objectives in post-tsunami coastal areas of Sri Lanka. This paper will discuss the critical factors that have contributed to that success; the comparability with more traditional micro enterprise support programmes; the potential for replication in other environments and propose that the methods adopted may offer a valuable and cost-effective approach in the fight for poverty reduction to complement the array of services targeting the poor more directly.

#### **4.1 Critical factors of success (in terms of job creation and livelihood improvement for the poor)**

- Willingness of selected enterprise owners to cooperate with the project team (creating employment rather than profit maximisation only, investigation of conditions of workers and their improvement, business linkages, monitoring results)
- Existence of mutually beneficial linkages and/or supply chains with other enterprises in which the poor are employed (see diagram for coconut husk processing in the coir industry for an example)
- Skills, professionalism and experience of business counsellors (to win the respect of experienced business owners and provide valuable advice)
- Competence and readiness of selected enterprise owners to re-invest profits in further business expansion

#### **4.2 Comparability with more conventional micro enterprise programmes**

##### a) staffing

One of the key aims of a typical micro enterprise programme would be to reduce poverty by improving household income and/or food security through initiating, sustaining or improving self-employment for one of the household members. Such programmes would provide services – usually financial services, with differing amounts of training or other inputs - to each of the households targeted. Thus to benefit 2,000 households, services would need to be provided to 2,000 individuals and require perhaps 20 field staff (each field staff having a portfolio of 100 clients). Because of the large numbers and variety of individual inputs needed, and in order to keep service costs per beneficiary low, the tendency is to provide generic inputs (eg standard loans or training packages), to work with groups having similar enterprises or constraints, and to employ young field staff with little experience on low salaries.

In this project, to benefit 2,000 households, 200 small-medium scale enterprises were targeted and the number of field staff directly interacting with the enterprise owners at any one time was 4. Thus each field staff member had a smaller portfolio (25 clients), and could therefore devote more time to each client and provide a more individually tailored service and follow up visits. In addition, the smaller number of staff required meant that more experienced and mature business counsellors could be employed to provide these services.

##### b) Business success and re-investment

A typical micro enterprise programme includes a mix of support to existing enterprises and start-ups; the proportion of start-ups often being 50% or more). Experience has shown that while many do succeed, the failure rate of start-ups in the first year can be quite high. In addition, the relatively low income status of the micro enterprise owner means that most of the profits generated following the support provided are understandably utilised to meet basic needs (food, shelter, school fees etc) leaving little for re-investment in the enterprise.

This project worked exclusively with existing business owners with a proven track record. Thus business failure is much less likely. This, together with the relatively higher income levels of the owner, meant that (s)he was able (and less risk averse) to invest a greater proportion of the profits following the support into further business expansion and consequent employment generation

#### c) Employment

Although micro enterprises do employ workers, these are often family members and/or on an informal, less secure basis. Such employment opportunities are extremely valuable for the poor (usually they are poorer than the owner served by the programme), but micro enterprise programmes do not generally monitor this aspect.

Not all poor individuals are cut out to be entrepreneurs, and many do not have the capacity (or inclination<sup>2</sup>) to be successfully self-employed. There are many such people who can be very productive and successful employees. This project deliberately set out to make it easier for them to access secure employment and improved working conditions

### 4.3 Potential for Replication

#### a) Following disasters

The project was implemented following a dramatic event (the Tsunami) and consequent sudden collapse of small-medium scale enterprises (damage to structures, loss of equipment, stock, some workers etc). Such conditions meant that the enterprise owners had the knowledge, experience, connections (customers and suppliers) and confidence to plan and rebuild their enterprises if they could obtain the necessary resources and expert advice. It is thus recommended that the approach would be effective with little adaptation in similar situations following a natural disaster (eg flood, earthquake, fire) or man-made disaster (such as during rehabilitation following disruption caused by civil conflict as in the North and East of Sri Lanka).

#### b) For more general application

The approach has not been tested in non-disaster situations, but clearly the combination of factors that permitted a rapid return by small-medium enterprises to former production and employment levels will not apply in more steady-state circumstances in which most poor people live and most micro enterprise programmes are delivering their services. However,

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<sup>2</sup> Most people, and particularly poor people, want jobs, not to be self-employed. Indeed self-employment for most micro enterprise people is not a choice, it's their only option

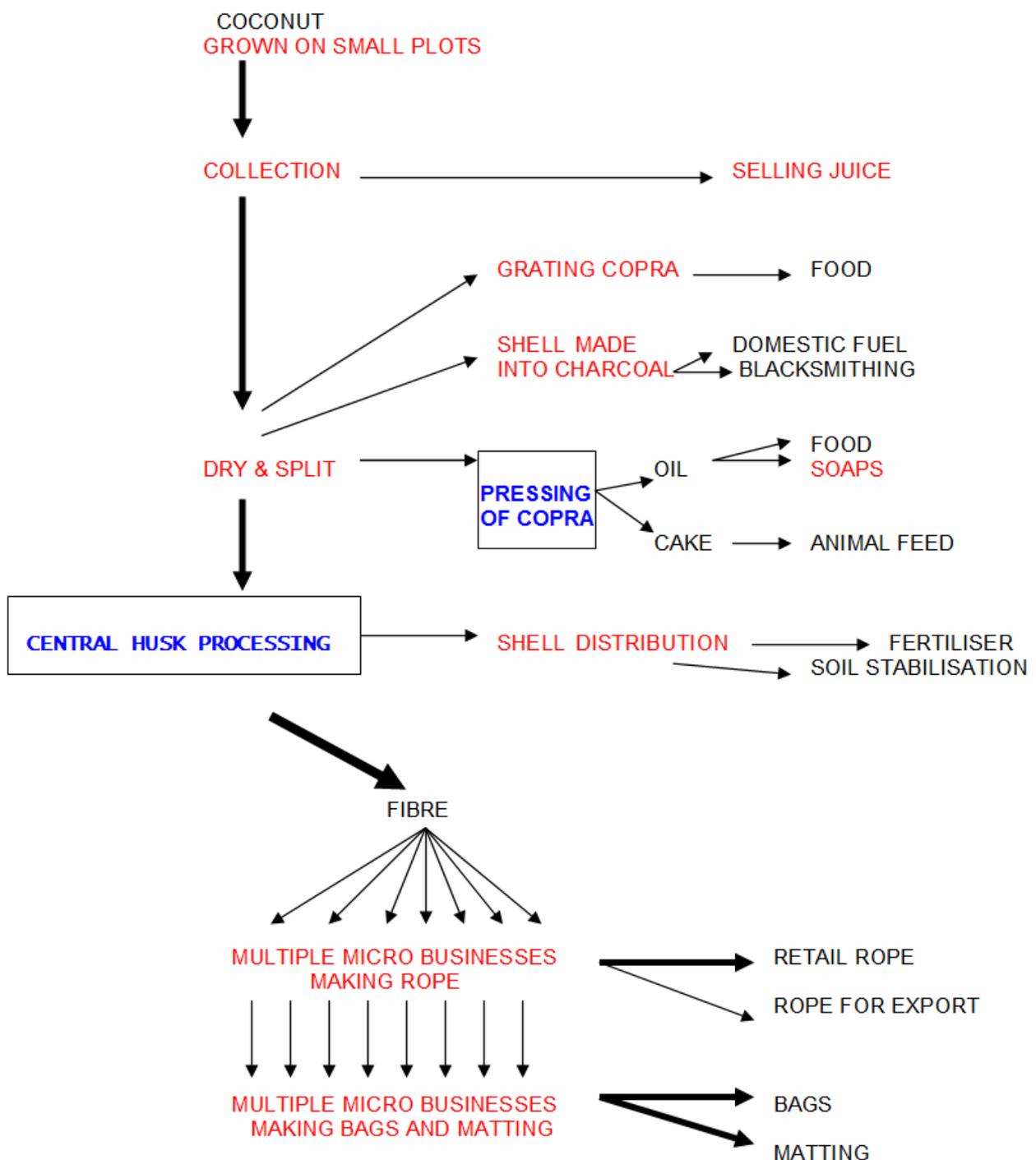
the benefits of the approach – in terms of cost-effective employment creation for the poor, and the establishment / reinforcement of a mutually supportive network of linked enterprises – merit the adaptation and trial of the approach as a complementary approach to more traditional micro enterprise approaches in some steady state local economies. Some of the factors for consideration would be:

- Selection criteria of small-medium enterprises would include both sectoral and individual considerations: potential for direct employment creation; extensive linkages with other employers of the poor and potential for their expansion (number and/or size); track record; willingness of owner to cooperate
- The justification for such a significant grant component<sup>3</sup> to any financial services would not be present, but some other alternative incentive for co-operation by the owner would be needed – related ideally to the numbers of jobs created
- Employment growth rates achievable would not be expected to be as high, but targets can be set and agreed with funders and owners for specific programmes
- Different (more experienced) staff should be employed as business advisers

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<sup>3</sup> 50% of the asset replacement requirement was met by a grant (and 50% as a loan) in this project where a natural disaster had caused the losses. A smaller % may be considered in this and other environments if motivational incentives are considered to be cost effective.

**Diagram showing the forward and backward linkages created by support to a central husk processing facility**



**KEY:**

**CENTRAL PROCESSOR**

**MICRO BUSINESSES BENEFITING FROM CENTRAL PROCESSOR**

**RAW MATERIAL OR FINISHED PRODUCT**