

COST-EFFECTIVENESS OF DECENTRALIZED INCLUSIVE BDS MODEL: Impact and Challenges experienced by SEEDS in Enterprise Development

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ABSTRACT

Sarvodaya Economic Enterprise Development Services (Guarantee) Ltd - SEEDS in Sri Lanka, has been working with rural and urban communities in enterprise development and employment generation since 1987, providing their clientele with micro-finance and business development services. The Project – “**Effective Enterprise Services for Poor Communities**” (EESPC), funded by European Union with management assistance from APT-Action on Poverty was launched in March 2007 to ensure that the poor and the marginalized members in the society get benefited in the process of development of new and existing enterprises. Under this project, during 2010/11 period, ESD of SEEDS has served 5,478 new clients and as a result, 2,817 new enterprises were created, totaling to 17,599 and 6,210 respectively. The socio-economic survey carried out during August 2011, revealed that over the period of 04 years, ESD of SEEDS has assisted poor clients to cross the poverty line bringing down the representation from 24.9% to 15.1% in the case of enterprise owners and from 40.0% to 26.0%, in the case of workers, which was indicative of the effectiveness of SEEDS BDS in contributing to poverty alleviation.

This paper presents the learning and cost-effectiveness of the project EESPC, and its impact on poor and the marginalized communities as direct and indirect beneficiaries, analyzing the statistical information covering the financial year 2010/11. The learning of three centres: Enterprise Promotion Centre (EPC)- Hambantota, EPC – Kurunegala and Small Industries Resource Centre (SIRC), is presented in this paper comparing different approaches to inclusive Business Development.

The analysis of the performance of the three centres learned that:

- BDS providers to operate cost-effectively as social enterprises is not feasible, without the assistance from state and non-state actors working for/with disadvantage groups to prepare them to acquire BDSs (Case I)
- Poor and the disadvantaged could benefit tremendously from BDSs to improve their livelihoods, provided that BDS providers are innovative, well aware of the market trends and have good network of multi-sector resources (Case II).
- Organisations of/working with disadvantaged groups could build effective partnerships with BDS providers for effective facilitation of livelihood development efforts (Cast III).

The learning led to the following recommendations:

- Having many BDS providers and organizations working with disadvantaged groups in the country, innovative and effective strategies for enterprise development and employment generation that benefit poor and the disadvantaged required to be replicated, and further researched with the state taking the responsibility for enabling policy environment, donors/corporate sector collaborating with civil society to ensure BDSs are extended for the inclusion of poor and the marginalized.
- In this exercise of “Making non-productive to be productive in Economic Enhancement, the actors and interested parties in both ‘charity’ and business sectors should work in partnerships, to design and implement appropriate interventions, respecting limitations in their working contexts.

COST-EFFECTIVENESS OF DECENTRALIZED INCLUSIVE BDS MODEL: Impact and Challenges experienced by SEEDS in Enterprise Development

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1. Background

Sarvodaya Economic Enterprise Development Services (Guarantee) Ltd, commonly known as SEEDS in Sri Lanka, is the economic wing of Sarvodaya Shramadhana Movement, the largest NGO in Sri Lanka. SEEDS that focuses on the poverty alleviation efforts in the country, has been working with rural and urban communities in enterprise development and employment generation since 1987, providing their clientele with micro-finance and business development services. Today SEEDS channels a variety of services to a diverse group of clients from poor to the rich, unemployed to the small and medium enterprises, belonging to different ethnic and religious groups. The main operational divisions of SEEDS are i) Finance Division, that channels their financial services through 62 branches around the country; ii) Society Development Unit (SDU) responsible for capacitating the 1600 Sarvodaya Shramadhana Societies that operate as community level micro-finance assistance units; iii) Enterprise Services Division (ESD) operates through a network of 20 Enterprise Promotion Centres (EPCs) providing business start-up and development assistance, and Five Technology Resource Centres (TCSs) in the fields of Small Industries, Beauty Culture, Agri-businesses, Food Technology and Effective Micro-organisms promotion (EM), and iv) Project Consultancy Unit (PCU), with the mandate to collaborate with both state and non-state actors in the development and corporate sectors to implement projects as per the requirements of the contracting authorities.

Sri Lanka though considered as a middle income country, still there are pockets of poor families, below the National Poverty Line representing 21.1% of the total households in the country and of which an average 13.3% are productive in the sectors of Agriculture and Non-agriculture. As per the findings of the Household Income and Expenditure Survey [2002], Department of Census and Statistics, the **trends in poverty by livelihood of Breadwinners** is presented below (Table 1).

**Table 1: Trends in Poverty by
Livelihood of the Breadwinners**

Income earner by livelihood type	% Households	
	Poor	Non-poor
1. Agriculture	23.1	76.9
2. Non-agriculture	16.8	83.2
3. Other ¹	23.3	76.7

The Project – “**Effective Enterprise Services for Poor Communities**” (EESPC), funded by European Union with management assistance from APT-Action on Poverty was launched in March 2007 to ensure that the poor and the marginalized members in the society get benefited in the process of development of new and existing enterprises.

This paper presents the learning and cost-effectiveness of the project EESPC, and its impact on poor and the marginalized communities as direct and indirect beneficiaries of the project, analyzing the statistical information covering the financial year 2010/11.

¹ Source of Income of the principal earner is ‘Cash receipt’ or income in kind (not employed)

2. Objective of the work done

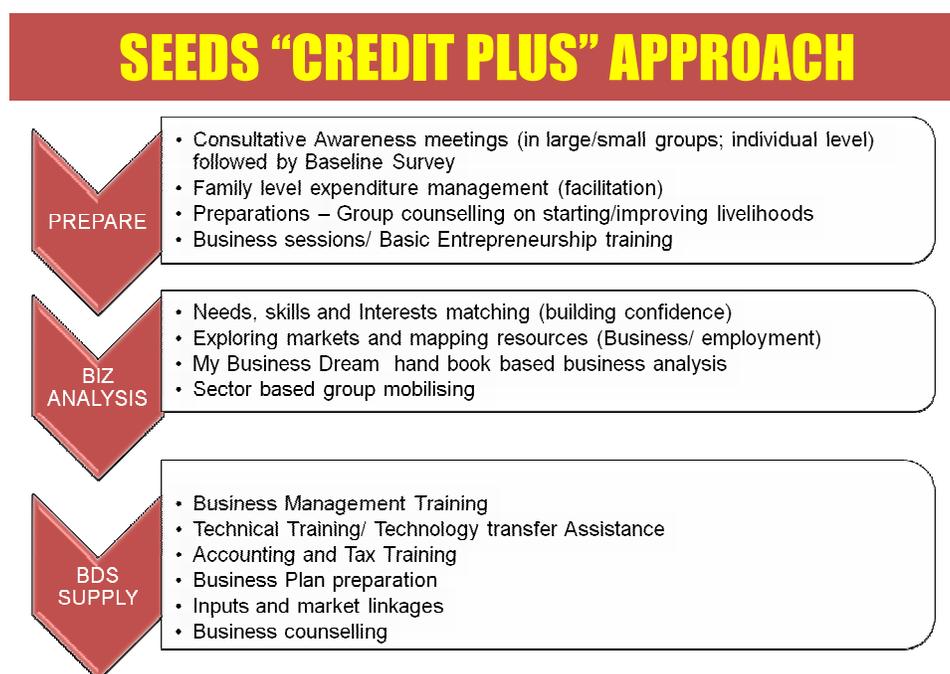
The objective of the project EESPC of ESD/SEEDS and its UK partner – APT Action on Poverty, was **to enhance opportunities for increased income and employment of such poor and disadvantaged men and women**, by building the capacity of SEEDS to provide a range of more effective services to support the development of micro and small enterprises in 22 districts of Sri Lanka and further improve their financial sustainability. By the end of the project, it was expected that,

- 4,000 new enterprises to be running
- 18,000 new clients obtaining services from ESD of SEEDS
- 28,000 employment opportunities created (at least 50% women & 80% poor or disadvantaged)
- 12% increase in average annual income of client enterprises and 5% increase in the case of workers of the client enterprises

4. Methodology

Maintaining the poverty focus, at the same time ensuring the financial sustainability was one of the main challenges faced by the Enterprise Services Team (ESTEAM) of SEEDS. Operating as an effective BDS provider in the open market, SEEDS and its UK partner, APT – Action on Poverty, observed that the marginalized were excluded unintentionally from BDS programmes of SEEDS, compared to the 1990s. Another issue raised was to have a mechanisms to serve the clients better with the provision of a range of service products, in the technology field that have more demand for acquisition. Thus, to support the EPCs with financial assistance from EU pilot interventions were designed and tested for its viability as an application. One intervention was to assess the existing BDS delivery mechanism adjusted for the need of the poor and the marginalized.

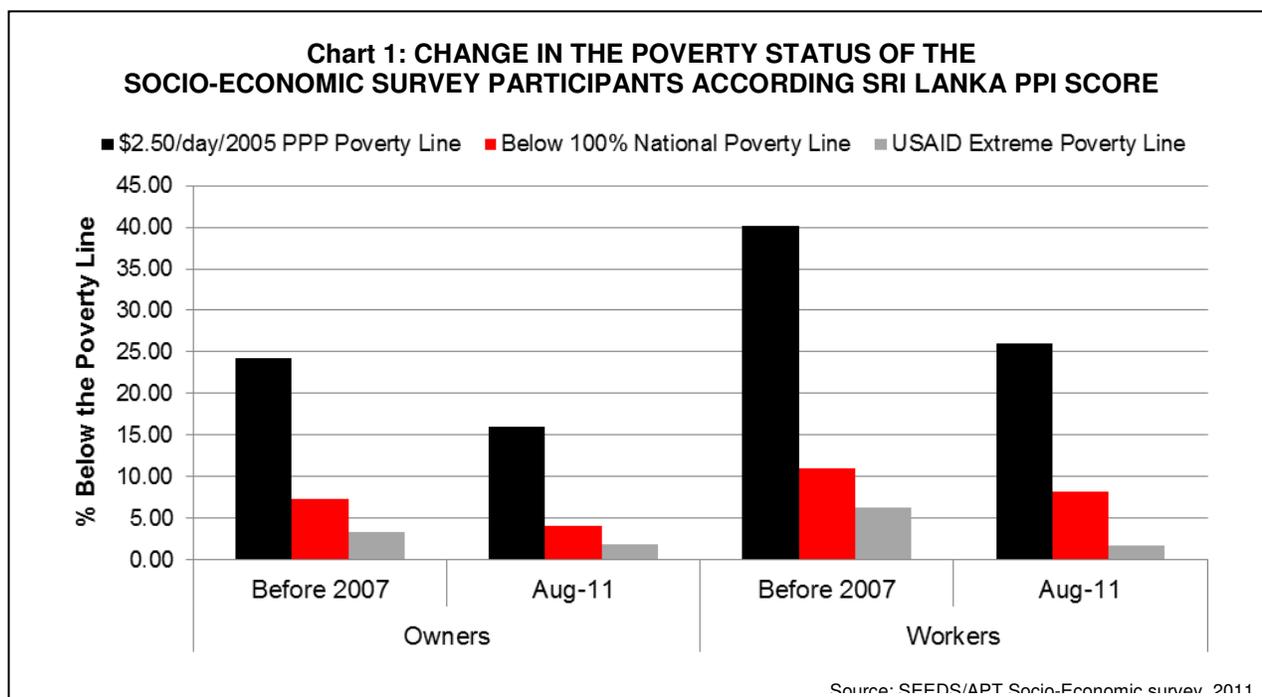
Figure 1



To understand the context, SEEDS – ESD team have first consulted the communities in small groups to understand the issues and factors that inhibits them taking business as their livelihood venture. Findings of the consultation workshops was the key to designing new BDS products such as market oriented agriculture ventures, My Business Dream Booklet as a tool to prepare clients to maintain accounts, explore the market for their products, assess their skills, etc., easy payment schemes and collaborative actions were some of the approaches developed to include poor and the marginalized, which was the key to SEEDS’ INCLUSIVE BDS MODEL (Figure 1).

5. Results

During 2010/11 period, ESD of SEEDS has served 5478 new clients and as a result, 2817 new enterprises were created during the period, totaling to 17,599 and 6,210 respectively. The socio-economic survey carried out during August 2011, using a sample of 100 enterprises and 44 workers revealed that over the period of 04 years, BDSs of SEEDS have served about 24.9% clients and 40% of workers serving in those enterprises, with the likelihood to be below the poverty line before the project intervention (according to the Progress out of Poverty Index). ESD of SEEDS has assisted poor clients to cross the poverty line bringing down the representation from 24.9% to 15.1% in the case of enterprise owners and from 40.0% to 26.0%, in the case of workers, which was indicative of the effectiveness of SEEDS BDS in contributing to poverty alleviation (Chart 1).



When compared with the National Poverty Line (Table 1), the survey revealed that 8.5% of the survey participants (clients and the workers of client enterprises) have been benefited directly and indirectly from SEEDS – BDS assistance since 2007. It was also observed the 35% of the survey participants (27% enterprise owners and 8% workers) were not earning any income prior to SEEDS BDS interventions.

There were several interventions, invented by SEEDS EPOs and TRC managers, and the following three was selected for analyzing purposes, for this paper:

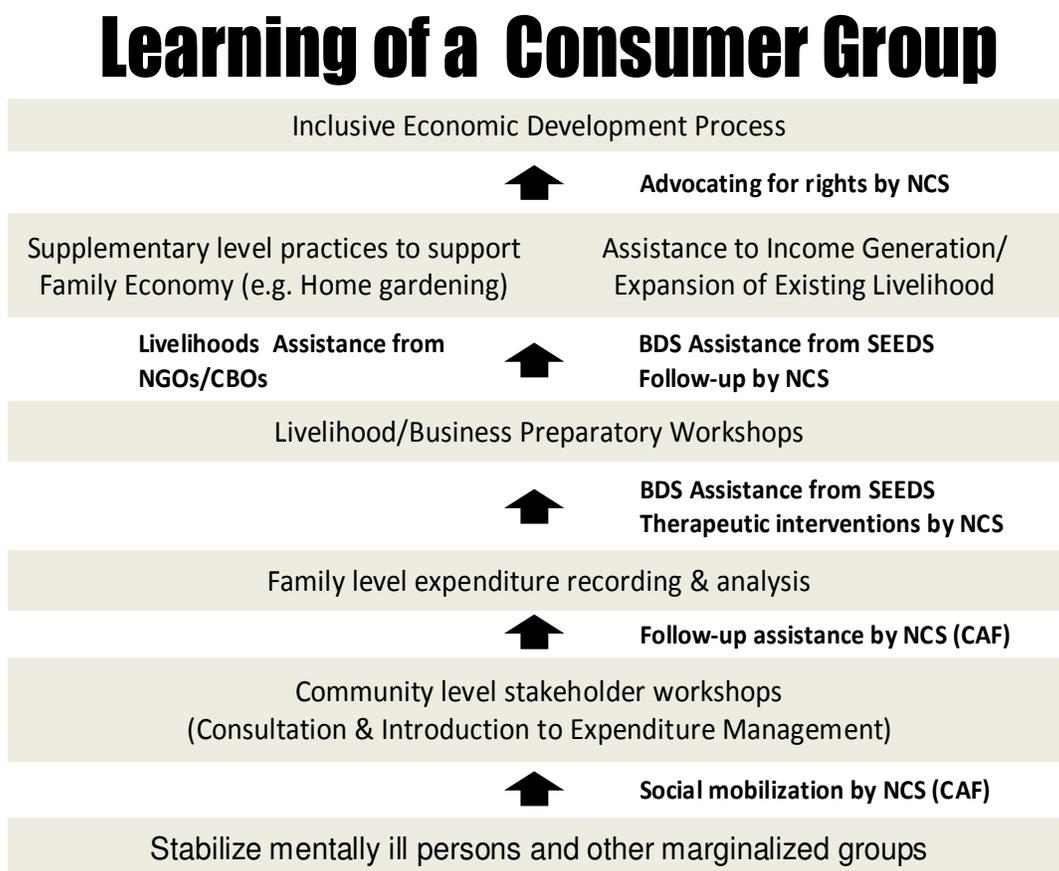
CASE I. Hambantota EPC collaborated with an active Consumer Group operating as an NGO – Nidahas Chinthana Sansadaya (NCS), to assist and improve the living conditions of persons with mental illnesses with SEEDS services in Business Development. (**Inclusive BDS Model – General BDS**)

CASE II. Kurunegala EPC started designing BDS packages that the needs of the poor and the marginalized to come-out on their own and participate in actions (**Control – General BDS**)

CASE III. Small Industries Resource Centre Manager has been serving such groups in collaboration with organizations² working with marginalized and the poor women. (**Inclusive BDS Model – Specialized Services**)

CASE I: Nidahas Chinthana Sansadaya (NCS) commonly known as Consumer Action Forum is a registered NGO formed by stabilized group of consumers, with a membership of about 150 members. Evolved as a result of BasicNeeds’ Community Mental Health and Development Programme, NCS has a practice of inviting other stakeholders for collaborative action. They approached the Hambantota EPC of SEEDS to see the possibility of acquiring its services for the improvement of the livelihoods for many beneficiaries.

Figure 2 – The Process of Inclusive BDS Delivery



² SIRC of SEEDS has a consistent clientele of institutions representing both state and non-state actors who have genuine interest in making the poor and the disadvantaged in Sri Lanka overcome poverty and the challenges against their development.

When SEEDS EPO approached them, about 50% of the membership was earning a living. There were 259 members participated at the programme, of whom 122 were stabilized mentally ill persons; 22 were disabled; 35 were family carers and 21 community carers (volunteers). Figure 2 illustrates the process of economic empowerment that was evolved along the journey of mentally ill persons in the development of Inclusive BDS model. Of the total participated in the programme 53% were able to start and sustain enterprises, which also generated 24 job opportunities for persons with mental illnesses and disability.

During the process, a group of livelihood animators were developed within NCS who conducted reviews and follow-up of the participants of the programme. They, who were stable social entrepreneurs in the community were trained on the subjects such as entrepreneurship development, psychological counseling to business counseling, basics in business planning organized through the project.

Chart 2: BDS APPLICATIONS IN TO BUSINESS – DISADVANTAGED COMMUNITIES

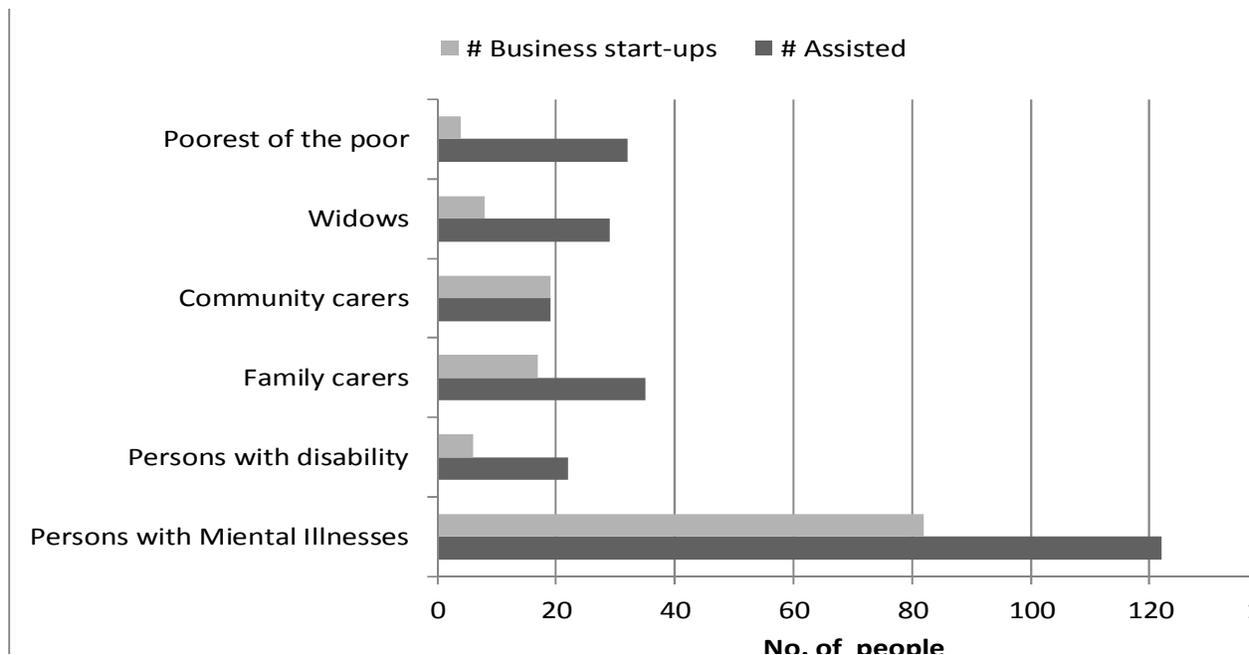


Chart 1 presents the enterprise generation against the BDS acquired by disadvantaged groups, participated in the action Hambantota EPC, being very much involved in serving the poor and the marginalize has not been able to recover any costs from its clients, having not planned cost-recovery mechanisms prior to implementation of the action, with presumption that the disadvantaged communities required assistance to help themselves.

Understanding the need for continuous BDS from SEEDS for their membership and mentally ill persons from other districts, at the Annual General Meeting of NCS following strategies were discussed and agreed:

- All the members who acquired BDS from SEEDS to register at EPCs.
- Promotion of SEEDS BDSs and EPCs among other stakeholders and public events they organize/participate

- Mobilize funds for livelihood development activities of mentally ill people, so that they could pay SEEDS for their services

CASE II: The same challenge was faced by the EPO of Kurunegala, having to work out ways to include poor and marginalized in his programmes. The EPO has the practice to assess Return on Investment (RoI), when he design any intervention. Prior to intervene, he has the habit of studying the market system with the involvement of the clients or by himself. With the analysis of the market demand, and the price, etc., the EPO combine that with the main field of intervention, which is in many cases was Technical know how. His approach to BDS delivery is a interlinked package of services, that has a price decided based on the total of each service in the package. Some examples were – Passion fruits cultivation with ready market; mushroom production to suit the available market; Dairy assistance programme coupled with EM applications to increase fat content, as disposal of water.

From his EPC during the year 2010/11, 436 clients have acquired services of whom 19% were poor. Only 14% have acquired free services compared to Case 1. The EPC has a easy payment scheme, for low income families where the client can pay on installments basis or at the time of sales (post-paid package), in the case of passion fruit cultivations. Charging commissions a fee from the company/business person for organizing the communities was another strategy practiced, in the case of high commitment required from the EPO. Table 2 presents the Income Sources of the centre in 2010/11

Table 2: Income Sources of EPC Kurunegala – 2010/11

BDS package	Income (SLRs.)
EPC Registration	36,800.00
Information services/product sales	41,685.00
Special project assistance	64,585.00
Credit support services	161,115.00
Input supply	215,311.00
Market Linkages	7,300.00
TOTAL	526,796.00

During the year, as a result of the BDS acquired 156 new enterprises have been established and 280 repeat clients were able to improve their enterprises for better sales.

CASE III: Based in Matara, Small Industries Resource Centre provide a range of training programmes, covering 200 easy business ventures around the country, with follow-up assistance package. The most common training programmes are ready-made garments, garment sector based job related (machine operator, mechanics, production supervisors), automobile repair, small/cottage Industries (mobile phone repairs, slippers, batik) with the charges per person ranges from Rs.750 – 3500. The centre has provided its services to 1835 clients (365 males : 1470 females) during 2010/11, of them 40% were from poor and the disadvantaged groups and about 20% of the clients were officered with BDS free. Table 3 presents the Income Sources of the centre in 2010/11.

As a result of SIRC services, during the period 550 new enterprises were created and 250 existing enterprises were improved. Job placements were arranged for 150 unemployed youth participated at the training programmes, with private and government sectors.

Table 3: Income Sources of SIRC – 2010/11

BDS package	Income (SLRs.)
Garment training	270,626.00
Training on other small industries	350,957.00
TOTAL	621,583.00

5.1 Challenges

- Dependence mentality observed in the majority of the poor and the marginalized communities contributing to low take-up rate, unless there is a strong follow-up mechanism. Self-exclusion having to concentrate on daily wage contributes to their inability to spare a day for a training or a workshop. Investment capacity being low, they expect start-up capital to be granted. Having no assets under their names credit linkages might not work. There is a need for more and more programmes to organize community structures that encouraged them to participate and mobilize resources available in the community, so that they could reach the next step of “Earning for More than Living”
- The belief that a training can make an entrepreneur discourages the sponsors to consider the costs pertaining to after-training assistance required from the centre, which affects tremendously to the take up rate. Selection of persons with entrepreneurial potential prior to the training is not quite popular in the country, that lead to the continuity of dependence of the client on the trainer.

6. Discussion Conclusions

The analysis against the cost-effectiveness measures below reveals interesting findings.

Cost –effectiveness Measures	CASE I	CASE II	CASE III
Cost recovery rate	16%	134%	81%
Cost per client (Rs.)	219.89	903.21	415.78
Cost per enterprise start-up/employment (Rs.)	533.43	2,524.35	1,089.91
Take up rate	53%	100%	40%
BDS access rate – poor & disadvantaged	79%	19%	44%

Case I was more concentrated on the inclusion of disadvantaged groups (79%) with less concentration on open market for BDS and therefore less financially viable, unless a donor³ interested in funding. As a result, the cost recovery rate was very low (16%). Considering the status of the clients with majority having not involved in any type of livelihood, 53% take up rate observed to be satisfactory due to efforts made by the livelihood animators trained through the project. The EPC of Hambantota can be an example of a social enterprise that has gone to the extreme of high-donor dependence.

Case II is a typical example of running a business with high level commitment to satisfy its clientele, which itself contributes to the sustainability of the EPC. The cost recovery rate was 134% and the take rate is 100%. This demonstrates the quality of BDSs offered by the centre. The centre has not put special efforts on inclusion of disadvantaged groups (19%) compared to

³ The pilot interventions were funded by European Union (March 2007 – February 2012)

the other 2 cases. Yet, with the 19% representation it shows that the centre has not excluded or rejected such groups, **if** approached for its services. Therefore, there is a space for organizations like NCS or those working with disadvantaged communities to refer their clients to the EPC for its services.

Case III is a Technology Resource Centre offering technology biased BDSs compared to the first two which are EPCs providing general BDSs. Majority of its income was through institutional contracts, thus the follow-up facilities after the training has been done by the organizations that were responsible for the participating clients. The follow-up services offered by the centre were more demand-based and limited to input supply linkages and market linkages if required by the clients. The take up rate observed to be low (40%), thus contributing to the high cost of enterprise start-up/employment. The centre has given an ample space for clients from disadvantaged groups (44%) to acquire its services, while maintaining its cost recovery rate at 81%. This was due to the sponsorships made by the organizations working with such groups.

7. Key learning points for the workshop theme

- BDS providers to operate cost-effectively as social enterprises is not feasible, without the assistance from state and non-state actors working for/with disadvantage groups to prepare them to acquire BDSs (Case I)
- Poor and the disadvantaged could benefit tremendously from BDSs to improve their livelihoods, provided that BDS providers are innovative, well aware of the market trends and have good network of multi-sector resources (Case II).
- Organisations of/working with, disadvantaged groups could build effective partnerships with BDS providers for effective facilitation of livelihood development efforts (Cast III).

8. Recommendations

- Having many BDS providers and organizations working with disadvantaged groups in the country, innovative and effective strategies for enterprise development and employment generation that benefit poor and the disadvantaged required to be replicated, and further researched with the state taking the responsibility for enabling policy environment, donors/corporate sector collaborating with civil society to ensure BDSs are extended for the inclusion of poor and the marginalized.
- In this exercise of “Making non-productive to be productive in Economic Enhancement, the actors and interested parties in both ‘charity’ and business sectors should work in partnerships, to design and implement appropriate interventions, respecting limitations in their working context.

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