

FINAL EVALUATION OF ENTER-GROWTH PROJECT SRI LANKA

FOR THE ILO SRI LANKA

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EXECUTIVE SUMMARY

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 poor*¹. 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.
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.

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

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, are 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.

The Evaluation has identified key lessons that can be learnt from Enter-Growth's experiences. These are detailed in Chapter 5, but can be summarised as follows:

1. The project works to facilitate reform, rather than intervene directly. This approach has significantly contributed to building local ownership of key interventions and to sustainability.
2. The project moved from a focus on LOCA, to a more comprehensive value chain approach, first at the local and then at the regional level. Both approaches were highly valued by stakeholders but it is clear that the VCD approach in particular helped develop a stronger understanding of market systems in which MSEs operate and thus helped stakeholders identify priority activities for reform.
3. MSE Forums are a key and unifying success of the project. There are many factors that have led to their importance, the most important being the strong local ownership and commitment for the Forums, and the recognition by stakeholders of their value beyond the requirements of the project.
4. Business environment reform achievements were not only impactful, in their own right, but also helped build momentum and support for other project interventions, particularly the MSE Forums. As more challenging reforms are tackled, there may be a need for a more rigorous approach to advocacy, particularly developing better researched and evidence based arguments for reform.

5. Local economic development is clearly impacted by national policies and institutions. In order to maximize economic development opportunities at the District level it is important for a District project, to build constructive and close relationships with relevant and key partners at both the national and the District level.

ABBREVIATIONS

BDS	Business Development Services
BSPs	Business Service Providers
EYB	Expand Your Business
FCCISL	Federation of the Chamber of Commerce and Industry, Sri Lanka
GOSL	Government of Sri Lanka
IDPs	Internally Displaced Persons
ILO	International Labour Organisation
KAB	Know About Business
LED	Local Economic Development
LOCA	Local Competitive Advantage
M&E	Monitoring and Evaluation
MEDIP	Ministry for Enterprise Development and Investment Promotion
MTR	Mid Term Review
MSEs	Micro and Small Enterprises
NIE	National Institute of Education
PSD	Private Sector Development
SBA	Small Business Associations
SIDA	Swedish International Development Agency
SIYB	Start and Improve Your Business
SLIDA	Sri Lanka Institute of Development Administration
SMEs	Small and Medium Enterprises
ToRs	Terms of Reference
VCD	Value Chain Development

1. INTRODUCTION

1.1 Background

Enterprise for Pro-Poor Growth (Enter-Growth) is a technical cooperation project of the Ministry for Enterprise Development and Investment Promotion (MEDIP) and the International Labour Organisation (ILO), funded by the Swedish International Development Agency (SIDA). 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 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.

1.2 The Evaluation

1.2.1 Evaluation Objectives

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*².

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 Criteria³, as follows:

1. The validity of the project **design**
2. The **relevance** of the project
 5. The **effectiveness** of the project in achieving its objectives.
 6. The **impact** of the project, intended and otherwise
 7. The **sustainability** of the project's interventions and impact
 8. The **efficiency** of the project

² Terms of Reference for the Independent Final Evaluation of the Enter-Growth Project.

³ See www.oecd.org for more information on the DAC criteria for evaluating development assistance

The Evaluation used the above findings to consider key lessons learnt from the programme period and any good (and poor) practices emerging from the project.

1.2.2 Evaluation Scope

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 MTR.

1.2.3 Evaluation Approach

The team of two consultants, supported by a representative of ILO's HQ for five days towards the end of the second week of the mission, used the following means for achieving the review purpose:

1. Desk research of all programme documentation including the 2007 Springfield strategic mid term review⁴, Design documents, Progress Reports, Intervention Reports, and Impact Assessment Reports.
2. Interviews with a cross section of stakeholders in all four Districts (using a combination of focus groups and individual meetings).⁵
3. Meetings with representatives from MEDIP, SIDA, SLIDA, NIE, SIYB, FCCISL and the ILO Country Director.
4. A stakeholder workshop, with attendees from all 4 Districts, towards the end of the Mission, to help validate findings.
5. 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 Springfield Centre, which was responsible for the mid term review (MTR), provided back up management support to the consultants.

1.3 Report Structure

The report consists of five chapters. Following this introductory chapter, Chapter Two provides an overview of the Enter-Growth project and the context in which it has been operating. Chapter Three provides the main findings of this final evaluation, categorized by the criteria detailed in the ToRs; each of these sub sections begins with a summary of the strengths and weaknesses of the project, according to each criteria. Key points of learning and good practices are covered

⁴ Strategic Review of ILO Enter-Growth Project Sri Lanka. Final Report. Rob Hitchins, Springfield Centre. March 2007.

⁵ A full list of all stakeholders met during the evaluation process is included in Annex 2

in Chapter 4, and finally Chapter 5 details recommendations for the last few months of the project.

2. OVERVIEW OF THE ENTER-GROWTH PROJECT

2.1 Brief Description of the Enter-Growth Project:

2.1.1 Project Objectives

The overall Development Objective (or Goal) of Enter-Growth is to *Contribute to the generation of pro-poor economic growth and quality employment for women and men, through an integrated programme for the development of micro and small enterprises that focuses on the North-West and North-Central provinces.*

The project has three main Immediate Objectives (in logframe speak) at the District level:

5. *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.
6. *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.
7. *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:

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

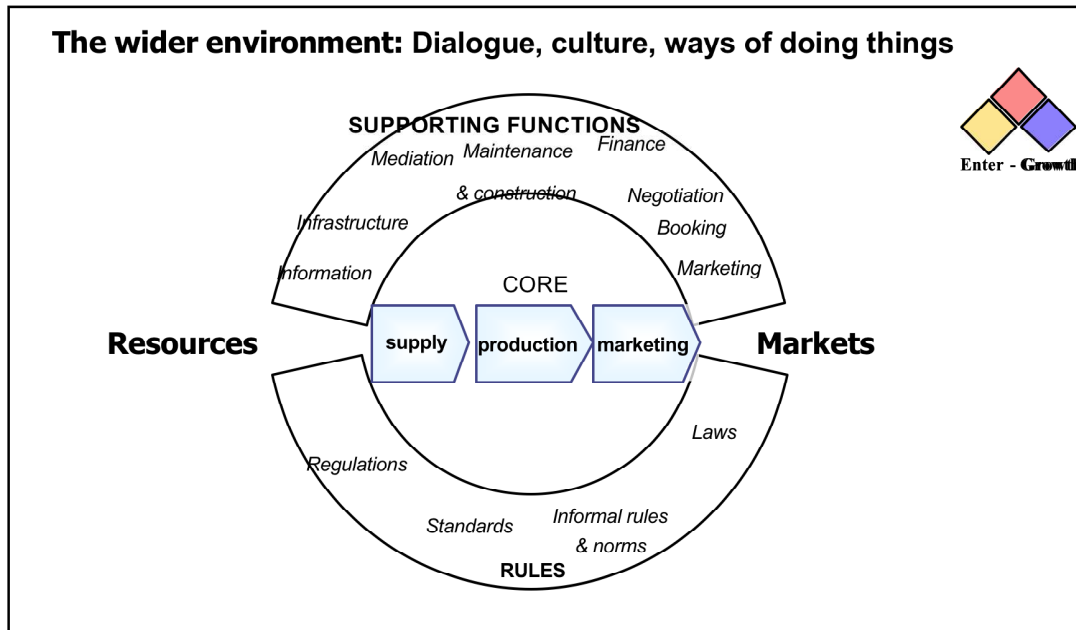
2.1.2 Project Approach

The rationale for the project is described in some detail in the original project document. At the time of developing the project, Sri Lanka was experiencing a phase of stable economic growth, primarily as a result of the peace process. Despite this growth, poverty persisted, especially in rural areas (where the majority of the poor reside). The design team therefore selected four Districts with a preponderance of rural economic activity and relatively high poverty levels.

It works primarily with (rural) MSEs believing that they offer ‘the greatest potential for stimulating pro poor growth.’⁶

The project has taken an integrated approach, best depicted by its ‘market system’ diagram (Figure 1), which was adopted following the March 2007 MTR.

Figure 1: Enter-Growth Market System



Source: Enter-Growth Project, adapted from The Springfield Centre’s MTR report.

The Enter-Growth market system, as depicted in Figure 1, was developed by the project with the intention of integrating the various project components, and focusing them to address underlying constraints within the markets in which MSEs operate.

2.1.3 Project Principles

Enter-Growth’s approach is underpinned by the following key principles, which, as noted by the MTR, are in keeping with what is generally considered to be good practice in private sector development projects of this nature:

- the approach and implementation are grounded in sound research and analysis of the socio-economic characteristics in the four programme Districts (in most but not all cases)
- the project endeavours to take what it calls a ‘light touch’ approach acting as a catalyst for reform. It focuses on the provision of technical support, coordination

⁶ ToR for the Independent Final Evaluation of Enter-Growth, February 2009.

and information, to facilitate reforms, as opposed to providing more direct financial interventions⁷.

- the project tries to ensure that its activities strengthen the markets it operates in
- the project team has demonstrated a willingness to take (informed) risks and to innovate
- there is sufficient flexibility to enable the project to adapt to new learning during the implementation process.

2.1.4 Project Interventions

The Enter-Growth project has several different components, the bulk of these are identified in Table 1.

Table 1: Summary of Enter-Growth Activities

Immediate Objective (abbreviated)	Key Activities
1. Improve market access for MSEs	MSE Forums, VCD/LOCA, BDS, SBAs, Service Fairs, Investment Promotion

⁷ It is important to note that it took time for many of the District stakeholders (Government and private sector) to understand and accept the 'light touch' approach, which was different to the other development projects they had experienced.

2. More conducive policy, regulatory and legal environment	MSE Forums, VCD/LOCA, SBAs, support for advocacy initiatives, advocacy training, <i>media development</i> ⁸ , business registration.
3. Improved attitudes to entrepreneurship	Palama Forum Theatre, KAB, entrepreneurship included in 'O' level syllabus, VCD/LOCA, MSE Forum
4. Improved access to BDS nationwide	Support for SIYB, EYB, e-commerce

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

⁸ As noted above, the Evaluation Team consider that the media development component is better placed under Output 2, as it aims to develop awareness and discussion of business related issues.

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

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)

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.

2.2 Key issues raised by the March 2007 Mid Term Review (MTR)

Enter-Growth contracted the Springfield Centre, UK to undertake a strategic MTR of the project in March 2007. The MTR's overall impression of the programme was positive. It suggested that initial results appeared promising, and that the team had established a 'solid' foundation for the remaining project period.

Notwithstanding this positive assessment, the review highlighted a number of areas for improvement. The main recommendations are summarised below¹⁰:

1. *Greater strategic coherence*: the MTR found that while the programme's various components were integrated in theory, and designed to work in combination to achieve the overall development objective, in reality they appeared to be more disparate. The MTR suggested that Enter-Growth would benefit from a tighter strategic view, to ensure that its various activities are all working in a coherent manner, to achieve optimum impact. Linked to this, the MTR recommended a tighter adherence to the pro poor rationale of the projects when identifying and implementing the various activities.

¹⁰ For more information on these recommendations see: Strategic Review of ILO Enter-Growth Project Sri Lanka. Final Report. Rob Hitchins, Springfield Centre. March 2007.

2. *Improved 'critical information and analysis' in the stakeholder led approach:* the MTR found that some of the activities undertaken as part of the project were undermined by weak research and analysis, for example, analysis of underlying constraints to competitiveness, sector dynamics etc. In particular the MTR recognised the following dangers with this issue:
 - the focus on 'quick wins' can lead to other more challenging constraints, being ignored;
 - the exclusion of stakeholders, who may be important for arriving at solutions to key issues, if they do not fit within the geographical parameters of the project, or are not able/willing to participate in the participatory processes adopted by the project;
 - greater analysis of the market and its opportunities and constraints required, to inform the assessment of 'proposals' and their validity
 - raising stakeholder expectations for action and reforms beyond what the project is likely to achieve.
3. *Development of '...a vision of (and ambition for) wider, more substantial change.'*: the MTR identified the need for greater focus and integration of the various activities, to ensure that they make optimum contributions to the development objectives.
4. *Take actions for 'crowding in':* in particular the MTR recommended that Enter-Growth develop a clearer vision of how the its various activities are going to work after the project has ended, and develop clearer pathways for achieving sustainability for many of these interventions.
5. *Operational issues:* in particular the MTR made recommendations for improving Enter-Growth's M&E system, its communications, and linkages (inter local and national-local).

Section 3.6 of this report assesses the degree to which the project has responded to the MTR findings and recommendations, and how this has affected the ultimate impact of Enter-Growth.

2.3 Overview of the Sri Lankan context for the Enter-Growth 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 2007¹¹). In 2007 the GNI was US\$1,540¹². The main sectors driving Sri Lanka's economy¹³ 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

¹¹ World Bank Country Assistance Strategy 2009-2012. October 2008

¹² World Bank 'Sri Lanka at a Glance' September 2008.

¹³ ADB Country Partnership Strategy Sri Lanka 2009-2011. October 2008

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 line¹⁴). This is a significant achievement but its 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 level¹⁵.

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 surveys¹⁶ has remained largely static (ranked 102 out of 181 countries). Sri Lanka has a myriad of Ministries, Departments and 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

¹⁴ 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.

¹⁵ UNICEF 2000-2007 average. www.unicef.org/infobycountry

¹⁶ Doing Business 2009, Country Profile for Sri Lanka. World Bank/IFC

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.¹⁷

¹⁷ Reported in the ADB Country Partnership Strategy Sri Lanka 2009-2011. October 2008

3. EVALUATION FINDINGS

3.1 Overall Impressions

The evaluation team's **overall assessment of the project is very positive**. The project design is based on accepted good private sector development practice. It uses research and analysis to assess how markets work within the local economic context, identifying underlying constraints and then adapting proven approaches, and also developing new ones, to address these obstacles. The principles that underpin the project approach, including a 'light touch'¹⁸ and acting as a catalyst for change, are also consistent with recognized good practice and have helped strengthen local ownership and the sustainability of the project activities and impact. Stakeholders are overwhelmingly positive about the benefits the project has brought to them.

The project has achieved the bulk of the indicators at Development Objective and Output levels (see Section 3.4 and Annex 3 for more detailed information on this). In addition, the project's various impact assessment reports provide evidence of impact at the firm and supporting institutional level.

If a continuation of the project were feasible, the evaluation team would recommend that funding be allocated for this purpose, particularly for extending the project to new Districts. This would maximise returns on the initial investment. Enter-Growth has developed an effective approach for both rebuilding post conflict regions, and mitigating the growing impact in rural areas of the emerging global economic recession.

The following summary of the evaluation findings has been structured largely according to the evaluation criteria laid out in the ToRs. Section 3.2 assesses the project **design** and Section 3.3, its **relevance**; Section 3.4 combines the assessment of the project's **effectiveness, impact** and **sustainability** in relation to the overall project Purpose (or Development Objective) and the four Outputs (or Immediate Objectives). Lastly, Section 3.5 assesses the project's overall **efficiency**. At the start of each of these sub sections, is a summary of the project's strengths and weaknesses in relation to each of the evaluation criteria.

3.2 The Project Design

Strengths	Weaknesses

¹⁸The 'light touch' term describes Enter-Growth's role as a catalyst for reform. Enter-Growth focuses on the provision of technical support, coordination and information, to facilitate reforms, as opposed to providing more direct financial interventions

<ol style="list-style-type: none"> 1. Improved model of change, with increased focus on achieving systemic change, since MTR. 2. Sound principles, adhering to accepted 'good practice' underpin the project. 3. Immediate Objectives follow proven good practice and demonstrate focus on context and needs of stakeholders during the design phase. 4. Activities largely appropriate for achieving Immediate Objectives 5. Indicators are reasonable means of measuring whether Immediate Objectives have been achieved (with some caveats) 	<ol style="list-style-type: none"> 1. The project has too tight a focus on MSEs as a route for achieving pro poor growth (although VCD analysis and subsequent involvement of larger businesses has helped mitigate this to some degree) 2. Logframe has a number of (minor) weaknesses 3. Some key activities are potentially missing from the project approach such as a) capacity building for Government Officials on business environment reform issues, and b) support for improving MSEs' access to financial services
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Following the MTR, the project team re examined the way the project was structured, and produced a revised logframe along with a new framework for the project (see figure 1). The bulk of the final Evaluation's focus is on what emerged from this process, but some comments refer to the original design work.

In assessing the **project design**, the evaluation team asked the following questions:

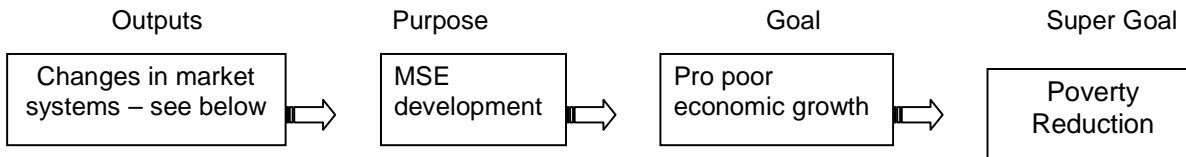
1. Is the Enter-Growth logical model of change credible and realistic?
2. Will the Immediate Objectives, in combination, contribute to achieving the Development Objective?
3. Will the project's activities achieve the Indicators
4. Do the Indicators effectively measure whether the Immediate Objectives have been achieved?

Taking each of these questions in turn:

3.2.1. Is the Enter-Growth logical model of change credible and realistic?

The change model, which is described in Figure 2, below, is based on an understanding of how MSE markets work in the project's four Districts. It demonstrates a logical development from the Purpose of the project (**the**

Figure 2: Enter-Growth Model of Change



Abbreviated Immediate Objectives/Outputs¹⁹

1. Expanded markets for services and products of MSEs (men and women)
2. Conducive policy, regulatory and legal environment for MSE growth (men and women)
3. Authorities and communities regard starting and growing MSEs as socially and economically attractive (men and women)
4. Greater access, nationwide, to market led sustainable business development services (BDS) (men and women)

Source: Evaluation Team, following discussion with the Enter-Growth Team

development of MSEs) as a means for achieving the Goal (**pro poor economic growth**) and then contributing to the **poverty reduction** Super Goal. This is essentially a generic MSE development approach. However the inclusion of systemic reforms to market systems, at the Output level, as a bridge between the activities and the purpose of MSE development is important, and helps ensure impact is more sustainable.

The MTR, and the analysis and thinking that the project team undertook following this intervention, helped Enter-Growth increase its focus on the way relevant markets work. The increased use of VCD, in particular, helped stakeholders identify priority constraints and opportunities and then develop proposals for addressing these²⁰.

Why an MSE Project?

The project focuses on MSEs, as a starting point for achieving pro poor growth. With employment as a key measurement of success, was this the right approach? The focus on MSEs is based on a number of assumptions, the most important being:

- the assumption that MSEs in informal markets have the ability to generate employment **more effectively** than medium and large firms. Given that Sri

¹⁹ These are included in full in the logframe in Annex 3. NB: The terms 'Immediate Objectives' and 'Outputs' are used interchangeably here.

²⁰ It is important to note here that not all proposals were implemented and not all resulted in systemic reforms. This is discussed further in Section 3.4

- Lanka is a middle income country with good education standards and an economy already reliant on manufacturing, this is an assumption that is not necessarily proven; and
- the assumption that there is a market for the goods and services that MSEs generate (and therefore for the increased quantity of goods and services generated by a growing base of more productive MSEs). It is not clear that there was a sufficiently rigorous assessment of market potential for each sub sector the project worked with, to justify this assumption;

The decision to make this an 'MSE development' project at the early design stage, does not appear to have been based on a full assessment of the alternatives. However, as the project progressed, and once this decision had been made, greater consideration was clearly given to including larger companies, as well as MSEs, as a route for generating employment. This was facilitated in particular by the value chain development process, during which the project tried to involve larger companies when appropriate.

Project Logframe

Lastly, the Evaluation has some comments on the revised logframe, developed after the 2007 MTR. Overall, the logframe responds to most of the issues raised in the MTR and was a positive development. However there are two specific areas where it could have been improved:

a) Some of the Immediate Objectives, incorporate several different objectives. For example, Immediate Objective 1 includes:

- 'expanded markets forMSEs';
- 'increased productivity and competitiveness (of MSEs)';
- 'a stronger demand orientation (of MSEs)'; and
- 'better market linkages.'

Arguably these could all of have been Immediate Objectives in their own right and would have provided the project with a tighter focus and better means for proper measurement of progress.

b) The absence of a Purpose statement leaves a large gap between the Immediate Objectives and the achievement of the overall Development Objective. As the above logical model (Figure 2) suggests, it would have been useful to include a Purpose statement at the start.

3.2.2 Will the Immediate Objectives, in combination, contribute to achieving the Development Objective?

The effectiveness of the project design is based on the likelihood of the Immediate Objectives achieving the Development Objective or Purpose. In the

logical model of change, followed by the project since the MTR, the Outputs are focused on achieving systemic changes in the markets MSEs operate in. On the whole, the Evaluation found that, with this in mind, the Immediate Objectives are well considered:

Immediate Objectives 1 and 2 (Expanded markets for services and products of MSEs; and Conducive policy, regulatory and legal environment for MSE growth: follow accepted and proven good practice in private sector development. There is a clear causal link between achieving these Outputs and achieving the Purpose;

Immediate Objective 3 (Authorities and communities regard starting and growing MSEs as socially and economically attractive): and in particular the Palama Forum Theatre initiative that it led to, is a new innovation, based on the findings from initial research into the constraints to MSE development. While not part of a common approach to local economic development, it is based on the realities of the context in which the project is operating. It may be too early to conclude whether the Palama component has added proportionate value, but from a design perspective and from the project intervention report its inclusion demonstrates the project's grounding in sound analysis of the local context.

Immediate Objective 4 (Greater access, nationwide, to market led sustainable business development services (BDS)): while important, this Output is probably not crucial for achieving the Development Objective. The wording of this Immediate Objective is also misleading as it implies it is focused on access to business development services (BDS) in general, whereas in reality it has focused on existing ILO training programmes, Start and Improve Your Business (SIYB) and Expand Your Business (EYB). In addition, the inclusion of the media development component under this immediate objective seems illogical and the evaluation team would suggest it fits better under Immediate Objective 2.

It is clear that, in combination, Immediate Objectives 1, 2 and 3 work together to contribute to the achievement of the development objective and are designed to achieve a synergistic impact. That is, the total impact of these combined components would be greater than the sum of the individual parts.

3.2.3 Will the project's activities achieve Immediate Objective indicators, as described in the project logframe?

Table 1, on page 9, above, lists the key activities undertaken to support the achievement of each Immediate Objective. The table demonstrates the following important points:

- Many of the activities such as the MSE Forums, and the LOCA and VCD processes, support the achievement of more than one Immediate Objective.
- Many of the activities are inter linked, and are in fact dependent on the effectiveness of each other for their own success. For example, the LOCA

and VCD analysis facilitated the identification of priority business environment constraints, enabling the MSE Forums to achieve several reforms in this area. There are therefore significant and demonstrable synergies being achieved between several of the activities.

- Some of the activities are less well connected, such as Palama and SIYB.

In addition, the evaluation team considered if any obvious activities are in fact missing from the above table; that is activities that would have significantly contributed to the achievement of the Immediate Objectives. Two possible activities are worthy of consideration:

a) Improving MSEs access to financial services:

Limited MSE access to (demand led) financial services was raised as a constraint to MSE growth, in Enter-Growth research reports, and anecdotally during the evaluation period. This is not unusual, as noted in the MTR report, in most countries MSMEs believe that access to finance is an important constraint; none the less, it does appear to be a priority issue for many MSEs in the project's four Districts. However, what is less clear is what or where the market failure(s) are, and therefore whether and how the project could have effectively intervened to improve MSE access to finance. Enter-Growth's work in this area is primarily confined to facilitating the provision of information and linkages to financial service providers through its partners. The selection of this activity is not based on an in depth analysis of the financial services market.

The Evaluation is not suggesting that Enter-Growth should have included a component focused on financial services and/or engaged with building capacity of financial service providers. However, given the importance of this issue, an assessment of the financial services market, to identify where the market failures exist, might have revealed opportunities for interventions within the overall framework of the project; for example facilitating the development or strengthening of embedded financial services. This reinforces a similar recommendation made by the MTR.

b) Local Authority Capacity Building for business environment reforms:

Enter-Growth supported the provision of training to specific Government Officers involved in registration of businesses, and the training (rightly) focused primarily on this process. The other business environment reform activities the project has engaged in (addressing constraints identified primarily through LOCA and VCD) have been relatively successful, largely because of the support of senior Government Officials in the MSE Forums. However, as the MSE Forums are starting to tackle more difficult business environment constraints, such as land reform in Anuradhapura, a more comprehensive approach might have been useful. This would have involved capacity building for relevant Government officials to ensure they appreciate the importance of these reforms, and in some

cases technical training to ensure their effective implementation. The Evaluation team believes that capacity building of Government Officials on broader business environment reform issues, would have had a synergistic impact on the achievements of Immediate Objective 2 in particular.

3.2.4 Do the Indicators effectively measure whether the Immediate Objectives have been achieved?

In the Section 3.4 of this evaluation report we assess the project's effectiveness, primarily in terms of whether it has met the indicators set in the logframe. However, this is only valid if the indicators effectively measure whether the Immediate Objectives have been achieved.

The Evaluation team's assessment is that yes, on the whole, the indicators are appropriate measurements for the Immediate Objectives, with the following caveats:

- Some of the indicators do not have numerical targets, which clearly limits their effectiveness as a means of measurement
- Most of the indicators don't measure the scale of outreach of the programme; and
- In general the indicators don't measure sustainability of the interventions or impact achieved.

3.2.5 Cross Cutting Issues

A final point on the project design: the main relevant (ILO) cross cutting issues of gender equality, labour standards and tripartite dialogue, have been reasonably effectively integrated into the project design and implementation.

Gender is included in each Immediate Objective and it is clear that at appropriate points during implementation, the project has tried to ensure that women are effectively represented. For example, involvement of women in a sub sector is one of the criteria for selecting a value chain to support; MSE Forums have been encouraged to ensure their membership includes a reasonable proportion of women; and all impact evaluations have attempted to assess the project's achievements for both men and women.

Although not a 'labour standards' project, when appropriate, Enter-Growth has identified opportunities for working on related issues; the most obvious example is the promotion of good working practices in the Coir sector.

The project has a strong focus on public private dialogue at the local level, particularly through MSE Forums, and also value chain committees. The Enter-Growth Steering Committee involves representatives from Government, the private sector (including the Employers Association) and Labour Unions.

3.3 Project Relevance

Strengths	Weaknesses
1. Project remains highly relevant for the Government of Sri Lanka, SIDA and the ILO. 2. The project has retained its pro poor focus.	

The project's overall Goal is pro poor economic growth and it has made commendable efforts to maintain a pro poor perspective. It operates in Provinces with relatively high levels of poverty, and it primarily engages in sub sectors that involve, or potentially involve, significant number of poor people, for instance the Dairy and Coir sub sectors. As such the project has managed to remain relevant for the poor.

The pro poor focus of the project is one way in which it has remained relevant for the Government of Sri Lanka (GOSL), SIDA and the ILO. Several factors support this premise, in particular: ongoing poverty, especially in rural Districts, and the potential for recent economic growth achievements to be reduced by the ongoing conflict in the north and more recently by the global economic downturn which is already impact exporting sub sectors. These factors underline the relevance to the Government as well as Development Partners such as SIDA and the ILO, of an effective model for achieving local economic development, and particularly one which can be applied to post conflict areas.

The Government framework in Sri Lanka, at the national, provincial and district levels, is extremely complex. The project is 'owned' by the Ministry of Enterprise Development and Investment Promotion (MEDIP), at the national level. There is fairly regular communication between the project and its national stakeholder, through project Steering Committee meetings, and other workshops. The Ministry also believe that the project helps them achieve their objectives. Enter-Growth has provided some advise on the Ministry's forthcoming SME Development strategy.

However, the evaluation team felt that there was room for strengthening this relationship and also the relationships with national private sector partners. It is notable that the Enter-Growth project, unlike other donor funded initiatives, does not feature in MEDIP's latest Performance and Programmes Book²¹. A closer

²¹ MEDIP, November 2008. Performance - 2008 and Programmes – 2009.

relationship would have enabled: a) better opportunities for the project to influence national issues which impact at the District level (such as budget allocations for key Government agencies operating in the Districts²²); and b) better opportunities to use the lessons and experience at the District level to achieve more sustainable, reforms at the national level. The same is true for national private sector partners where a closer relationship might have provided a much needed link in terms of influence at the national level.

Although SIDA is reducing its presence in Sri Lanka, SIDA and the ILO both have ongoing interests in developing and learning from good practice in LED and private sector development (PSD); and there are some important lessons to be learnt from Enter-Growth's experiences (as detailed in Section 4). The programme is particularly relevant for ILO as a) it is a building block in the Sri Lanka Decent Work Country programme, through, for instance, the promotion of good working practices in the Coir sub sector; b) it provides a key contribution to global knowledge sharing on enterprise development at local level; and c) it constitutes a major reference for ILO's forth-coming Global Strategy for the Promotion of Sustainable Enterprises.

3.4 Project Effectiveness, Impact and Sustainability

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. The project has met the bulk of the indicators at Development Objective and Immediate Objective levels. 2. Several components of the project have proven very effective, in particular the LOCA/VCD approaches and the MSE Forums 3. Significant achievements in business environment reform and improvements in business productivity and growth 4. Palama, an innovative and appropriate risk, achieved very impressive outreach and good levels of attitude change amongst participants. 5. Significant improvements in measurement of impact by the project since the MTR 	<ol style="list-style-type: none"> 1. The project did not achieve any reductions in MSE informality 2. Technical problems, as well as the resurgence of the conflict in the North East, restricted the potential outreach of SIYB and EYB. 3. The media component disappointingly did not achieve an increase in the scale and scope of MSE programming. 4. Embedded services have not been fully developed in some value chains. 5. The BDS market is heavily subsidised and not demand led. Maintaining up to date technology transfers in this context will be

²² Budget allocations for District Offices of Government bodies involved in supporting MSE development (and key partners for the project) were slow to incorporate Enter-growth related activities. This was reportedly a key constraint for the first half of the project period and is still a threat to the sustainability of the project.

<p>6. Achievement of the Development Objective impact indicator</p> <p>7. The project has achieved impressive scale of impact</p> <p>8. Impacts at the firm level appear to be reasonably sustainable.</p> <p>9. High levels of local ownership and commitment to the MSE Forums and the LOCA and VCD approaches suggest that these mechanisms are likely to survive beyond the lifetime of the project.</p> <p>10. KAB has been effectively institutionalised in the vocational skills curriculum</p> <p>11. The SIYB Association is considered sustainable.</p>	<p>difficult.</p> <p>6. Several reforms don't involve systemic changes to rules, regulations and so forth and may therefore be easier to reverse.</p>
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The Evaluation has assessed Enter-Growth's **effectiveness, impact and sustainability as follows:**

Effectiveness is measured by examining the project's progress against the logframe objectives and indicators. For this purpose we have used the final logframe that was revised following the MTR, in 2007. Annex 3 contains more detail regarding the achievements of the project against the logframe.

Impact is also measured to some extent by the degree to which the indicators have been met, but the evaluation team have also considered the **scale** and **depth** of the impact achieved.

The Enter-Growth project has made impressive efforts to document the impact of the programme, particularly since the MTR. These include:

- Intervention Reports on most of the interventions. These provide a very useful assessment and their structure helps the reader understand what was intended and what has been achieved.
- Impact Assessments for major components such as Palama.
- An overall impact assessment for the programme as a whole (in draft at the time of the Evaluation).

Although this evaluation is not an impact assessment, it has benefited from these reports, particularly in assessing the degree to which the project has achieved the indicators in the logframe. However, there are some areas where the assessment of impact could be strengthened. These are covered in comments on the monitoring and evaluation component in Section 3.6 of this report.

Sustainability can be assessed very simply by whether an intervention, or an impact, which addresses a key issue, will remain after the project has closed. On this basis, several components of the project can be assessed as either

sustainable or very close to achieving sustainability including many of the impacts achieved at the firm level. However, sustainability is also, and more significantly, assessed by the degree to which the project has facilitated “systemic change”, i.e. adjusting the role of institutions, influencing existing and new rules, reforming policies, which then, in combination, affect and ultimately transform, markets to make them work better for MSEs. MSE Forums, with high levels of local ownership and commitment and with the potential to influence key business environment reform issues, demonstrate promising sustainability by this standard.

Following the Mid Term Review (MTR) in March 2007, the Enter-Growth team spent some time considering the sustainability of the project, and acknowledged that some components of the project were unlikely to achieve sustainable impact within the four year project period²³. Using this work, and its own assessments, the evaluation team has considered the potential sustainability of several components of project.

The following is an assessment of the project against these three criteria, taking the Development Objective and then each Immediate Objective, in turn:

3.4.1 The Overall Development Objective: The programme will contribute to the generation of pro-poor economic growth and quality employment for women and men, through an integrated programme for the development of micro and small enterprises that focuses on the North-West and North-Central provinces. The reduction in poverty and unemployment will indirectly contribute to the sustainability of peace and reconciliation.

Indicators of Achievement	Enter-Growth Progress
<p>1. Two to three years after programme completion, poverty in the targeted districts has reduced more than in comparable districts not included in the programme, among women as well as men.</p> <p>2. By the end of the project, personal incomes have increased by 15% and employment by 10% in targeted value chains at the local level, which will be selected on the basis of pro-poor, pro-growth and feasibility of change criteria.</p>	<p>1. To be measured 2-3 years after Enter-Growth has been closed.</p> <p>2. <u>Achieved</u>. The sample survey of MSEs in 4 target divisions shows a near tripling of household incomes compared to 2006. It shows a 15% increase in employment. It cannot be said to what extent this is attributable to the project. (Source Impact Assessment Survey 2009)</p>

²³ Pathways to Sustainability Paper, 2007. Enter-Growth Project

3.4.1.1 Additional Comments on the Development Objective:

Scale of impact: Enter-Growth has impacted, in some form or another, an estimated 50,000 MSEs²⁴. This is a very significant achievement and doesn't include the estimated 200,000 participants in the Palama Forum Theatre.

Depth of impact: the project has met its key impact indicator at the Development Objective level: The sample survey of MSEs in 4 target divisions shows a near tripling of household incomes compared to 2006. It shows a 15% increase in employment²⁵. This is a significant achievement. The Impact Assessment (IA) Survey is based on a sample of 604 MSEs. A couple of points to make here:

- a) The baseline assessment for the IA survey was conducted in 2006 and the follow up in 2008. This is a) a short period to achieve impact, and b) the baseline was done 2 years after the start of the project and may therefore not have measured some of the impact achieved in the first 2 years of the project.
- b) During the project period (and the period covered by the IA), inflation in Sri Lanka was high (in 2005: 11%; 2006 10%; 2007 15% and in 2008 (projected) 23.9%)²⁶
- c) Unfortunately it was not possible to make comparisons of the income increases reported in the IA survey, with the income changes reported in the Household Income and Expenditure Survey (HIES)²⁷ as the latest HIES is for 2006/7.
- d) During the project period there were marginal decreases in unemployment nationwide (in 2004 unemployment was a reported 8.1%, gradually reducing to 6% in 2007²⁸.) Unemployment in the project's targeted Districts was in general slightly lower than the national average.
- e) In summary, there is no reason to question the figures from the IA Survey, and the project has done well to produce this level of data. However, attribution is always difficult because while there may be a correlation between increased income and project activities, as the report itself indicates, there is a possibility of reverse causation.

In addition, the various IA reports suggest there are good prospects for achieving genuine impact on targeted MSEs in terms of their growth and competitiveness. However, for some of these MSEs, especially those in export markets, these improvements are threatened by the global economic crisis.

²⁴ This includes MSEs that have not been directly impacted yet, but that operate in sub sectors which have gone through significant reform and therefore are likely to feel some level of impact, e.g. the Dairy sub sector.

²⁵ Source: Impact Assessment Survey 2009

²⁶ IMF 2008 Article IV, Public Information Notice. October 2008. www.imf.org/external

²⁷ Household Income and Expenditure Survey, Department of Census and Statistics, Sri Lanka. www.statistics.gov.lk

²⁸ Figures exclude the Northern and Eastern Province. Sri Lanka Labour Force Survey 2007. Department of Census and Statistics, Sri Lanka. www.statistics.gov.lk

Taking each of the Immediate Objectives in turn:

3.4.2 Immediate Objective 1: 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.

3.4.2.1 Logframe Indicators for Immediate Objective 1

Indicators of Achievement	Enter-Growth Progress
<p>1. Sales figures of MSEs in targeted value chains and localities in the two Provinces increased by 20% or more, for MSEs owned by women as well as owned by men.</p> <p>2. More MSEs have entered competitive value chains at the local level</p> <p>3. Great integration has been achieved in targeted value chains through an increase in association or other group membership, other ways of horizontal collaboration and greater collaboration between different levels in the value chain.</p>	<p>1. <u>Achieved</u>. In the March 2009 Impact Assessment, 63% of MSEs in a sample of 4 Divisions, report an increase in sales of 22% on average. Sales have increased for MSEs in the following value chains: rice farmers in Polonnaruwa; dairy farmers in Kurunegala (by an estimated 76%); anthurium growers in Kurunegala (although anecdotal evidence suggests that recent economic downturn has reduced this increase somewhat); carpenters in Anuradhapura. For floriculture in Kurunegala, a small increase is reported by the growers the evaluation team met; tourism in Anuradhapura has not experienced an increase in sales.</p> <p>2. <u>Achieved</u> (but no numerical target). According to intervention and project reports, a total of 845 new entrants have been recorded in the following sub sectors:</p> <ul style="list-style-type: none"> - Dairy (621) - Ornamental fish (30) - Anthurium (100) - Paddy (40) - Coir (8) - Fish processing (46) <p>3. <u>Achieved</u> (but no numerical target). 26 associations have either been revived or formed from scratch. In addition, membership of existing associations has increased. Evidence of greater integration is several subsectors, for example: Fruit and vegetables: 60 producers linked to export and at least 387 to various large buyers; floriculture, 92 growers linked to export, 30 to new buyers (some services embedded); tourism, 2 linked to international chains; ornamental fish, 200 linked to buyer/producer (with embedded services); dairy, 520 linked to large fresh milk factory, at least 14 marketing fresh milk locally; poultry, 525 included in buy-back systems (with</p>

<p>4. Business service providers in each District offer at least four new services or approaches that benefit men as well as women.</p> <p>5. An increase of at least 20% in the number of MSEs who access business services, among women as well as men.</p> <p>6. MSEs and starters in targeted value chains and localities have accessed financial services due to facilitation of better linkages.</p>	
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²⁹ The project found it difficult to facilitate the provision of new embedded services, but in some cases was able to 'improve' the provision of existing embedded services, particularly by formalizing the service delivery process.

MSEs in the following value chains: rice farmers in Polonnaruwa; dairy farmers in Kurunegala (by an estimated 76%); anthurium growers in Kurunegala (although anecdotal evidence suggests that recent economic downturn has reduced this increase somewhat); carpenters in Anuradhapura. For floriculture in Kurunegala, a small increase is reported by the growers the evaluation team met; tourism in Anuradhapura has not experienced an increase in sales.

2. Achieved (but no numerical target). According to intervention and project reports, a total of 845 new entrants have been recorded in the following sub sectors:

- Dairy (621)
- Ornamental fish (30)
- Anthurium (100)
- Paddy (40)
- Coir (8)
- Fish processing (46)

3. Achieved (but no numerical target). 26 associations have either been revived or formed from scratch. In addition, membership of existing associations has increased. Evidence of greater integration is several subsectors, for example: Fruit and vegetables: 60 producers linked to export and at least 387 to various large buyers; floriculture, 92 growers linked to export, 30 to new buyers (some services embedded); tourism, 2 linked to international chains; ornamental fish, 200 linked to buyer/producer (with embedded services); dairy, 520 linked to large fresh milk factory, at least 14 marketing fresh milk locally; poultry, 525 included in buy-back systems (with embedded services)

4. Achieved. The sample of BDS providers indicates that 18 out of 21 providers have increased the range of services they provide. These include:

- packaging training delivered 22 times to several different value chains in all 4 Districts.
- small business association strengthening in all 4 Districts
- garment productivity training in all 4 Districts
- good working practices training in 2 Districts

More services have become available in the Districts as a result of LOCA and VCD, but not directly related to the above supported training. E.g. the establishment of model dairy and model breeder farms and two exporting zones.

In addition some improved²⁹ embedded services are being provided to project value chains including by the Sri Abhinawarama Foundation to its member dairy farmers in Kurunegala; input suppliers to the growers and exporters of floriculture in Kurunegala; a supermarket to vegetable growers in Polonnaruwa.

Several value chains are dominated by women managed MSEs, such as garments and therefore new services have also benefited them in many instances.

	<p>5. <u>Not achieved</u>. The sample of MSEs and BDS providers in 4 divisions suggests a decrease in BDS use. However, extensive service provision has been facilitated by the project: an estimated 3,850 services provided by partner BDSPs, according to project reports.</p> <p>There has been less progress in developing the BDS market through providers, despite the Service fairs. In addition, there is a question of whether services are genuinely demand led, given high levels of subsidy in many of the above services.</p> <p>6. <u>Achieved</u> (but no numerical target). MSE sample survey in 4 divisions suggests an increase from 24% accessing loans 3 years ago, to 31% now.</p> <p>Through the value chain exercise, involving financial institutions in MSE Forums, has enabled at least 740 MSEs to access credit, grants or in kind assistance. In addition, several financial service providers report an increase in demand for financial services in villages following Palama exercises.</p>
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3.4.2.2 Additional Comments on Immediate Objective 1:

LOCA/VCD and strengthening the BDS market:

- To date the project has facilitated 17 LOCAs, 13 local VCDs and 4 regional VCDs to take place.
- LOCA and VCD are strongly appreciated by partner Business Service Providers (BSPs) as key mechanisms for supporting MSE growth. BSPs believe that they are far better equipped now to support business growth and development. Partner BSPs and MSEs interviewed appreciated LOCA and particularly VCD as an effective mechanism for identifying constraints and where to add value (at the local level)
 - o *'Before the VCD, we sent raw materials to Colombo and they came back as finished products. Now we send the finished products to Colombo' VCD participant in Kurunegala*
- While BSP feedback was overwhelmingly positive about LOCA and VCD, there were some criticisms: the training for BSPs was delivered by the project staff in English, with translation, and this created some learning difficulties at first. In addition, there is some question over the time it took Enter-Growth to develop the VCD approach for the programme, adapting it to incorporate a more participatory approach, and that in reality it was a process of 'learning by doing'. In the view of the Evaluation team, this may not be a bad approach as it involves building ownership and knowledge

along the way. However, some stakeholders expressed frustration at the additional time it took and the degree to which expectations were raised for activities and solutions to problems that were unlikely to be realized³⁰. The project and its partners in this instance learnt a valuable lesson regarding how to ensure that proposals which emerge from both LOCA and VCD exercises are both practical and owned by key stakeholders to ensure they have a good chance of being implemented.

Business Practices (at the firm level):

- MSEs interviewed as part of the Evaluation mentioned improving their business practices as a result of either the LOCA or VCD interventions. Most of these appear to be in relation to technical practices (production techniques) rather than management, although several mentioned better marketing (a core constraint) and improved linkages to markets.
- Several MSEs mentioned that the project partners (MSE Forum members or the BSPs) had been able to help them gain access to finance through other Government and donor funded projects. However it should be noted that in many cases this is subsidized credit or grants, and therefore not sustainable. The MSE baseline survey suggested that many MSEs had benefited from loans. Most appeared to be aware of financial services and what is available so it may be that weak linkages, the focus of the project, is not the key constraint;
Several comments were made by stakeholders, suggesting that the project should have done more to improve access to 'reasonably priced' financial services (see comments on this in Section 3.2 on the design of the project).
- In at least two sub sectors (floriculture and dairy), MSEs mentioned that training provided by BSPs (often with Enter-Growth support) following the LOCA and/or VCD, was based on old technologies – and especially for those in export markets, the need is for more up to date technology transfer in order to increase their productivity to international standards. When prompted, MSEs indicated their willingness to pay for some of the costs, but clearly expressed a strong belief that it is Government's role to subsidise this training. The project had only marginal success in facilitating the development of embedded services by buyers and/or suppliers to meet this need³¹.

Sustainability Issues

- The VCD and LOCA approaches have helped improve coordination amongst key players within value chains and thereby address coordination failures in

³⁰ This reinforces a finding from the MTR

³¹ The project team noted that larger companies had expectations of subsidies from Enter-Growth when approached regarding the development of embedded services. One could speculate that greater involvement of relevant large companies earlier in the project process, and therefore more time to explain Enter-Growth's facilitative, 'hands off' approach might have helped address this mis-perception of Enter-Growth.

the development of the value chains. Good impact at the firm level was achieved in general, and the current economic down turn notwithstanding, this impact is likely to be sustainable.

- The degree to which the approaches will continue in the long term is less clear. Enter-Growth has trained a total of 79 Facilitators in the LOCA and VCD approaches, most of them employed by Government BDS providers. Those interviewed as part of this evaluation appeared to have wholly engaged with both these methodologies and are fully committed to continuing with them after the close of the project. Some of these Government bodies have managed to access funding to enable the continued use of VCD and LOCA, and in fact at least one has managed to convince their headquarters to take on these approaches in other parts of the country. However, it seems likely that not all of these organisations will be able to continue with LOCA and VCD in the long run.
- The BDS market is heavily subsidised. As mentioned above, the vast majority of LOCA and VCD Facilitators/BSP partners are Government³² or NGO bodies and they are to some degree dependant on either Government funding, or Enter-Growth/other donor project support. MSEs have not paid for many of the support services, including LOCA, VCD and subsequent training programmes, and there is a strong precedent, set by Government and other donor funded development programmes, of MSEs expecting support to be provided at below cost, or even for free. This has repercussions for sustainability, and also the degree to which the project and its partners can be sure that the services provided are genuinely demand led, and meeting the needs of the stakeholders.
- Ensuring training stays up to date with the latest technologies may be a challenge in some areas, once the project has closed down. In ideal circumstances this technology transfer would be provided by suppliers and buyers in the value chain, through embedded services, and once the links have been forged and strengthened, it can be argued that they are reasonably sustainable. Unfortunately the project has had only mixed success with this aspect of the service provider market and more reliance has been placed on BSPs, which operate in a subsidised market.

3.4.3 Immediate Objective 2: 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.

3.4.3.1 Logframe Indicators for Immediate Objective 2

Indicators of Achievement	Enter-Growth Progress
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³² According to Enter-Growth's BDS Baseline Survey, carried out in January 2006, out of a sample of 52 BDS Providers, 32 were Government organisations, and 11 were NGOs. Only 3 were fully private for profit companies.

<p>1. At least 10 regulatory constraints identified with MSEs have been solved.</p> <p>2. Business registration in targeted localities in the programme's final year is up by 15% or more compared to the first year, among MSEs owned by women as well as men.</p> <p>3. Officials who participate in programme events express greater confidence in their capacity to provide a conducive environment for MSE development.</p> <p>4. Authorities independently identify and address regulatory issues in the final quarter of the project.</p> <p>5. 50% or more of MSEs in targeted value chains in the two Provinces, those owned by women as well as those owned by men, agree that regulatory changes carried through are improvements for their businesses, while less than 10% find it a deterioration.</p>	<p>1. <u>Achieved.</u> 13 regulatory (or other business environment) issues have been resolved in full or part, the majority through MSE Forums. This is a very significant achievement. A full list of these reforms is detailed in Annex 4.</p> <p>2. <u>Not achieved.</u> According to Enter-Growth monitoring reports, overall business registration actually reduced slightly in the 4 Districts since this intervention. However in two sub sectors there is evidence of an increase in business registration following a LOCA exercise, e.g. Carpenters in Anuradhapura identified specific business registration constraints and the MSE Forum has facilitated some removal of these constraints. Possible reasons for the overall lack of progress are explored below.</p> <p>3. <u>Achieved.</u> (no numerical indicator) Enter-Growth monitoring, supported by Evaluation team interviews, found that Officials believe they offer a more responsive service to MSEs wishing to register their businesses. According to a SLIDA report on the training they delivered: 78-98% fully agreed/agreed/partly agreed that they had increased their knowledge and skills regarding business registration and licensing. - 90-97% fully agreed/agreed/partly agreed that they now can better perform their responsibilities regarding business registration and licensing.</p> <p>However, Officials interviewed during the Evaluation pointed to the need to both increase MSE awareness of the benefits of, and how to register, and also to take steps to reduce the complexity of the process.</p> <p>4. <u>Achieved.</u> (no numerical indicator) MSE Forums and some senior Government Officials have taken a lead in 'identifying' priority constraints (in total 38) for MSEs, of these 11 have been solved to date. These issues come from VCD and LOCA work as well as from SBAs and individual entrepreneurs. NB: this is a misleading indicator as the project does not (and should not) want to encourage Government bodies to identify business environment reform priorities 'independently' but rather to proactively engage with the business community to ensure that any reform process meets the private sector's needs. In reality, the MSE Forums are an excellent route for facilitating this kind of dialogue.</p> <p>5. <u>Likely to have been only partially achieved.</u> The sample survey of MSEs in 4 divisions, none of which are likely to have been directly affected by the improvements, and 90 % of which did not deal with regulations over the past two years, shows greater dissatisfaction with procedures. However Enter-Growth intervention reports and Evaluation interviews suggest that MSEs in several value chains consider that the business environment has improved. These include tourism in Anuradhapura; Dairy in Kurunegala and Anuradhapura; and Carpentry in Anuradhapura; and cover sub sectors where both men and women play a key role. It should be noted that in</p>
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<p>6. MSE representatives, including women, authorities and business service providers, meet at least twice in MSE Forums or other dialogue events in the final year of the programme.</p>	<p>many of these sub sectors the business environment constraints have been only partially resolved to date.</p> <p>6. <u>Achieved.</u> MSE Forums have been very successful and in all 4 Districts meet as a minimum every month, often more regularly (according to project monitoring reports, a total of 83 meetings between October 2005 and February 2009). MSE Forum membership includes Government representatives (usually very senior), members of the business community, BDS providers (usually Government run agencies), as well as NGOs. All MSE Forums now have at least 30% female membership (although initially this was less in Kurunegala). One MSE Forum is establishing Division level forums.</p> <p>There have been 37 meetings of steering committees of local and regional value chains, mostly over the last 2 years.</p>
<p>7. Representative organisations participate more, and more effectively, in dialogue.</p>	<p>7. <u>Achieved.</u> This has primarily been achieved through the MSE Forums which themselves are a dialogue mechanism for the three main interest groups (private sector, Government and NGOs). SBAs and District Chambers are members of the MSE Forums and participate in dialogue (MSE Intervention report) Most SBAs in 6 case studies (SBA intervention report) report improvements in dialogue. The evaluation found anecdotal evidence to suggest that membership of the Forums has facilitated the building of relationships that result in an increase in informal dialogue outside of the actual Forum meeting.</p>
<p>8. The number of MSEs organised in representative organisations has increased.</p>	<p>8. <u>Achieved</u> (no numerical target) A study of 26 Associations that have worked with the project showed a 47% increase in membership between 2006-9. Seven of these associations were new. The MSE survey shows an increase in membership of SBAs from 8 to 16%.</p> <p>In three instances, smaller associations collaborated to form larger associations (Dairy, Floriculture and Ornamental fish)</p>

3.4.3.2 Additional comments on Immediate Objective 2:

Two specific types of business environment reform were targeted by the project:

1. Specific reforms to address issues and constraints raised as priorities by SBAs, value chain analysis and so forth. In the main, these have been dealt with by the MSE Forums. Some of the business environment reforms achieved affect hundreds of MSEs, some only a handful; the reforms cover improved implementation of existing regulations, temporary or localized changes in regulations and practices; reductions in local taxes and so forth; they are

predominantly what the project has called 'quick wins', which while impacting the relevant businesses, many of these have not, on the whole, involved systemic and therefore sustainable, changes to rules, regulations or Government policies. A full list of these reforms is included in Annex 4.

In order to achieve these reforms the project worked to:

a) Improve the capacity of the private sector to identify key constraints, through facilitating³³ the establishment of new, and strengthening of existing, SBAs; and through facilitating LOCA and value chain analysis which helps stakeholders highlight where the bottle necks for business development are in any given value chain.

The MSE baseline analysis conducted in June 2006, found that MSEs in rural areas tended not to be members of SBAs and that this had weakened their ability to advocate for improvements in the business environment (numbers from MSE baseline). It also found that SBA membership was low, in part because MSEs suggested that there was not a local relevant SBA for them to join. Based on this understanding, the project has facilitated the establishment of 7 new SBAs, and existing ones have been strengthened. The Evaluation found that anecdotally this intervention has been appreciated by stakeholders. However the project has not effectively assessed the capacity and sustainability of these SBAs following this intervention³⁴. (In a couple of instances the SBA has played a crucial role in the success of an advocacy initiative e.g. Thambuththegama Traders Association in Anuradhapura, which has been advocating with considerable success for an increase in the term of land permits)

It is clear that the LOCA and VCD processes have been very helpful in facilitating key stakeholders to identify priority constraints, and as the project and its partners got better at implementing the process, ensuring that the proposals generated were prioritised and practical.

b) Improve dialogue between Government and the private sector (and relevant NGO community) to help address specific issues. The main route for achieving this improved dialogue has been the MSE Forums, which have been established in each District³⁵.

The MSE Forums are mechanisms that facilitate dialogue and networking amongst key players in Government, the private sector, and relevant NGOs. The MSE Forums have emerged as an important strategic link for the various

³³ Enter-growth did not directly help establish SBAs. In keeping with its 'hands off' approach, it trained BSPs in approaches for establishing and strengthening SBAs.

³⁴ As mentioned in Section 3.6 of this report, capacity diagnostic tools now exist which would have been useful for regular assessments of the capacity (and capacity development needs) of partner organisations.

³⁵ Other dialogue mechanisms include Value Chain Committees

elements of the programme and a major opportunity for achieving sustainable impact.

All MSE Forums are different but they have the following strengths in common:

- They all appear to be fully owned by their members. The very fact that they are different and have adapted to the characteristics of their environments is in itself testament to this factor.
- Strong ownership is to a large degree a result of the fact that the Forums meet a genuine need in each District that goes beyond the needs of the Enter-Growth project.

'The MSE Forum fills a gap; we really need it.' Private sector MSE Forum member in Anuradhapura

- Relationships between key figures within the three groups represented in the MSE Forums (Government, the business community and NGO sector) have improved: formal and informal dialogue is reportedly more frequent and more constructive.

'Before the Forum I couldn't get a solution to my problems; now I can find a solution with one telephone call.' MSE Forum member, Kurunegala

- MSE Forums have been able to find and affect solutions to issues raised, resulting in tangible improvements to the business environment. These, primarily 'quick wins', have helped retain the interest of the senior representatives of the public and private sectors, which in turn has helped to drive their success.
- The MSE Forums have also played a strategically important coordinating role for several components of the Enter-Growth project, particularly business environment reform and improving market access.

Despite their overwhelming success, there are some dangers/risks with the MSE Forums, which it is worth highlighting:

- The success of the MSE Forums, as mentioned above, is due to a large degree, to the quality, seniority and representativeness of their members. This presents a risk when key members retire or leave. Experience from some of the Forums has shown that when the Forum is strong and not reliant on only a few key members, it is able to withstand this risk.
- There is a slight bias in the membership of the MSE Forums towards public sector, and ideally it would be beneficial to increase the proportion of private sector actors involved. In addition, some of the MSE Forums have had low female participation. At least one MSE Forum, in Kurunegala, has taken steps to rectify these issues.

- One of the key risks that is associated with the success of a body such as this, is the potential for it to be hijacked by specific interest groups, although as far as the Evaluation team can tell, there is no sign of this yet.

- A more significant danger is that as the MSE Forums start trying to address more difficult reforms, where there are winners and losers (as well as continuing with 'quick wins'), success could be more illusive and reforms will take longer to be achieved. This includes business environment reforms that require regulatory or legal amendments, and/or involve entrenched positions and vested interests in the status quo, and/or action or reform by central Government. This issue was also noted in the MTR report.

These are the issues that will require a more systemic change in the way things work and inevitably are more difficult to achieve. This may include an assessment of the pro's and con's of institutionalizing the Forum in local Government structures or within the Chamber. As the MSE Forums start addressing these kinds of issues, they may need to consider some of the lessons from emerging good practice³⁶ in private sector advocacy, and in particular may need to engage more research to ensure that arguments for reform are evidence based.

Lastly, while the MSE Forums clearly provide a very useful advocacy mechanism, it is crucial that the MSE Forums do not become the only route for advocating for reforms in the business environment. SBAs, the Chamber and other private sector organisations, should be able to engage Government bodies in dialogue and to advocate for the reforms they think appropriate, with or without the MSE Forum.

Sustainability of MSE Forums

The impact of MSE Forums on MSE development in the local economies is significant and it seems plausible that the bulk of these reforms will remain in place.

It also seems extremely likely that the MSE Forums will continue in all four Districts long after the end of the project. As such they are an institutional mechanism for achieving ongoing policy improvements. High levels of local ownership and commitment to the Forums are the key reasons for achieving sustainability on this level. Linked to this is the crucial point that the MSE Forums meet a need (for public/private dialogue and coordinating LED) which is widely recognized by key local stakeholders and **which goes way beyond the specific needs of the Enter-Growth project**. The other side of the local ownership coin is that the MSE Forums will almost inevitably develop after the end of the project into different types of organization as they endeavour to adapt to the characteristics and needs of their local environments and stakeholders.

³⁶ Some of the new thinking on private sector advocacy can be sourced through www.Businessadvocacy.net

A core strength of the MSE Forums has been their ability to achieve results; many of these have either been as a result of an Enter-Growth intervention (for instance the facilitation of a particular training programme to address a market access constraint identified by a sub sector), or when dealing with business environment reforms. Once Enter-Growth is closed, the challenge for the MSE Forums will be to continue to achieve these results, and on the business environment side, to also move to address more challenging issues. The latter may require the application of a more rigorous approach to advocacy, for example research to ensure arguments for reform are evidence based; despite the recent advocacy training, this has not been effectively instilled in the key MSE Forum players as yet.

One or two of the MSE Forums are considering whether to register and formalise their status. There are mixed views regarding this option (within the project team and the evaluation team!). It may be a route to ensure improved sustainability, but there are risks, particularly that registration will involve greater public sector involvement and ownership of the Forums. Ultimately, and this is partly the beauty and the risk with these mechanisms, it is for the Forum membership to decide what is best for themselves.

In summary, the MSE Forums appear to be reasonably sustainable, in that they are likely to continue long after the project has closed. However, whether they will maintain the same level of success and fulfil their potential without ongoing guidance from the project, is in the evaluation team's view, not yet proven.

2. Reducing informality by increasing business registration by MSEs:

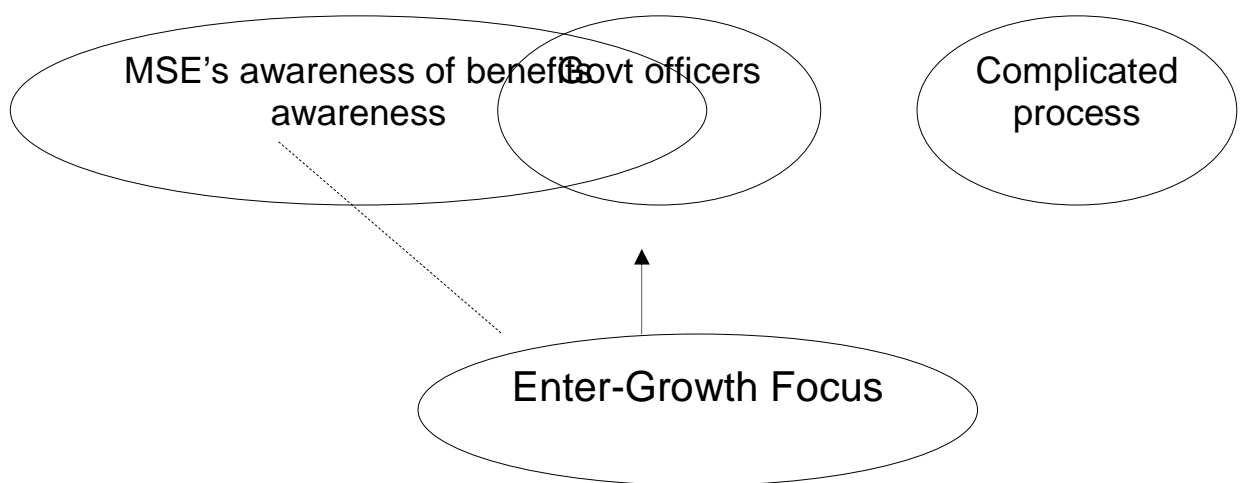
Enter-Growth identified (through initial research for the programme) the high level of informality within MSE sector (numbers) in all four Districts, and the significant constraint informality places on MSE growth. For example, lack of registration is one of the key barriers preventing an MSE from accessing formal financial services, especially credit.

Through research and analysis the programme identified three reasons for low levels of registration: a) complex processes; b) attitudes of Government Officers who may not appreciate the complexity of the process (as typically they are only involved in one of several steps) or that their role is as a service provider (as well as regulator); and c) MSEs' limited awareness of benefits of registration as well as how to go about registering.

As figure 3 below demonstrates, Enter-Growth focused on only one of these underlying causes (changing the attitudes of Government Officers), with only minor activities aimed at raising MSEs awareness of the benefits of formalisation. No activities were implemented to address the complexity of the registration process itself.

The project's main activity was to support the Government training division, the Sri Lanka Institute of Development Administration, (SLIDA), to train Government Officials at the local level, who in turn trained Officials involved in the MSE business registration and licensing process. The training covered the importance of business registration for supporting the growth of MSEs, the role of the Officers as service providers, and also explained the whole process MSEs have to go through in order to register, to give Officials a better understanding of the time and costs involved for MSEs.

Figure 3: Enter-Growth Approach to Increasing Business Registration



The Government Officials, on the whole, appreciated the training and indicated that it helped them serve the MSEs attempting to register their business, better. All of those interviewed were able to identify how they have used what they learnt in the training to improve their work practices

'I understand what the small businesses have to deal with now' Government Officer in Kurunegala

However, the training programme did not result in increased business registration in any of the Districts; in fact business registration actually decreased during the project period in all four Districts (although presumably not because of this intervention). Two problems with the approach and implementation process could explain this:

Most importantly:

1. Of the three reasons for low business registration, the project focuses on only one (attitudes and awareness of Government Officials) and did very little to address the others. The evaluation team found widespread acknowledgement by

Government officers they interviewed, that the business registration process is too complex and needs simplifying, particularly for those types of business, such as food processing which need several licenses to register. In fact the Officers interviewed in Kurunegala indicated that they had identified several routes for simplifying the business registration process, and expressed frustration that there was no opportunity to feed these back to 'decision makers'. There was also widespread acknowledgement of the importance of educating MSEs as to the importance of, and process for, registering, but little attention was paid to this issue (a leaflet was produced and some Palama plays mentioned it). As such, failed to comprehensively address the underlying causes of informality.

And to a lesser degree:

2. SLIDA did not fulfil all the elements of its contract with Enter-Growth: in particular, it did not deliver the software that was designed to link the different bodies involved in the process. In addition, there were some criticisms that the training programmes, and accompanying Manual, were not 100% accurate (although to be fair this was a first attempt at bringing together a complex process and it was bound to have a few mistakes at first). These errors have now been corrected by SLIDA.

3.4.4 Immediate Objective 3: Authorities and communities in which the poor predominate regard starting and growing micro and small enterprises by women and men as a socially and economically attractive activity.

3.4.4.1 Logframe Indicators for Immediate Objective 3

Indicators of Achievement	Enter-Growth Progress
<p>1. An increase in the number of people in target communities who consider enterprise an attractive way to make a living.</p> <p>2. The number of women and men, including youths and officials, who consider enterprise</p>	<p>1. <u>Achieved</u> (although not a numerical indicator). An in-depth qualitative assessment that compared attitudes in October 2008 to the baseline of early 2006, concluded that attitudes towards business and towards enterprise as a way of making a living have improved. The study concludes that the project, Palama in particular, but also interventions such as the MSE Forums, LOCA and VCD, has made a significant contribution to this. Entrepreneurial Studies could have been a contributory factor, but it has been plagued by implementation problems (Source: Impact assessment on the enterprise culture component, October 2008).</p> <p>2. <u>Achieved</u>. See above. Officials were not specifically targeted but included as inhabitants</p>

<p>an attractive way to make a living increases by 20% amongst those who have participated in project initiated activities to promote enterprise culture.</p> <p>3. More than 50,000 women and men participate directly in campaign events</p> <p>4. Know About Business (KAB) included in more than 40 vocational/technical training courses nationwide.</p> <p>5. Entrepreneurial studies running at 'O' level in 5,000 secondary schools nationwide,</p>	<p>of the targeted communities.</p> <p>3. <u>Achieved</u>. Over 200,000 men and women have attended Palama events. Anecdotal evidence suggests that the audience is made up of significant numbers of women, and the majority are youths.</p> <p>4. <u>Achieved</u>. KAB has been successfully incorporated into the Government vocational school curriculums, and is being run in 176 courses nationwide. This is a very significant achievement. 5,340 vocational trainees have completed KAB to date; the majority are male.</p> <p>5. <u>Partially achieved</u>. According to the National Institute of Education and the Ministry, entrepreneurial studies are being run nationwide, however the course is running in only 900 schools due to implementation problems. 27,576 students sat for the Entrepreneurial studies 'O' level in 2008.</p>
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3.4.4.2 Additional comments on Palama and KAB:

1. Palama Forum Theatre³⁷:

The 'Palama' component, which means 'Bridge' in Sinhalese, is a fascinating innovation that is based on sound research of the constraints to MSE development in the four target Districts. In these Districts, and elsewhere in Sri Lanka, the project discovered that entrepreneurship has low social and economic status as possible livelihood option. While forum theatre is a tool more commonly used for disseminating social messages and meeting social development objectives, as far as the evaluation team is aware it has not been used as part of a local economic development programme before. As such the project team

³⁷ Forum theatre is social marketing tool. It is an interactive theatre form which combines short plays on particular issues, and audience discussion and participation, so as to develop a kind of interactive theatrical debate. Adapted from Seeley C, Palama, A Bridge To A Different Way of Working. October 2008.

demonstrated a commendable willingness to adapt proven approaches to the context in their 4 Districts and to innovate and take educated risks.

Palama has achieved very significant scale, with an estimated 200,000 plus participants, and according to the impact assessment has achieved a change in attitude amongst 26% of the communities it has operated in.

As a relatively new approach, and also through some unfortunate circumstances, the Enter-Growth team experienced some severe management challenges in implementing this initiative. Their dogged commitment and persistence in continuing with it, is also highly commendable .

However, the above positives and achievements notwithstanding, we have some comments and questions regarding this initiative. Firstly, the objective and indicators, and therefore the impact assessment, are focused on attitude change, assuming that behavioural change inevitably follows. This is not necessarily the case, and it would have been advisable to drive the programme towards achieving behavioural change. As it stands, there is very little evidence that the attitude change achieved has translated into entrepreneurship (although the increased demand for microfinance following a Palama event, is a good indication).

Sustainability Issues

In addition, while senior management is highly committed to Palama, the Evaluation team were struck by the, at best, ambivalent attitude towards this initiative amongst both external stakeholders and other internal team members. This is partly explained by the administrative and management nightmares the whole component brought with it, and also some poor communication at the start with key stakeholders. It is an important issue, as it will definitely limit the sustainability of Palama after Enter-Growth is closed.

It is difficult to assess whether the impact achieved by the Palama Forum Theatre component, on the attitudes of those who took part, will be sustainable. Without any hard evidence to the contrary, standard communications wisdom would suggest that the impact is likely to dwindle if the key messages are not reinforced through the same and/or alternative means.

The Palama component has been beset by management challenges, but the solution recently identified by Enter-Growth, that of establishing four theatre companies, is a promising one³⁸. However, it seems very unlikely that the theatre companies will be able to continue with Palama without funding once the project ends. It could be argued that Palama provides a public service, and should in fact be funded by Government. The ambivalence expressed regarding Palama by key

³⁸ There is also a suggestion, which in principle the Evaluation team supports, to form one umbrella company to encompass all 4 separate theatre companies

stakeholders in the four Districts, makes it seem unlikely that this funding will be forthcoming.

2. Entrepreneurship as an 'O' Level Elective

Institutionalising entrepreneurship by incorporating it as an option in the 'O' level syllabus is an excellent opportunity for improving attitudes to entrepreneurship in a sustainable way. Given the high education standards in Sri Lanka this initiative has the potential to achieve significant and sustainable scope. Unfortunately, there have been some management problems that have limited the impact and scale of this initiative, and given the short time left for the project it seems questionable as to whether these can be resolved before it closes.

3. Know About Business (KAB):

The KAB course has been successfully incorporated into the curriculum of Government vocational training schools. This is a very significant achievement, and the approach, which institutionalises the course, shows every likelihood of being sustainable. The KAB training seems well received by both students and teachers, although greater use of practical experience as part of the course was a commonly recommended improvement.

It seems that the bulk of the students at the vocational schools are hoping to acquire jobs, rather than set up their own businesses. This is supported by the findings of the KAB Intervention Report, which found that some students, while appreciative of the course believed it did not apply to them as they anticipated getting a job at the end of the course³⁹. In the same assessment, students who had benefited from a KAB course had a moderately better perception of starting a business as a livelihood option, and slightly more confidence in their ability to do so.

3.4.5 Immediate Objective 4: Greater access countrywide to market-led, sustainable business services for micro and small enterprises owned by women and men.

3.4.5.1 Logframe Indicators for Immediate Objective 4

Indicators of Achievement	Enter-Growth Progress
1. An increase in the annual provision of SIYB and related services of at least 10 percent, to women as well as men.	<u>Not achieved.</u> Probably an unrealistic target. Compared to 2005, in 2008 the number of trainees has fallen by 19%, to 2,603 trainees, although this

³⁹ Intervention Report on Know About Business in Sri Lanka, MDF. March – July 2008.

	number is likely to rise due to late reporting. Delivery peaked in 2006 at 4,226, likely due to post-tsunami assistance. It is now back to pre-tsunami levels. The majority of trainees continue to be women – 72% in 2008 (Source: SIYB Association records).
2. An increase in the annual provision of EYB services of at least 30 percent, to women as well as men.	<u>Not achieved.</u> 28 trainees were trained on various EYB modules in 2007. In the first half of 2008 10 entrepreneurs took the entire course. There was no further EYB training in the second half of that year. This is a decrease compared to the 35 in 2005 (Source: SIYB Association and project records)
3. 40 percent of MSE owners, women as well as men, listen/watch regularly the MSE radio and/or television programmes.	<u>Not achieved.</u> None of the programmes dedicated to MSEs have survived. Media monitoring in 2009 shows that compared to the baseline in 2006 business programming has fallen by 2/3. The share of MSE programming in business programming has remained the same (Source: Draft media monitoring report, project records).
4. In the programme's final year, the SIYB Association makes no use of technical assistance from the programme.	<u>Achieved.</u> No technical assistance is being provided, apart from participation in Executive Council Meetings. A case study evaluation in 2008, found the Association to be sustainable in every respect (technical, institutional and financial). In spite of decreasing delivery, the organisation is still profitable. A recent analysis indicates, however, that growth is needed to maintain this.
5. SIYB providers run at least 10 programmes in the North and East in the programme's final year.	<u>Achieved.</u> 29 programmes were run in 2008, in spite of the conflict.

<p>6. In the programme's final year, EYB providers run two EYB programmes without technical, management or financial assistance from the programme.</p>	<p><u>Not achieved.</u> One programme was run in 2008. It was not supported by the project, but it was subsidized by a Government agency, i.e. it was not run commercially. Several efforts to achieve a commercial footing have failed. (Source: SIYB Association, project records).</p>
<p>7. At least 4 radio and/or television stations run MSE programmes without financial support from the programme.</p>	<p><u>Not achieved.</u> None of the programmes that were initiated with project facilitation has survived (Source: Project records)</p>

3.4.5.2 Additional Comments on Immediate objective 4:

In general, this Immediate Objective appears to have been a 'catch all' for activities at the national level and those inherited from the previous programme, with little strategic cohesion to bring them together. As noted in section 3.2, the wording of the Immediate Objective is misleading as the activities are not necessarily designed to strengthen the BDS market as a whole.

SIYB and EYB:

Support from the project has helped build the SIYB Association's capacity and its sustainability. This is a positive achievement. An assessment of the SIYB Association suggests that the SIYB Association is sustainable, although it will need to grow its outreach in order to maintain this sustainability. The project still provides technical assistance and advice, but primarily on an informal basis due to the strong personal relationships with key people in the project team.

Media Development:

Also mentioned in section 3.2 of this report, the Evaluation team consider that this component fits better under Immediate Objective 2. This component has been disappointing as it has not achieved a sustainable increase in coverage of business (particularly MSE) issues in the media, as was intended. The Evaluation team has not examined this component in detail but there are a number of possible explanations for this lack of impact:

- Unlike countries where media development components have had more success, Sri Lanka's media sector is dominated by national players and there are not many local media houses. This has made it harder for radio stations, for example, to develop programming which appeals to specific audiences.
- It seems that the Media Houses did not fully buy in to the Enter-Growth approach
- A forthcoming review of the Media Development component suggests that limited follow-up by Media Coordinators contributed to this component's lack of success.

3.5 Efficiency

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. Effective management systems have contributed to the significant scale and success of the project, and in particular its ability to adapt to new thinking. 2. Good team working and hard working staff 3. Spending is on track 	<ol style="list-style-type: none"> 1. M&E, while fairly comprehensive could be improved in a number of instances. An overall framework would have been helpful. 2. Clearer role for the steering committee, combined with broader membership, would have ensured better strategic guidance and oversight.

The efficiency of the enter-Growth project has been considered by assessing three aspects of the project: a) the management systems and structure; b) the Governance systems; and c) the use of financial resources.

3.5.1 Management:

There was not sufficient time for a detailed assessment of the management of the project, but in summary, the evaluation team found the management structures and practices to be effective. In both Colombo and the four Districts the teams appeared to be committed, hard working and capable. Staff at all levels seemed to understand their roles and how they contribute to the overall

seemed to understand their roles and how they contribute to the overall project's work. The District Offices appear to appreciate the support they received from the Colombo office and earlier issues relating to internal communication, have reportedly been largely addressed.

Three years into the project, the Project Manager role was taken over by the previously Deputy Project Manager, with the previous Project Manager taking on a part time technical advisory role. This transition appears to have been handled smoothly and has worked well.

The ILO Country Office provided good administrative support during the project period, illustrated by the processing at one point of 70 separate contracts for the actors involved in Palama!⁴⁰

Project expenditure is on track; management anticipate that the project budget will be fully spent by September 2009. This is a good indication of effective management systems.

Monitoring and Evaluation

While good efforts have been made to improve monitoring and evaluation (including impact assessment) since the MTR, the evaluation team believe that it could still be further improved. A good M&E framework, and ideally someone appointed within the team to take responsibility for M&E, would have helped ensure that the mechanisms were practical and that all elements of the project were effectively covered. A more comprehensive and sophisticated database would have been hugely helpful in recording all monitoring information and enabling its analysis⁴¹. Similarly, inclusion of mechanisms for measuring capacity of organisations on many dimensions, and changes over time, would have provided very useful evidence for the evaluation team of the impact of the project.

Communication

Enter-Growth's website is very comprehensive and accessible. However, the project would have benefited from an overall communications strategy; this would have helped improve promotion of the project to interested stakeholders; ensured internal communications systems were effective; and very importantly, helped with the development of a systemized knowledge system to ensure that all the valuable information, currently collected by the project in a raft of different reports, is collated in a more accessible format for the project's key audiences.

⁴⁰ It is only fair to point out here, that the Evaluators, most of whom are not familiar with ILO systems, were astonished to discover that according to ILO procedures, all of the project's contracts, over a minimal sum, have to be processed by the ILO Country Office. This seems to be unnecessarily bureaucratic.

⁴¹ The Enter-Growth project is currently working on this.

3.5.2 Governance:

The governance systems essentially follow the design in the project document. A Steering Committee was established, consisting of MEDIP, the ILO Country Office (Chair), SIDA, the FCCISL, District Secretaries from the four Districts, and more recently representatives from the labour unions and the Employers Association. The Steering Committee meets every 6 months, usually in Colombo, but the project has taken the initiative to hold the meetings in one of the four Districts on occasion.

The remit of the Steering Committee is unclear (there are no ToRs) and members are not sure if their role is advisory or decision making. This begs the question that if the project had gone off the tracks, whose responsibility would it have been to bring it back on course?

The Evaluation team believes that a clearer and possibly expanded role for the Steering Committee might have brought benefits including better involvement of national stakeholders in the project and greater Sri Lankan ownership. While recognising the risks with this approach, particularly the danger of the project being steered in the wrong direction by a risk averse Steering Committee, the potential benefits are too important to ignore. Broadening the membership would have ensured inputs from relevant experts in Sri Lanka. It might also have helped the project develop more productive links with national Government and national private sector players.

In summary, a stronger more effective governing body would have been a good means for ensuring better local ownership of the project, and that tighter strategic guidance and oversight was provided.

3.5.3 Use of Resources:

The project has been able to identify and attract appropriate expertise (Sri Lankan and international) when necessary to help develop and implement different aspects of the programme. This is a key strength. In addition, the project team has been able to use these inputs to adapt the project approaches as appropriate, demonstrating important flexibility and commitment.

ILO embarked on a similar programme in Vietnam, also with SIDA funding, at about the same time as Enter-Growth started. Both projects have made good use of this opportunity with effective transfer of knowledge and experiences taking place between the two projects.

As requested, the Evaluation team have analysed the project budgets to ascertain the proportion spent on overhead versus project costs. The results, below, should be treated with caution: this kind of analysis is at best useful with

grant allocation projects (such as challenge funds or matching grant programmes) but with projects which follow a 'light touch' approach, which aim to provide minimal funding for interventions, they are less helpful.

Enter-growth Budget Breakdown:

Overhead:		
	Personnel (national and international):	1,169,181
	Sub contracts:	972,504
	Equipment:	182,643
	Miscellaneous:	648,853
	Subtotal:	2,973,181
Technical Assistance provided to stakeholders:		
	Training:	326,232
	Programme Support Costs	580,918
	50% of personnel costs	1,169,180
	Subtotal	2,076,330
Total:		5,049,511

Overhead as % of total budget: 58.9%

3.6 Response to the MTR

The strategic MTR in March 2007 was a useful opportunity to evaluate the project's progress, identify opportunities for aligning the project more closely with good practice and ensure its focus was on achieving sustainable impact. It is clear that the Enter-Growth team took this process very seriously. They held two follow up workshops to discuss the MTR findings and review progress on recommendations.

The main recommendations are summarized in Section 2.2 of this report. The following is an assessment of how well the project managed to follow up on the issues raised:

Tighter strategic framework for the project:

The project developed and established a clearer overall vision for the project, encapsulated in its Market Systems diagram (Figure 1 on page 9) and the revised logframe. This thinking enabled a closer focus on the market, and

underlying market constraints or failures, particularly through the VCD approach and the effectiveness of the MSE Forums in addressing proposals for reform raised during LOCA and VCD. In particular it enabled the project to take a more systemic view of market development. The project was also able to develop more constructive synergies being built between the different project components, although some of the components, particularly those that come under Immediate Objective 4, are still not so well linked with the rest of the project parts.

Despite increased efforts and the take-up by the Federation of Chambers of Commerce of the MSE Forums for further replication, District to national policy linkages could be stronger and this has limited the potential impact of the project at both the District and national level, as well as the sustainability of the impact it has achieved. A better appreciation of the importance of these linkages at the project start would have been helpful. The planned National Results Conference (June 2009) is a positive initiative, and may help redress this shortcoming to some extent.

Sharper analysis to guide intervention strategy:

The VCD work in particular resulted in better analysis of market systems and underlying constraints, which in turn led to better identification of proposals for reform. Initially proposals arising from LOCA and VCD work include impractical suggestions, and raising expectations, but over time the stakeholders learnt to focus on those that were more realistic. The project also took a more systemic approach to value chain selection (including pro poor criteria) following the MTR.

More and better research, in collaboration with the MSE Forums, could have been used to inform the business environment reform work. For example on some of the more difficult areas such as land reform as the project attempted to move beyond 'quick wins' alone.

The MTR raised the issue of excluding important national stakeholders; the increased use of VCD and the development of the MSE Forums helped address this issue to some degree. However, as noted in Section 2.2 the Evaluation found that the project's focus on MSEs has resulted to some degree in foregoing opportunities to engage effectively with larger businesses as well as MSEs.

Develop a pathway for achieving more substantial change and sustainability (actions for crowding in):

The project team developed a 'Pathways to Sustainability' paper that helped identify the project components with the most likelihood of achieving sustainability. This impacted some of the project work, particularly MSE Forums and VCD. However it didn't fully address the limitations of the BDS market, its high degree of subsidy and questions over whether it is genuinely responding to MSE demands. Given the degree of distortion in this market, this was a huge

challenge, but, linked to the above issue of involving additional stakeholders, more progress on embedded services, would have been very helpful.

Operational issues:

The MTR recommended improvements to several operational issues and these were made to the M&E work, especially impact assessment, and to internal communications. The MTR also commented on linkages between the District and national levels of the project as previously stated, although some progress was made on this, more could have been achieved.

4. GOOD PRACTICES/KEY LESSONS

There are several important good practices which emerge from the project and which provide valuable points of learning for similar projects in both Sri Lanka and internationally. These are:

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.

5. SHORT TERM RECOMMENDATIONS (UP TO PROJECT END IN SEPTEMBER 2009)

With only a few remaining months before the project ends, the Evaluation team has made only three priority recommendations for this period. These are:

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.

Annex 1

Terms of reference

Independent final evaluation of Micro and small enterprise development for pro-poor growth (EPPG) project Sri Lanka

A Technical Cooperation Project of the Government of Sri Lanka
and
the International Labour Organization (ILO)

Funded by the Swedish International Development Cooperation Agency (SIDA)

Project code: SRL/05/03/SID

Projects' budget: USD 5.1 million.

Project duration: June 2005 – September 2009

Implementing Agency: International Labour Organization (ILO)

Geographical coverage: Sri Lanka (Anuradhapura, Polonnaruwa, Puttalam and Kurunegala)

Evaluation date & duration: February-March 2009

TORs Preparation date: December 2008-January 2009

1. INTRODUCTION AND RATIONALE FOR THE EVALUATION

Enterprise for pro-poor growth, or Enter-Growth for short, is an integrated enterprise development project of the Ministry for Enterprise Development and Investment Promotion (MEDIP) and the International Labour Organisation (ILO), funded by the Swedish International Development Cooperation Agency (SIDA).

This project followed SIDA's support to the introduction in Sri Lanka of Start and Improve Your Business (SIYB), a small business management training and counseling programme. Enter-Growth started in June 2005, with a budget of US\$ 4.7 million, originally of three-year duration. There was a no-cost extension to November 2008, and an additional US\$ 0.4 million was provided for an extension to the end of September 2009, to consolidate the main achievements and complete some of the activities. The project is not now developing any new activities. It will gradually phase out in 2009.

Enter-Growth is the result of background research and intensive and reiterative consultations with stakeholders in the public, private and NGO sector, which took place in 2004. This included a series of workshops in the target Districts: Anuradhapura, Polonnaruwa, Puttalam and Kurunegala.

The project underwent a mid-term strategic review at the beginning of 2007. The recommendations made were the subject of a team retreat in March 2007. This resulted, among other things, in a revised logical framework, which was subsequently approved by the project Steering Committee. A year later, the team reviewed progress on implementing the recommendations.

The project's final independent evaluation is foreseen in the project document. It will be undertaken in line with ILO policies and procedures, and comply with ethical standards of accountability and transparency. The evaluation will comply with UN evaluation norms and standards; OECD/DAC Evaluation Quality Standard, and ethical safeguards will be included.

It will be conducted by an independent evaluation team and managed by an evaluation manager at the ILO Sub-regional Office in New Delhi. The project will be reviewed with regard to relevance, design, effectiveness, efficiency, sustainability and replicability. The main expected outcomes are:

- An assessment of the approach developed and implemented by the project and its stakeholders.
- Lessons learnt and knowledge developed with regard to private sector development for pro-poor growth at the sub-national level.
- Recommendations for further action by the ILO and its stakeholders in Sri Lanka, as well as elsewhere.

2. THE ENTER-GROWTH PROJECT

Rationale

Economic growth in Sri Lanka has been significant in Colombo and the Western Provinces, while poverty has persisted in many of the more rural provinces. The development of micro and small enterprises seems to offer the greatest potential for pro-poor growth in these regions, given low entry levels and their predominant use of local materials. However, their development, and more generally the development of a viable private sector, has lagged behind, due to a variety of reasons, which include weak infrastructure, lack of market access, an unsupportive policy and regulatory environment and ambiguous attitudes towards enterprise and entrepreneurship. Business development services have been mostly supply driven and have failed to make a significant difference, in spite of the many organizations, public and private, that aim to support enterprise development. This is the situation which the Enter-Growth project seeks to address.

Objectives

The project has the following Development Objective or Goal:

Contribute to the generation of pro-poor economic growth and quality employment for women and men, through an integrated programme for the development of micro and small enterprises that focuses on the North-West and North-Central provinces.

The project's three main themes or entry points for contributing to this goal are: enhancing market access, improving the business enabling environment and strengthening enterprise culture. These are reflected in its three Immediate Objectives at the district level:

9. *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.*
10. *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.*
11. *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.*

In addition, the project comprises *national-level activities* covered by a fourth objective:

12. *Greater access countrywide to market-led, sustainable business services for micro and small enterprises owned by women and men.*

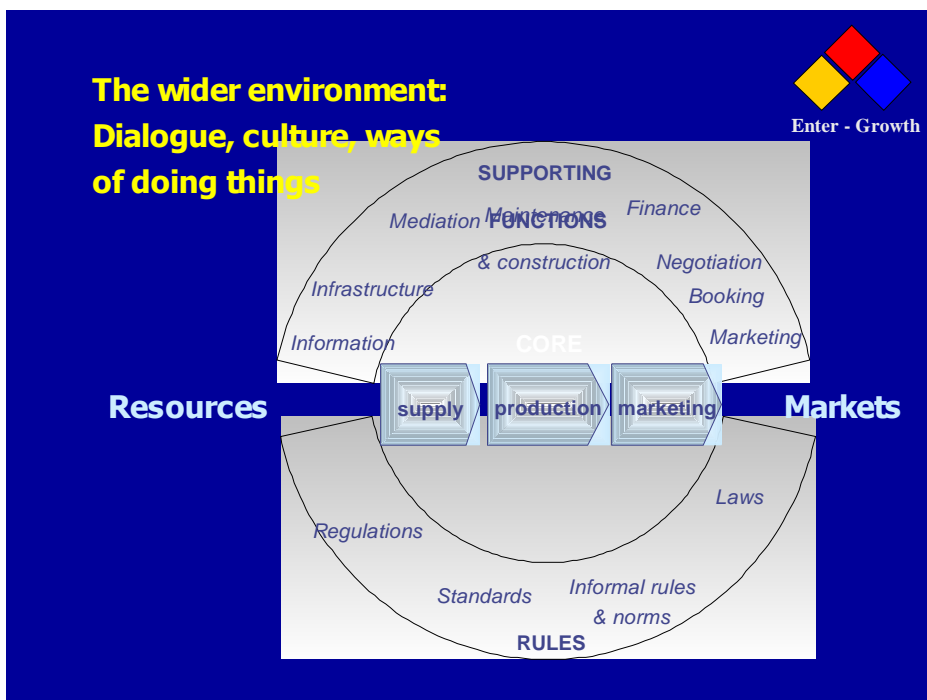
This includes support to the Start and Improve Your Business programme which was a legacy of the preceding SIYB project.

The current logical framework matrix, which includes indicators of success, is attached in Annex 1.

Project approach

The project aimed to take a participative and inclusive approach to planning and developing its specific interventions, to ensure a high degree of local relevance and ownership. The approach and the significance of the results achieved so far can be best understood by considering the different ways in which Enter-Growth intervenes to **improve the market system**. Diagram 1 represents this system.

Diagram 1: The market system



Source: Adapted from the Springfield Centre (project mid-term review report)

Enter-Growth intervenes at different levels. Basic to its approach, and its main intervention in the wider environment, is the establishment, in late 2005, of Micro and Small Enterprise Forums (MSE Forums) with representation of the Government, service providers (including financial services) and the private sector. The Forums are chaired by the respective District Secretary and/or the province's Chief Secretary. Meeting on average once every 6 to 7 weeks, they provide forums for public-private dialogue where no such dialogue existed before. They are the project's main partners and play a key role in improving the local business enabling environment and

support services, and planning and coordinating enterprise development activities. In most cases, the District Chambers of Commerce have taken on the secretariat functions.

Dialogue is also central to the two methodologies Enter-Growth promotes to identify and address issues in the value chains at the core of the market system, and their immediate environment of rules and regulations and supporting functions:

- LOCA⁴² (for Local Competitive Advantage) and
- Value Chain Development at the local and regional level.

LOCA is a tool to identify and develop competitive advantages on an area basis, usually in a division. It brings together government, private sector representatives and service providers to establish which are the (potentially) competitive value chains in divisions. Private sector representatives include MSMEs, their associations, and larger firms that buy from or supply to MSMEs. Service providers included financial as well as non-financial services. Taking a participatory approach, the selected value chains are analyzed, constraints are identified and proposals are developed to address them. These are usually but not always simple and concrete interventions that can be implemented by local stakeholders themselves.

Enter-Growth developed its own Value Chain Development (VCD) methodology, as this is still a relatively new approach. Most current methodologies focus on extensive analysis and the production of a report by a consultant. Enter-Growth's approach applies some of the participatory principles of LOCA and is action oriented. Other than LOCA, though, it uses an analytical framework appropriate to the assessment of just one particular value chain. The VCD methodology can be used at different levels, i.e. to cover a few divisions, an entire district, or more than one district. The selection of the value chains to be upgraded has generally followed a number of LOCA exercises that demonstrated the importance and potential of certain value chains. To coordinate the work on a larger scale, regional value chain exercises, the project has facilitated the establishment of Value Chain Steering Groups of organizations and enterprises with an interest in developing the chain.

Enter-Growth has developed a capacity of Government, private sector and NGO business development organizations in the four districts to apply these two tools. More than 40 LOCA and more than 30 VCD facilitators were trained, with whom Enter-Growth conducted 15 LOCA and 9 local VCD exercises. Larger regional value chain exercises started in 2007. Four have been completed, in the coir, the dairy, the floriculture and the packaging sectors. Initially Enter-Growth fully managed the LOCA and VCD exercises and took the lead technical role, but as its partners gained experience it has withdrawn to a role characterized by facilitation, guidance, and further training.

LOCA and VCD exercises have resulted in proposals for:

- Improvements in the value chains, to enhance their competitiveness and access to new markets – the focus has been on enhancing cooperation between stakeholders within the chains.
- Provision and improvement of services that improve productivity, quality and market access – linking demand and supply and developing new services where appropriate.
- Improvements in the regulatory environment that reduce unnecessary constraints on growth – reforming the regulations themselves or improving the way they are applied.

⁴² LOCA is called PACA outside Sri Lanka. It stands for Participatory Appraisal of Competitive Advantage. It is a product of Mesopartner (www.mesopartner.com). Enter-Growth has made some adaptations to the approach.

These proposals may be taken up and implemented directly by local stakeholders who have been involved in the exercises, including, importantly, the enterprises themselves. When issues of coordination or funding are important, they are considered by the MSE Forums, which may facilitate their implementation. Regulatory issues, or issues relating to access to public services (such as electricity) are always submitted to the Forums. If its members cannot take action themselves, the Forums contact other relevant organizations in the district, province or nationally. This is especially important where regulatory constraints are concerned, as these can often be addressed only at the national level.

Stakeholders use their own resources or request support from other funding sources. Enter-Growth has provided limited financial assistance to interventions that aimed at improving the market system, for instance by improving or developing a support service. It has not subsidised or organised the delivery of services to enterprises. Service delivery is, the project believes, the task of service providers and the enterprises themselves. The project has aimed to generate a greater degree of local ownership over economic development and has reduced the dependency on external support. It has taken the stance that local stakeholders should take responsibility for local economic development, and that actors such as the project can only facilitate this process.

A regulatory constraint that affects enterprises across value chains is informality. Less than 30% of businesses in the target districts are registered and/or licensed, which limits their scope for growth. Informal enterprises have less access to services and greater difficulties to enter into contracts with large buyers. In early 2008 the project worked with SLIDA and local institutions to train more than 2,000 officials in the districts to facilitate registration and licensing, and is promoting registration and licensing to local business communities. The project has built on this and its experience with public-private dialogue to develop, with SLIDA, certificate level courses on better public administration for private sector development. The first course is currently being piloted.

Returning to the wider environment of the market system, an in-depth assessment carried out for the project indicated that in the target districts attitudes to business were often negative, which limits business start-ups and growth⁴³. Enter-Growth's Palama ("Bridge" – from poverty to prosperity) campaign aims to improve attitudes and beliefs about the private sector, so more people consider business an attractive way to make a living. Theatre groups have been set up and trained in each of the four districts. They make use of a combination of performance and forum (participatory) theatre, which has already attracted some 120,000 spectators.

Also for promoting enterprise culture, at the national level Enter-Growth technically supports the National Institute of Education (NIE) to develop an Entrepreneurial Studies course at O and A levels. This has been completed up to grade 11, and the course has been introduced throughout the country, taking in thousands of young people. Practical implementation problems have, however, limited the success of the course. Enter-Growth also provides technical support to the introduction of entrepreneurship studies ("Know About Business", KAB) in private, NGO and public sector vocational and technical training. This is now running in more than 150 courses throughout the country. KAB's owner is the SIYB Association, which, with initial guidance from the project, has fully taken over the management of the SIYB programme in Sri Lanka.

Reviews and impact assessments

The project's mid-term strategic review concluded that "The project's ethos and practices, particularly its light touch interventions and facilitation of local initiative and ownership, are

⁴³ See Reinprecht, K, and Weeratunge, N., *Enterprise for pro-poor growth: Design of a strategy to promote enterprise culture in Sri Lanka, socio-cultural assessment results*. ILO, February 2006, available on www.entergrowth.com.

consistent with good practices in private sector development. Stakeholders appear to value project support. Interventions are yielding promising initial results, in particular innovation and improvement in the systems and practices around businesses – most obviously in terms of dialogue and collaborative action. This promising progress is a solid foundation for the remaining project period.”

The review also indentified a number of weaknesses and made recommendations to address these, in particular with regard to greater conceptual clarity and analytical rigour, upscaling through a focus on larger value chain exercises, developing « pathways to sustainability », better internal and external communication, and strengthening monitoring and evaluation. Implementation of the recommendations was planned in March 2007 and reviewed by the team a year later. Ways to enhance the focus on decent work were considered as well.

The project has done and commissioned assessments of several of its interventions, through specific « intervention reports », case studies and comprehensive impact assessments. To the extent that these have been finalized, they are available in the library at www.entergrowth.com. The project considers that it is too early to assess comprehensively the impact of the approach in terms of employment and incomes, given that most interventions aim to be systemic and will therefore show impact only in the longer term. However, the initial reviews show promising signs of impact at the enterprise and household level. Palama impact assessments have demonstrated that the approach is effective in changing people’s beliefs about enterprise, and is succeeding at generating discussions about business as a career option. The MSE Forums have demonstrated effectiveness and good potential for sustainability.

Partners

The project's main partners are the MSE Forums in the Districts. These are made up of representatives of the private sector organizations, the Government and NGOs. These organizations are often also important partners in their own right, for conducting LOCA or VCD exercises, and implementing the proposals that come out of these. The most significant are:

- District Chambers of Commerce and Industry
- Various small business associations
- Offices of the Industrial Development Board
- Offices of the Small Enterprise Development Division
- The Industrial Services Bureau
- The office of the Export Development Board
- Offices of the Sarvodaya Economic Enterprises Development Service
- Various provincial ministries, of Industry, Agriculture, Livestock

At the national level, the project has worked regularly with:

- Federation of Chambers of Commerce and Industry of Sri Lanka
- SIYB Association of Sri Lanka
- Small Enterprise Development Division

The Ministry of Enterprise Development and Investment Promotion is the project's official partner.

Project implementation structure

The project has a head office in Colombo and four District Offices. The latter are staffed by District Managers, responsible for overseeing and coordinating the programmes in the Districts, as well for a regional value chain exercise each, and Assistant Managers. Current staff at the head office includes a project manager, responsible for overall management as well as several technical areas, a national expert and an associate expert. They support and coordinate the District Offices and are responsible for most cross-District and national activities. Over 2008

several positions have been phased out, including a Chief Technical Adviser, the Palama campaign manager and a consultant on value chain development.

The project reports to the Area Office in Colombo, which also provides programming, administrative and finance support. It is overseen by a Steering Committee with representation of the main stakeholders at the national and District level. It meets about twice a year. The project submits progress reports twice a year as well.

Technical backstopping is by the enterprise development specialist at the Sub-Regional office in Delhi, and SEED in Geneva.

3. PURPOSE, SCOPE AND CLIENTS OF THE EVALUATION

Purpose

Enter-Growth is one of the ILO's new generation of projects that take a more holistic approach to enterprise development and have a focus on the sub-national level. As the project document makes clear, it has set out to be locally relevant, driven by the needs of local economies and the priorities of its stakeholders. The project document describes a process to ensure this and indicates possible ways of doing so, rather than prescribing one. **The purpose of the present evaluation is to assess the achievement 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.** It will focus on the following main issues:

- Was the project's approach appropriate with respect to its objectives and target groups?
- Was it effective?
- Was it efficient?
- Did it result in sustainable change?
- What good practices can be learned from this project?
- What should be avoided in future?

Specific issues to be addressed will be identified through the consultative process with the key stakeholders at the initial stage of the evaluation exercise and based on the review of the project documentation.

Scope

The evaluation will consider the District as well as national level interventions of the project. It will consider the entire project duration and all four Districts. Field visits are expected to cover two Districts only, while information on the other two will be gathered through the review of available documentation. However, if the evaluation team prefers it could divide up and visit all four Districts.

Clients

The principal clients of this evaluation are the Government of Sri Lanka, the ILO (Headquarters, Sub-Regional Office in Delhi, Area Office) and the donor (SIDA). The clients also include the project partners and stakeholders in Sri Lanka, at the District as well as national level, including the ILO Constituents. More broadly, the evaluation is expected to generate knowledge that will be of use to agencies and organizations engaged in enterprise development in Sri Lanka as well as elsewhere.

4. ANALYTICAL FRAMEWORK

The following are the specific key questions the evaluation should consider.

Strategic fit

- To what extent did the project support national development priorities, including those shared by the ILO and its constituents?

Validity of the design

- Was the design process adequate?
- Was the resulting project design logical and coherent?
- Considering the results that were achieved, was the project design realistic?
- Did the project design include a strategy for sustainability?

Relevance and effectiveness

- To what extent has the project approach as outlined in the document been implemented?
- What changes were made, and why? Were these valid reasons?
- Was the approach as implemented logical and coherent?
- Was the approach as implemented relevant to the needs of MSEs and the poor in the four target Districts, women as well as men?
- To what extent did it reflect ILO's cross-cutting issues gender, poverty, labour standards, and tripartism/social dialogue? To the extent it did not? What were the reasons? Were these valid reasons?
- To what extent was the approach effective, i.e. have the project objectives and outputs been achieved, including early signs of impact at the level of enterprises, incomes and employment?
- To the extent they have not been achieved, what were the reasons? Were these valid reasons?
- What role has the project's mid-term review played in the development of the approach?

Management arrangements and efficiency

- To what extent were the management, monitoring, and governance arrangements for the project adequate?
- Was the technical, programmatic, financial and administrative backstopping from the relevant ILO offices adequate?
- To what extent were the project's funds spent in accordance with its budget?
- If changes were made, what were the reasons? Were these valid reasons?

Impact and sustainability

- What has the project done to evaluate and assess the impact of its approach and specific interventions?
- Was this adequate, and has it resulted in knowledge generated that can be applied by others?
- Have the project's and the ILO's efforts to make use of and disseminate this knowledge been adequate?
- To what extent have components of the project approach already been replicated or made use of in other ways?
- Has the project developed a feasible strategy for sustainability of those interventions that held potential to become sustainable?

- To what extent has this been implemented?
- To what extent has it succeeded?

Learnings and future action

- To what extent has this been a « learning project », i.e. has it developed and adjusted its approach as it learned more about the needs of its stakeholders and target groups, and what worked and what did not?
- How successful have the project and the ILO more generally been at sharing these learnings?
- What good practices can be learned from the project that can be applied to similar future projects?
- What should have been different, and should be avoided in similar future projects?
- Can the project approach be replicated and scaled up, in Sri Lanka or elsewhere?
- What should the ILO, the donor and the key stakeholders do to follow up on this project?

5. MAIN OUTPUTS

The evaluation team will draft a report and present the main conclusions, recommendations and lessons learned to the project Steering Committee.

The report will have the following structure:

- Cover page with key project and evaluation data
- Summary (according to ILO Evaluation Summary template)
- Brief background of project and its logic
- Purpose, scope and clients of evaluation
- Methodology employed
- Review of project approach
- Findings regarding project performance
- Conclusions
- Recommendations
- Lessons learned
- Annexes, including TORs, persons contacted, etc.

The draft report will be circulated to the members of the Steering Committee for their review. Comments will be consolidated by the evaluation manager and provided to the team leader. In preparing the final report the team leader should consider these comments, incorporate as appropriate and provide a brief note explaining if some comments were not incorporated.

6. METHODOLOGY

The final evaluation will be conducted by a two-person team of independent consultants. The evaluation team will carry out the following activities:

- Desk review in home country, of relevant documents, which will be provided by the project, to the extent they are not available on www.entergrowth.com. These will include:
 - Project document
 - Research reports (e.g. on enterprise culture, media for SMEs)
 - Progress reports – an update (report 7) will be prepared just prior to the evaluation
 - Mid-term strategic review report
 - LOCA and VCD reports

- The web-based database on LOCA and VCD exercises
 - Intervention reports and case studies on specific interventions, e.g. the MSE Forums, business service fairs, LOCA and VCD exercises
 - Baseline and impact assessment reports.
- Development of a workplan in consultation with the evaluation manager and the project team (by e-mail, skype, phone)
 - Briefing by the evaluation manager and by the ILO Area Office in Colombo
 - Discussion with the project team
 - Field visits to at least two of the four Districts
 - Interviews with key stakeholders in Colombo, as well as in the Districts
 - Discussions with MSE Forums and group discussions with MSEs involved in LOCA or VCD exercises
 - Phone interviews with relevant ILO staff at the Sub-regional Office in New Delhi and SEED in ILO Headquarters
 - Discussion of preliminary findings with the project team and the evaluation manager
 - Facilitation of stakeholders workshops to share and validate the findings
 - Presentation to the project Steering Committee

7. MANAGEMENT ARRANGEMENT, WORK PLAN AND TIME FRAME

7.1 Management arrangement

The evaluation will be managed by Mr. Andre Bogui, Deputy Director, ILO SRO Delhi whom the evaluation team reports to. Evaluation Manager is responsible for the overall coordination, management and follow up of this evaluation. Evaluation Officer at ILO Regional Office for Asia and the Pacific (ROAP) and evaluation focal point at the ILO Colombo Office will provide support to the evaluation process and do quality control of the process and of the report.

7.2 Composition of the team

The team will comprise:

- A **team leader**, an independent international consultant, selected by evaluation manager and approved by ROAP (through the regional evaluation focal person) from a shortlist submitted by the project and other sources. The team leader will be accountable for the quality and the timely delivery of the final report. The team leader will be a highly qualified senior evaluation expert with an in-depth knowledge of enterprise development issues.
- A national consultant proposed by Evaluation Manager and approved by the ROAP (Regional Evaluation Focal Person). The national consultant will be a senior enterprise development specialist with a strong knowledge of enterprise development or LED issues and have experience in evaluation.

NB.: Interpreters will be available when necessary.

7.3 Project management tasks: The project management will provide logistic and administrative support to the evaluation throughout the process. The project management will ensure that relevant documentations are up to date and easily accessible to the evaluation team.

7.4 Work plan and Timeframe

The final evaluation will be undertaken during the months of February and March. The total duration will be two months from the start of the desk review to completion of the report.

The main steps of the evaluation process are (see table below):

- Desk review: 5 work days
- Mission to Sri Lanka: 16 work days
- Drafting report: 5 work days
- Circulation of draft to key stakeholders, consolidation of comments sent to evaluator: 14 days
- Integration of comments and final report: 5 work days

Task	Responsible person	Time frame
Preparation for the evaluation mission: drafting and agreement on the TORs; identification and selection of team members.	Evaluation manager, Evaluation officer ROAP, Evaluation focal point and Project manager	By 15 January 2009
Contracts and mission plan: drafting mission itinerary for the evaluation team and the list of key stakeholders to be interviewed	Project manager and evaluation focal point.	By 14 February 09
Briefing: providing all relevant documents and briefing notes to the evaluation team	Project manager and evaluation focal point	By 14 February 09
Briefing to the team on ILO evaluation policy	Evaluation Manager	By 14 February 09
Submission of draft evaluation plan to Evaluation Manager.	Evaluation team	By 5 March 09
Initial discussion of the evaluation plan.	Evaluation Manager, Evaluation focal point and project manager	By 12 March 09
Desk Review: Analysis of all relevant documents by the evaluation team.	Evaluation team	By 13 March 09
In-country evaluation Mission: consultations with key stakeholders, finalization of key issues to be addressed, adjustments of the evaluation plan, field visits and in-depth analysis of the documents and data.	Evaluation team	15 – 31 st March 09
Local Stakeholder Evaluation Workshop: presentation of preliminary findings and comments to stakeholders in the districts. This will require preparation of a presentation.	Evaluation team	27 March 09 (tentative)
Submission and discussion of "aide memoire" on initial findings.	Evaluation team	30 March 09
Steering Committee Meeting: presentation of preliminary findings and comments to the national level Steering	Evaluation team	30 March 09

Task	Responsible person	Time frame
Committee		
Submission of draft report	Evaluation team leader, inputs from other members	17 April 09
Circulation for comments by key stakeholders (3 weeks).	Evaluation focal point and Evaluation manager.	18 April to 6 May 09
Consolidation of the comments to be sent to the team.	Evaluation focal point	8 May 2009
Preparation and submission of second and final report.	Evaluation team	20 May 09
Review of the final report	ILO/EVAL	27 May 09
Submission of the final report to ILO, MEDIP and SIDA	Evaluation Manager	29 May 09

7.5 Resources Required:

The following resources are required from the projects:

- Cost of hiring external evaluators ((both international and national consultant)
 - Fee
 - Travelling cost and DSA when/where applicable
- Cost for organizing the workshop (??)
- Interpretation cost (if any)

8. QUALIFICATIONS OF THE TEAM MEMBERS

The international consultant should be or will have the following qualifications:

- A highly qualified senior evaluation expert with an high level knowledge of enterprise/private sector development issues.
- At least 10 years of practical international experience in enterprise/private sector development
- Experience in the evaluation or review of development projects
- Demonstrated ability to contribute at the international level to the generation of knowledge on and approaches to enterprise/private sector development is preferred
- Experience in South Asia is preferred, though not if the experience was in South Asia exclusively
- Fluency in English
- Excellent writing skills in English

The background of the second international consultant should include:

- A highly qualified senior evaluation expert with an in-depth knowledge of local Economic Development (LED) issues.
- High level knowledge of and at least 10 years of practical international experience in enterprise/private sector development
- Experience with integrated enterprise development or local economic development

- programmes
- Experience in the evaluation or review of development projects
 - Fluency in English
 - Excellent writing skills in English

The background of the **national evaluation** consultant should include:

- High level knowledge of and at least 10 years of practical experience in enterprise/private sector development and LED issues.
- Experience in the evaluation or review of development projects
- Good knowledge of conditions for enterprise development in Sri Lanka, relevant Sri Lankan Government policies and programmes, and past and current development programmes in this area
- International experience is preferred
- Fluency in Sinhala and English
- Competence in Tamil preferred
- Excellent writing skills in English