



Evaluation Summaries

Micro- and small enterprise development for pro-poor growth in Sri Lanka

Quick Facts

Countries: Sri Lanka

Final Evaluation: September 2009

Mode of Evaluation: Independent

Technical Area: Enterprise development

Evaluation Management: SRO-Delhi
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Project Start: 1 June 2005

Project End: 30 September 2009

Project Code: SRL/05/03M/SID

Donor: Government of Sweden
(US\$ 5,025,275)

Key Words: Enterprise Development, Business Development Services, Value Chain Development (VCD). Micro and Small Enterprise (MSE), Local Economic Development (LED), Local Competitive Advantage (LOCA), SIYB

Background & Context

Enterprise for Pro-Poor Growth (Enter-Growth) is a four year project, funded by SIDA and implemented by the ILO. It started in June 2005 and was originally due to finish after three years. Two brief extensions were approved, and it is now due to finish at the end of September 2009. Its budget was increased from \$4.7 million at the start, to \$5.1 million, after the last extension. No further extensions are envisaged.

The overall purpose of the evaluation is to assess the achievements of the project. It will assess the extent to which this starting point, and the approach that evolved from it, were appropriate and have resulted in changes in local economies and the way the market system operates with regard to MSEs, in particular of the poor¹. Field work took place in March 2009.

The overall Goal of the Enter-Growth project is to contribute to the generation of pro poor economic growth and quality employment for women and men in the North West and North Central provinces. It aims to do this through an integrated approach that works to develop micro and small enterprises (MSEs). Enter-Growth is primarily a new, stand alone project, but it absorbed some activities of a former ILO Start and Improve Your Business (SIYB) project that was also funded by SIDA.

The project has three main Immediate Objectives at the District level:

1. **Market Access:** Expanded markets for services and products of micro and small enterprises of women and men in the North-West and North-Central provinces, through increased productivity and competitiveness, a stronger demand orientation, and better market linkages.

¹ Terms of Reference for the Independent Final Evaluation of the Enter-Growth Project.

2. *Business Environment*: A policy, legislative and regulatory environment in the North-West and North-Central provinces that is conducive to the growth of micro and small enterprises by women and men, and will bring more of them into the formal economy.
3. *Entrepreneurship culture*: Authorities and communities in which the poor predominately regard starting and growing micro and small enterprises by women and men as a socially and economically attractive activity.

At the national level, it has a fourth Immediate Objective:

4. *Business Development Services (BDS)*: Greater access countrywide to market-led, sustainable business services for micro and small enterprises owned by women and men.

Present situation of project

Despite the Tsunami of 2004 and the more recent resumption of the conflict in the Northern and Eastern Province, Sri Lanka has achieved reasonably stable economic growth (6% in 2003, 5.4% in 2004, 6% in 2005, 7.7% in 2006 and 6.8% in 2007²). In 2007 the GNI was US\$1,540³. The main sectors driving Sri Lanka's economy⁴ are manufacturing, especially the garment sector which accounts for 45% of exports; and the services sector, especially telecommunications, transport and finance; The agriculture sector has remained stagnant, making marginal contributions to growth. Sri Lanka's economy, while most reliant on internal investment and consumption is also export orientated; in 2007 the share of exports to GDP was 29.2%. An important boost to the economy has been the increase in international remittances (7.2% of GDP in 2007) from overseas workers. These last two

factors make the Sri Lankan economy vulnerable to the effects of the recent global economic downturn.

Stable economic growth has led to a reduction in poverty (an estimated 15.2% of the population exist below the national poverty line⁵). This is a significant achievement but it's important to note that some parts of the country, particularly in North Western province and in urban areas, have achieved much higher reductions in poverty than the rest. The majority of the poor reside in rural areas, and are involved in the primary sectors (agriculture, forestry, fishing and mining). Sri Lanka has provided free health and education services to all its population since the 1930s, and this has contributed to it achieving social indicators above those associated with countries of similar income levels. For example, Sri Lanka has an impressive 92% adult literacy level⁶.

The two Provinces in which Enter-Growth is implemented were selected because: a) they are two of the poorest in Sri Lanka; b) three of the four Districts had been affected by the conflict, and had communities representative of the main ethnic groupings in Sri Lanka. As such, the design team felt that the project would contribute indirectly to reconciliation efforts; and c) neither of the two Provinces had been specifically targeted by similar programmes.

Government policies confirm its commitment to pro poor growth, and as part of this, enacting improvements to the business environment. However, Sri Lanka's ranking in the World Bank's Cost of Doing Business surveys⁷ has remained largely static (ranked 102 out of 181 countries). Sri Lanka has a myriad of Ministries, Departments and

² World Bank Country Assistance Strategy 2009-2012. October 2008

³ World Bank 'Sri Lanka at a Glance' September 2008.

⁴ ADB Country Partnership Strategy Sri Lanka 2009-2011. October 2008

⁵ Department of Census & Statistics of Sri Lanka, Household Income & Expenditure Survey 2006/7. March 2008. Quoted in ADB Country Partnership Strategy Sri Lanka 2009-2011.

⁶ UNICEF 2000-2007 average. www.unicef.org/infobycountry

⁷ Doing Business 2009, Country Profile for Sri Lanka. World Bank/IFC

Agencies. Many of these have responsibilities that cover Enter-Growth's activities. As the project discovered during the design phase, a career within the public sector is generally the most attractive option for the vast majority of Sri Lankans. The public sector is the dominant player in the provision of support services to businesses. The review team observed a relatively high level of expectation by the business community for Government (or other external bodies) to provide support and assistance.

At project inception, the peace negotiations were ongoing. The resumption of the conflict in the North East during the project period appears, anecdotally to have had some repercussions for the project, in particular:

- Two of the Districts border directly onto the conflict areas and have had to deal with a rise in the number of internally displaced persons (IDPs).
- Central Government, and to some degree the Provincial Governments of the above two Districts, are understandably focused on finding a last solution to the conflict, which leaves less time and resources for ongoing development issues, such as local economic development.
- Direct repercussions for some businesses, for example, the extra security arrangements, have had significant time and cost repercussions for businesses that have to transport raw materials and goods, and also contribute to the damage and spoiling of vulnerable goods, such as fruit and vegetables. The tourism subsector in Anuradhapura has also been negatively impacted by the conflict.

In general the conflict is estimated to reduce economic growth by 2% every year that it continues.⁸

Enter-Growth's approach has incorporated two key methodologies for its local economic

development (LED) work: LOCA⁹ (Local Competitive Advantage) and value chain development (VCD). LOCA was introduced at the start of the project, and in late 2006, the project incorporated value chain analysis into the project's approach. These participatory approaches facilitate local stakeholders to identify constraints and opportunities to develop the local economy, and develop priority proposals to address these. These proposals covered training and other BDS, capacity building for existing and new Small Business Associations (SBAs), and support for advocacy for business environment reforms. Other linked activities include: Service Fairs, specific support to local authorities for increasing registration of MSEs, and an investment promotion initiative which is being implemented in partnership with the Federation of the Chamber of Commerce and Industry Sri Lanka (FCCISL).

The initial project design identified the low economic and social status of entrepreneurship generally in Sri Lanka, and especially in rural areas, as a serious constraint to MSE development. As a result the team developed a component that aims to change the negative attitude to entrepreneurship and self employment in the 4 target Districts.

These components are brought together by the MSE Forums that have been established in each of the four Districts. The MSE Forums are made up of senior representatives from Provincial Government, the business community, and NGOs. The Forums are an excellent mechanism for facilitating public/private dialogue. They also facilitate action to address some of the priority proposals identified through LOCA and value chain analysis as well as additional issues raised by SBAs. The proposals tend to be for either business environment reform, or for improving market access (not that these are always mutually exclusive)

⁸ Reported in the ADB Country Partnership Strategy Sri Lanka 2009-2011. October 2008

⁹ LOCA is an adaptation of a methodology called PACA, or Participatory Appraisal of Competitive Advantage, developed by Mesopartner (www.mesopartner.com).

At the national level the project provides support to the SIYB Association, has developed and implemented a national media development component, and supports a number of smaller projects, such as e commerce.

Purpose, scope and objectives of the evaluation

The overall purpose of the evaluation is to *assess the achievements of the project. It will assess the extent to which this starting point, and the approach that evolved from it, were appropriate and have resulted in changes in local economies and the way the market system operates with regard to MSEs, in particular of the poor*¹⁰.

This final evaluation covers the programme work in all four Districts as well as national level interventions, but with a focus on the former. Field visits covered all four districts. The evaluation covers the period from the project design and start, to the period of the evaluation (June 2005 – March 2009). However, it also considered the changes made to the project since the midterm evaluation.

Methodology of evaluation

This evaluation follows a strategic mid term review (MTR) of Enter-Growth, conducted by the Springfield Centre in March 2007. As per the detailed Terms of Reference (ToRs), and ILO evaluation guidelines, the evaluation team considered the project's achievements according to an amended version of the OECD Development Assistance Criteria¹¹, as follows:

- The validity of the project **design**
- The **relevance** of the project
- The **effectiveness** of the project in achieving its objectives.

¹⁰ Terms of Reference for the Independent Final Evaluation of the Enter-Growth Project.

¹¹ See www.oecd.org for more information on the DAC criteria for evaluating development assistance

- The **impact** of the project, intended and otherwise
- The **sustainability** of the project's interventions and impact
- The **efficiency** of the project

The following methodologies were employed:

- Desk research of all programme documentation including the 2007 Springfield strategic mid term review¹², Design documents, Progress Reports, Intervention Reports, and Impact Assessment Reports.
- Interviews with a cross section of stakeholders in all four Districts (using a combination of focus groups and individual meetings).¹³
- Meetings with representatives from Ministry for Enterprise Development and Investment Promotion (MEDIP), Swedish International Development Agency (SIDA), Sri Lanka Institute of Development Administration (SLIDA), National Institute of Education (NIE), Start and Improve Your Business (SIYB), Federation of the Chamber of Commerce and Industry, Sri Lanka (FCCISL) and the ILO Country Director.
- A stakeholder workshop, with attendees from all 4 Districts, towards the end of the Mission, to help validate findings.
- Discussions with the Enter-Growth team in Colombo and the 4 Districts
- At the end of the Mission the team presented its findings to the Enter-Growth Steering Committee.
- The draft evaluation report was circulate to all stakeholders for comments and inputs

Main Findings & Conclusions

¹² Strategic Review of ILO Enter-Growth Project Sri Lanka. Final Report. Rob Hitchins, Springfield Centre. March 2007.

¹³ A full list of all stakeholders met during the evaluation process is included in Annex 2 of the report

The overall assessment of the final Evaluation is positive. The project has achieved the bulk of the indicators at Development Objective and Immediate Objective levels. There is sound evidence from the project's impact assessment and intervention reports, of impact at the firm level, as well as with the institutions, rules and regulations supporting the markets in which MSEs operate in, or are linked to. One or two of the project's components have been less successful, such as the attempt to increase MSE registration. However, given that most of the project's initiatives have achieved all that was intended, this is a good record; the project has developed a proven approach to local economic development.

The project's approach is essentially to act as a catalyst for change; this, as well as its underlying principles, is all in keeping with good practice in private sector development programmes. The project's design is based on research of the investment climate and markets in which it operates, and this has enabled it to innovate and take informed risks, most evident with the Palama Forum Theatre initiative, which aims to change negative attitudes to entrepreneurship.

There are some questions regarding the sustainability of several of the interventions, particularly in terms of strengthening the business service provision market, and the potential for MSE Forums to continue with the priority reform agenda they have had so much success with to date.

Recommendations & Lessons Learned

Main recommendations and follow-up

1. The project should facilitate a dedicated stakeholder workshop to identify and agree additional opportunities for sustainability. This recommendation is based on comments made by a participant at the Stakeholder workshop, held as part of this Evaluation. A sustainability workshop would facilitate participants to achieve the following: a) focus on and acknowledge the sustainability challenges for

key interventions, as a priority; b) identify, through brainstorming and sharing of experiences, opportunities for achieving sustainability; and c) agree actions and responsibilities for realising these opportunities.

2. The project should systematically document and disseminate the wealth of accumulated knowledge and experiences, in an accessible format for key audiences. The project has a huge and impressive range of documents describing different components of the project, and evaluating them for a variety of standpoints. To ensure that there is optimum learning from the project, this information should be made more accessible for both technical and less technical audiences.

3. All possible attempts, in collaboration with SIDA and the ILO Country office, should be made to find funds for a continuation of the Enter-Growth approach in the short term, primarily for expansion to additional Provinces.

Important lessons learned

1. The 'light touch' catalytic approach which enabled the project to facilitate rather than intervene: this has significantly contributed to the effectiveness of the project particularly in helping stakeholders identify appropriate activities, building local ownership and commitment, ultimately leading to sustainable impact. It's worth acknowledging that the presence of Government or other donor funded projects in the four Districts has enabled partners to implement initiatives that originated through the Enter-Growth project. Having said this, it is clear that stakeholders took a considerable amount of time to understand and appreciate Enter-Growth's 'light touch' approach, partly because of a very different precedent set by other more interventionist projects.

2. LOCA/VCD which improved understanding of market systems: the project moved from a focus on LOCA, which helped identify 'quick

win' solutions as well as priority value chains, to a more comprehensive value chain approach, first at the local level and then also at the regional level. The value chain approach enabled a more market orientation and prioritisation of what the project calls 'proposals'. It also enabled better involvement of all relevant stakeholders such as larger companies.

Stakeholders were very much involved in this evolution and have therefore been able to directly learn which approaches work best for them. The downside is the amount of time these analytical approaches took, which caused some frustration amongst the Facilitators.

3. MSE Forums which facilitated improved public private dialogue: these are clearly a major success of the project, and are proven effective mechanisms for improving dialogue (and relationships) between private, public and NGO stakeholders. The key factors behind their success include the light touch approach of the project and high levels of local ownership and commitment; the seniority of many of the members, which, combined with the Forums' ability to resolve issues, has added to their credibility to the Forums. Particularly crucial to the impact and sustainability of these Forums, is that they are not just useful for the project, but are perceived as valuable by the stakeholders **beyond the requirements of the project**. This is a key difference between these MSE Forums and other similar bodies established by development projects, which often serve the purposes of the project only. As a result it's important to recognize that while successful in this project MSE Forums may not work so effectively in different circumstances. Ways should also be explored to enhance the institutionalization of the Forum whilst keeping its open and dynamic character.

4. Regulatory and Legal Reform: on the more general business environment reform activities, key lessons include the value the LOCA and VCD approaches have had in facilitating stakeholders to identify priority reform areas. The 'quick win' reforms achieved through the

project have been very important in terms of both their impact and that they have built momentum and commitment. However, as the stakeholders, including the MSE Forums, start trying to address tougher constraints in the business environment, which require systemic changes (reform of regulations, policies and practices at the district, province and national level), it is likely that the advocacy process will need to be more rigorous and may require additional research and analysis to support arguments for reform. This is recognized by many of the stakeholders who expressed appreciation for a recent advocacy course provided through the project, and wished that they had been able to benefit from it earlier.

5. Increasing sustainability: it is clear that economic development at the District level is impacted by national policy, institutions, regulations and so forth. Equally, there is a clear role for learning and experiences at the District level to influence national policies. In order to maximize these opportunities, and achieve optimum sustainability, it is important for a District project, to also build constructive and close relationships with relevant and key national partners.