

Final Evaluation Report

Support for Small Enterprise Development:
Cost effective and sustainable model for marketing BDS
complementarily to micro-finance, Sri Lanka

EC Contract Ref: B7-6000/PVD/2001/741/UK/PR

Prepared for:
APT Enterprise Development, UK
&
SEEDS – Enterprise Services Division, Sri Lanka

Conducted November 2006

Prepared by:
Mike Albu, UK

CONTENTS

EXECUTIVE SUMMARY.....	2
Outcomes of ESD's Work	3
Other Findings and Observations	3
Summary of Recommendations	5
1. BACKGROUND INFORMATION	7
Context and Situation	7
Project Background	7
Project Mid-Term Review	8
Project Objectives (as revised for 2004 – 2006).....	9
Project Targets (Indicators, as revised for 2004 – 2006).....	9
Terms of Reference for this Evaluation.....	10
The structure of this report	12
2. RESULTS OF THE INDEPENDENT SAMPLE SURVEY	12
Finding 1 – Main Challenges Facing ESD's Clients	12
Finding 2 – Satisfaction with quality of ESD services	13
Finding 3 – Performance of ESD clients' enterprises.....	13
Finding 4 - Factors that influence performance of ESD clients' enterprises.....	14
Finding 5 - Effect of ESD's support services.....	15
3. OBSERVATIONS & FINDINGS OF THE EVALUATION.....	16
ESD's Strategy & Role within SEEDS	16
ESD's Plan for Financial Sustainability	19
Management Issues for ESD.....	20
Technological Capacity and Competence.....	22
Marketing-related Services	23
4. PERFORMANCE MONITORING SYSTEM	24
5. OUTCOMES OF THE PROJECT	26
Employment Outcomes	26
Financial Benefit Outcomes	27
Sustainability Outcomes	28
Efficiency Outcomes.....	29
Learning & Influencing Outcomes.....	30
6. CONCLUSIONS & RECOMMENDATIONS	32
ANNEX 1 – INDEPENDENT SAMPLE SURVEY	37
ANNEX 2 – MANAGEMENT INFORMATION SYSTEM	50

ACKNOWLEDGEMENTS

This report was made possible by the hard work, trust and co-operation I received from many individuals in SEEDS, including the Sunil Liyanage, Jayantha Weerasekara, Shanika Athauda, Nilusha Darshani, Anura Atapattu and Sanjeewa Pubudu.

EXECUTIVE SUMMARY

This is a report of the final evaluation of the five-year project “Support for Small Enterprise Development” which was an initiative of SEEDS Enterprise Services Division (ESD), Sri Lanka supported by APT Enterprise Development, UK. The project aimed to increase the self-reliance, and reduce the vulnerability to changing market conditions, of poorer members of rural and urban communities in Sri Lanka. Its specific purpose was to provide and promote innovative, cost-effective business services to small & micro-enterprises (MSEs) in Sri Lanka, enhancing opportunities for increased income and employment.

ESD delivers one of the three strands of work of Sarvodaya Economic Enterprise Development Services (SEEDS) – a not-for-profit company affiliated to the Sarvodaya Shramadana Movement. SEEDS’ mission is to eradicate poverty by promoting economic empowerment for a sustainable livelihood. ESD’s role in SEEDS, since the early 1990s, is to promote micro-entrepreneurs access to business services that will complement the financial services and generic training courses offered by SEEDS Banking and Training divisions respectively. One of ESD’s main strategies during the project has been to establish one-stop-shops called Enterprise Promotion (EP) centres in each of the 20 districts where SEEDS operates, so that SEEDS clients can easily access a range of advice, information and referral services from ESD’s cadre of specialist EP officers.

SEEDS and APT have collaborated in enterprise development / business services since 2000. This project is of special interest in that it spanned a period when new propositions about the best role for development agencies in promoting sustainable access to business services, were gaining favour. Through innovations in ESD’s approach, and a strong focus on sustainability, the project therefore aimed to demonstrate a model for marketing business services to relatively-poor entrepreneurs that would be of value to other practitioners around the world. In order to achieve this kind of learning from the project, ESD and APT put much emphasis on establishing effective monitoring / management information systems.

The project was subject to a very competent mid-term review in May 2003 by external consultants. The review generated eight clear recommendations for ESD. In addition, it led APT and ESD to seek and secure some necessary amendments to the project contract with the EC in 2004 – including an extension from 42 to 60 months. The mid-term review recommendations have helped inform the thinking in this final evaluation.

The evaluation exercise was preceded by an independent sample survey of nearly 300 ESD clients during September / October 2006. This was partly in order to validate the data from ESD’s monitoring system and partly to contribute extra qualitative material for the evaluation exercise. The results of the sample survey are summarised in section 2, and presented in detail in Annex 1. The survey produced useful information about the changing nature of the challenges which ESD’s clients feel they face; and their reported satisfaction with the services that ESD provides. It provided a good picture of the typical income and employment profiles of ESD clients, and also generated some valuable data about the relative performance of client enterprises in different trades or sub-sectors.

The evaluation exercise itself took place in late November 2006. It involved a review of key documents and reports at SEEDS head-office, field visits to four EP centres and two technology resource centres, and interviews with 21 members of staff at all levels.

One significant disappointment, from the evaluator’s point of view, was that ESD’s monitoring system – a large and recently compiled enterprise database of 29,000 clients – was not able to provide reliable, useful data as anticipated. The reasons for this are explained in section 3. A detailed report on the system’s failings and recommended solutions is provided in Annex 2.

Outcomes of ESD's Work

While bearing the above in mind, in general the evaluation found that ESD have made good progress both in terms of fulfilling their target objectives (as described in the EU contract amendment), and in terms of the organisation's response to the recommendation in the mid-term review. However, it has not been an entirely easy journey, and some major challenges have emerged which ESD will have to overcome if it is to sustain the trajectory established during this project.

ESD's achievements, against its main targets are summarised here:

Target by 2006	Achievement
Active enterprises on ESD's client-base increasing by 3,328 p.a.	ESD was exceeding its target during 2005. However results slipped back during 2006 to around 75 % of target.
Employment in ESD's clients' enterprises increasing by 8,990 p.a.	ESD had reached about 80 % of target by end of 2005, but also slipped back (to around 60 %) during 2006.
Average income (profits) of client entrepreneurs rising by 15% p.a.	ESD were unable to monitor this, but inflation-adjusted growth of 11 % p.a. was found in the sample survey
Average wages of client's employees rising by 10% p.a.	ESD were unable to monitor this, but inflation-adjusted growth of 8 % p.a. was found in the sample survey
ESD's overall dependence on donor funding reduced to 27%	Overall donor dependency reduced to 33 % of budget (excluding investment initiatives) during 2006
Clients' contribution to the total ESD budget risen to 21%	Client contributions rose to 24 % of budget (excluding investment initiatives) during 2006
Clients' contribution to ESD local operational costs increased to 75%	Client contributions rose to 107 % of EP centres budget (excluding investment initiatives) during 2006. <i>The value of this indicator is, however, debateable.</i>
The ratio of increased profits & wages to ESD costs is at least 7.5 : 1	An objective assessment of this ratio was not possible, but various estimates based on different assumptions, all suggest that benefits far exceed costs
A development-orientated model for marketing business services to small & micro-enterprises is demonstrated	ESD demonstrated that in the right circumstances, with well-motivated and competent staff, the EP centre model of service delivery and BDS facilitation does work very successfully.
Lessons learned are shared with other enterprise development / BDS agencies	The opportunity to generate and share valuable lessons from ESD's experience was not sufficiently exploited. Weaknesses in the monitoring system were part of the problem

Other Findings and Observations

Underlying these achievements has been substantial progress against most of the main recommendations made in the mid-term review.

ESD have created a stronger, more distinct role for the district-level staff, establishing Enterprise Promotion (EP) centres in each (of 20) districts that are stronger, more distinct, self-managing business units. Although in most cases, the EP centres are still physically located in the Banking Division's building, in the best examples, the EP officer now have their own well equipped office with resources (audio-visual, ICTs, literature) and space to serve their clients in.

Following recommendations, ESD successfully reorganised its management structure during 2004. Four new regional manager posts were created, and filled by experienced internal candidates. They have explicitly taken over line management of EP centres, and maintain close contact with EP officers through

visits and regular phone-calls. As result, the EP officers interviewed say that management decision-making is faster, they feel better supported and more empowered to pursue ESD's objectives.

The biggest challenge ESD have faced during the project has been related to the recruitment and retention of staff. ESD lost 13 staff in 2005 to a government recruitment programme, and more have left in 2006. In addition, many members of the field investigators network (see below) were lost. It has proved difficult for ESD to recruit and retain new staff: there are currently six EP officer vacancies. SEEDS remuneration rates, especially for new staff, are still relatively low compared to urban wages, despite recent increases in non-salary benefits and allowances. Interviews with existing EP officers, both experienced and inexperienced, reveal that ESD has a potential problem with staff motivation.

The overall impact of this problem has been huge – including the collapse of the field investigator network, and more alarmingly, a 25% decline in the rate of job / enterprise creation in 2006 compared to 2005. This situation threatens the future success of new initiatives around technology resource centres and could undermine any investment that ESD makes in building EP officers capacity for delivering market-related services in future. It remains the highest priority issues for ESD.

A Business Plan was agreed for 2004 – 2008 with key strategies for increasing revenue and reducing costs. These include more attention to earning income from institutional contracts, broadening the client base to include non-SEEDS clients, introducing a sliding scale of charges for different categories of clients and increasing referral of service delivery activities to other (external) resource people.

As a result EP officers estimate that about 10 – 20 % of their time goes into support for ordinary SEEDS clients with the smallest loans (type A), and 50 – 60% for clients with larger loans (type C) . The remaining 30% of EP officers' time is divided between individual non-SEEDS clients and institutional clients.

One concern is that the pricing of ESD's services seems to include only the 'marginal' operational costs of EP officer's time and direct expenses; while ignoring the operational costs incurred by the organisational infrastructure, transport, administrative and management support that backs up the EP centres. This means ESD is subsidising all its customers – including organisations and individuals that could perhaps afford to pay more.

A rough assessment of EP officers work found that providing technical training services and assisting clients to secure loans still takes up 60 – 70% of their time. ESD continues to implement a wide range of technology development and demonstration projects – in diverse subjects from bee-keeping to hydroponics. The main strategic development has been to channel technology development activities and services into discrete sectoral units, now called resource centres – serving sectors which ESD believes have strong commercial potential for their clients. Five resource centre facilities have been established so far.

ESD has made strenuous efforts to expand the range and reach of services which help clients market their products e.g. market information services, business linkages, trade fairs etc. However, the relatively small proportion of EP officers' time spent on these services contrasts with what the independent survey revealed about the perceived challenges felt by ESD's clients. The ESD annual reports provide evidence of a number of successful market linkage initiatives, however it is hard to get a sense of ESD's overall capacity or competence, especially at the EP centre level. Many informants also expressed concern that 'marketing skills' are a key weakness for ESD clients, and ESD is not well equipped to adequately respond.

Among EP officers, some feel confident about facilitating linkages and brokering contracts for clients, but other (less experienced) lack contacts, credibility and confidence. One of the most promising initiatives has been the 'forward sales contract' service – in which EP officers act as brokers between (mainly agricultural) producers, buyers and the SEEDS bank.

Summary of Recommendations

The main recommendations of the evaluation are:

Bolster the cadre of enterprise promotion officers

ESD's principal strategic priority should be to create conditions where it can recruit, retain, motivate and strengthen the performance of these key frontline individuals. Among other things, ESD should monitor the competitiveness of its salary and incentive structures for EP officers to ensure it is offering a package that can attract and retain staff of the calibre demanded by the role.

Strengthening the Role of ESD Regional Managers

Regional managers have to learn to build and lead regional teams of EP officers. They need to be able to reinforce the team's identity and distinct role, establish a supportive team culture and offer an inspiring vision of the success that EP centres can achieve. Among other things, ESD should train and support the Regional Managers to be people managers (as well as technical experts). Focus on team building tools and leadership skills in particular.

Managing and Developing the Skill Sets of EP Officers

The diversity of EP officers' skill sets is a strength for ESD, but it also creates challenges in managing and developing human resources in a systematic strategic way. At both national and district level, ESD needs to invest more in understanding which of its services are most highly valued by its different clients, so that staff skills development is client-led. Skills development planning should be clearly linked to the performance management process of EP officers – so as to address individual weaknesses, build confidence and encourage client-led approaches. Areas such as 'customer relations', 'business counselling' and 'building market linkages' are all likely candidates for this kind of investment.

Strengthening Market-related Services

The principal un-met demand from ESD's clients seems to be for services that help them tackle market-related constraints better: e.g. lack of information about emerging market opportunities, fierce competition from other producers, lack of access to marketing outlets or buyers. ESD should explore ways to provide local market information services for clients in key sectors and strengthen its promising work in providing producer-buyer-linkage services. ESD also needs to explore innovative ways of recovering costs for market-related services. For example, market research costs might be factored into the charges for doing business loan appraisals.

Technical Training Resources

Technical competencies help give EP officers credibility with their clients. However, the desire to apply established skills may encourage unhelpful 'supply-driven' practices to persist, and distract officers from paying adequate attention to other essential EP activities. EP officers need to strike an appropriate balance between fulfilling the diverse requirements of the role, and delivering particular services in which they have a personal competence. Greater use of external resource people to deliver technical training might free EP officers to concentrate on other tasks, or enable a higher quality service.

ESD Resource Centres

The five specialist resource centres opening this year provide a great opportunity for ESD to develop sectoral expertise as recommended in the 2004 review. The resource centres should help reduce some of the pressures on EP officers, and allow the EP centres to function more efficiently as referral points for clients. However, where resource centres intend to raise revenue from sales of inputs or products, ESD should beware the centres become competing market-actors in the sectors they are supposed to be supporting.

Managing the Cost Recovery Equation

ESD has taken great strides to put the EP centres on a sustainable financial footing – which has encouraged some EP officers to be more innovative and entrepreneurial. However, an exclusive focus on cost-recovery targets may also compromise ESD's mission. ESD management therefore needs to reassert a commitment to a 'balanced scorecard' strategy – i.e. one which also values client satisfaction, meeting SEEDS' internal objectives, and most importantly achieving impact on poverty, alongside cost-recovery targets. Performance targets need to include at least some non-financial objectives – for example related to the creation of sustainable employment for poor people

As far as market will bear it, ESD should seek to increase charges to better-off clients and those institutions (incl. SEEDS own Banking Div) that can afford it, so they are closer to real costs which ESD incurs when overheads are taken into account. ESD RMs should regularly review true costs of different services and consider withdrawal from those services which cost significantly more to deliver than clients are willing to pay.

Cross-Subsidies for Poorer Clients

Raising prices could give ESD greater scope for directing its financial resources to important target groups of its own choosing e.g. women entrepreneurs, poorer SEEDS clients, employment-creating businesses. Increased income from institutions and better-off clients could be used to cross-subsidise those less able to pay. ESD should look at re-establishing a visible subsidy system for targeted SEEDS clients using coupons or vouchers. Even a small annual subsidy fund (e.g. Rs 3 million p.a.) used at the discretion of EP officers to support clients whose enterprises are most likely to help ESD achieve job creation and income growth for poorer people, would make a big difference

Management Information System

If ESD is to improve its services, increase its effectiveness and sustain investment from donors, it must develop a credible management information system that gives both managers and EP officers accurate and timely feedback on their performance and ESD's impact. A comprehensive MIS would also enable ESD to talk authoritatively about the effectiveness and impact of its work to external audiences in SEEDS, among donors and within the wider enterprise development industry. ESD should step up its investment in monitoring effectiveness indicators, and managing the resulting data to produce credible and useful information about the Division's performance. Detailed recommendations are given in Annex 2 of this report.

Assessing Impact

One unfortunate consequence of the flaws in the enterprise database (Annex 2), is that it is not yet possible to say confidently whether ESD's services are benefiting poorer entrepreneurs in particular. More importantly, the final impact of ESD's work can not be disentangled from the work of SEEDS other divisions. If SEEDS works well, the outcomes produced by the three Divisions should come together – complementarily - to reduce poverty and improve livelihoods of clients. SEEDS should develop a systematic evaluation methodology for assessing the ultimate impact of the organisation's work on the livelihoods and poverty of SEEDS clients

1. BACKGROUND INFORMATION

Context and Situation

Sri Lanka, a nation of 21 million, have benefited from steady improvements in life expectancy, school enrolment, literacy and per capita income in recent years. The country performs best in South Asia in the UN's Human Development Index: ranking 93rd in world despite being only 110th in economic terms. This success is associated with a reasonably stable economy, per capita GDP of PPP\$ 4,400 and growth rates of around 6 - 7% p.a. Performance on gender-related indexes is also good.

According to the World Bank, however, Sri Lanka's economic growth remains uneven. The economy has been resilient to adverse shocks like the ethnic conflict in northern and eastern areas of the island, and the December 2004 tsunami. However, economic growth has proved inadequate to substantially reduce poverty beyond urban areas. Rapid growth in the services and industry sectors has concentrated in urban areas, while stagnation in agriculture has adversely impacted the rural economy where most of the poor live. Meanwhile, inflation climbed to nearly 14% by end of 2006, and the size of government debt is a major concern. Impediments to Sri Lanka achieving a higher overall growth include a weak fiscal framework, inadequate investments in economic infrastructure, restrictive labour and land markets, and great uncertainty about the prospects for peace.

Tackling the increasing inequality between rural and urban areas is a major objective for the government. Promoting small and micro enterprises especially in rural areas is seen as an important means of strengthening the rural economy, and transforming the traditional agriculture sector. In order to realise these aspirations however, budding micro-entrepreneurs need access to a range of appropriate financial and non-financial business services such as training, technology advice and market intermediation. Although access to financial services has improved significantly thanks to the micro-finance revolution, markets for most business services are still weak or non-existent. Micro-entrepreneurs have therefore had to rely on haphazard provision of government-subsidised services, often poorly designed or inappropriately targeted.

Project Background

"Support for Small Enterprise Development" was a 60 month project of APT Enterprise Development and SEEDS Enterprise Services Division, running from January 2002 – December 2006. It was co-financed by the EC PVD NGO co-financing programme (Contract B7-6000/PVD/2001/741/UK/PR), matched by inputs from NOVIB, ICCO and others.

APT Enterprise Development is a UK based charity dedicated to reducing the poverty of vulnerable people in Africa and South Asia by promoting the development of micro and small enterprises.

SEEDS is the economic development strand of Sarvodaya's approach and its mission is to eradicate poverty by promoting economic empowerment for a sustainable livelihood. Launched in 1987, and registered as a separate legal entity in 1998, SEEDS aims to strengthen Sarvodaya Shramadana Societies in the villages to become self-sustainable development centres providing a range of financial and other enterprise services within the community. Presently SEEDS operates in most districts in Sri Lanka (22 of 26), through a network of over 3000 active Sarvodaya Societies enabling over 900,000 members to access its services.

SEEDS is structured into three divisions – Banking, Training, and Enterprise Services, which work together to provide a package of financial and business services which they call "credit-plus". SEEDS Enterprise Services Division (ESD) was formed in 1990 largely in response to the Banking Division's concerns about loan default rates. Several studies of SEEDS work highlighted the lack of access to relevant quality non-financial services as a constraint. ESD was charged with improving entrepreneurship and business skills among SEEDS borrowers, by providing and facilitating access to business services. More recently, it has extended its services to other micro-entrepreneurs too, as it seeks to increase the rate at which new micro-enterprises graduate to become established businesses.

One of ESD's main strategies has been to establish one-stop-shops called Enterprise Promotion (EP) centres in each of the districts, where clients can access a range of advice, information and referral services from ESD's cadre of specialist EP officers.

APT has worked in partnership with SEEDS and ESD in particular since 2000, providing technical assistance and acting as a conduit for European donor funding. The present project was planned to consolidate and improve the effectiveness of Enterprise Services Division's work in 20 districts of the island, so as to increase clients self-reliance and reduce their vulnerability to changing market conditions.

The project has also been conducted during a time of significant change for SEEDS. The Banking Division has grown markedly in scale and institutional strength since 2001, with the establishment of over 1000 village-level banking units, improved loan recover rates and greater capacity to reach borrowers at the community level directly. This altered the Banking Division's relationship with ESD.

At the same time, donors and practitioners in the field of enterprise development have been striving to emulate the microfinance industry, by developing financially and institutionally sustainable mechanisms for delivering business services. The focus of this has been on stimulating vibrant, better functioning markets for business services, with many competing providers offering affordable 'products'.¹ In Sri Lanka, this approach is exemplified by the Southern Province Rural Economic Advancement Project (SPREAP), which is using ADB investment funds to boost the private commercial supply of business services to less affluent rural entrepreneurs. Such developments have changed the context for ESD's work, obliging the organisation to consider its dual role as both service provider and BDS market facilitator.

Project Mid-Term Review

The rapidly changing context was one reason why APT and SEEDS arranged a mid-term review early during the project cycle, in May 2003. The key recommendations of this review were:

- a. Review ESD's strategy & objectives in relation to other divisions of SEEDS – focussing on distinct services to meet the needs of poor micro-entrepreneurs
- b. Strengthen EP centres to become more autonomous self-managing business units, so allowing ESD's head office to play a more streamlined, strategic, facilitatory role.
- c. Invest in building the competency & capacity of district staff (EP officers & others)
- d. Develop deep competency / capacity to provide core services in 'key sectors' – that can benefit large numbers of poor micro-entrepreneurs
- e. Pilot test the EP centre model thoroughly in 3 – 5 districts before rolling out the full EP centre expansion programme
- f. Develop a road map to financial sustainability: a comprehensive business plan for ESD with realistic targets, that analyses EP centres and head office as separate cost-centres.
- g. Redesign and rationalise the performance monitoring and impact assessment system, so that it provides useful management information about the outcomes of ESD's work
- h. Take advantage of the project opportunity to describe, demonstrate and use evidence to publicise the impact on poverty of ESD's business services programme.

These recommendations were taken up by ESD's management during subsequent meetings and to a large extent were embedded in ESD's Business Plan for 2004 – 2008. During the latter part of 2003 and 2004 APT and SEEDS also negotiated some amendments to the original EC contract including an extension of the project to 60 months, a refocusing of some activities and a revision of specific targets.

¹ This policy approach is described in the Government's 2002 White Paper "The National Strategy for SME Development in Sri Lanka"

Project Objectives (as revised for 2004 – 2006)

The project aimed to increase self-reliance and reduce vulnerability to changing market conditions of poorer members of rural and urban communities in Sri Lanka.

Its purpose was to provide and promote innovative, cost-effective business services to small & micro-enterprises (MSEs) in Sri Lanka, enhancing opportunities for increased income and employment.

The revised specific results expected from the project were that ESD would:

1. Establish a development-orientated (i.e. sustainable, pro-poor) model for marketing business services to small and micro-enterprises in rural and urban communities
2. Share lessons learned in developing this model with other enterprise development / BDS agencies (document and disseminate quality information).
3. Increase the range of business opportunities to suit the market environment
4. Increase the number of marketing opportunities for products (& services) from MSEs
5. Increase the diversity of skills and technology options available to MSEs
6. Make appropriate information on business development available to poor rural and urban entrepreneurs
7. Increase effective use of credit from SEEDS Banking Division by MSEs

Project Targets (Indicators, as revised for 2004 – 2006)

ESD set itself some very concrete targets in the revised EC contract and the subsequent Business Plan (2004 – 2008). The most significant outcome targets set for 2006 were:

Outcome Indicator Targets for 2006

- a. Number of active enterprises on ESD's client-base increasing by 3,328 every year
- b. Number employed in ESD's clients' enterprises increasing by 8,990 each year
- c. Average income (profits) of client entrepreneurs rising by 15% each year
- d. Average wages of client's employees rising by 10% each year
- e. Clients' contribution to meeting EP centres' local operational costs increased to at least 75%
- f. Clients' contribution to the total ESD budget risen to 21% (it was 14% in 2003)
- g. ESD's overall dependence on donor funding reduced to 27% (it was 42% in 2003)
- h. The cost-benefit ratio of increases in profits & wages compared to ESD costs is at least 7.5 : 1

Output (Effort) Indicator Targets for 2006

Among the many outputs that were planned to achieve these objectives and target outcomes, the principal ones were:

- a. Nine further Enterprise Promotion Centres to be established
(on top of 3 existing in 2001, and 8 established during 2002 / 2003)
- b. An unspecified number of new market linkages to be established for clients, with at least 75% surviving without further ESD intervention after their first year
- c. At least 3 new technologies for MSEs to be identified, tested and integrated into ESD's range of services each year
- d. A network of volunteer "link persons" to be established at village level to promote ESD's services among members of Sarvodaya Societies
- e. A cadre of Field Investigators to be established to provide monitoring services to ESD
- f. A monitoring information system (enterprise database) to be created enabling management decisions to be taken with evidence-based lessons learned from ESD's work
- g. At least 2 research papers and a number of information reports to be published each year

Terms of Reference for this Evaluation

The overall objectives of this final evaluation are to:

1. Assess the project's success in meeting its objectives with particular reference to impact and sustainability
2. Assess the progress of the enterprise database and provide guidance on its development
3. Establish key learning points and make recommendations for future operations of this project.

The main activities specified by the ToR were:

- Review relevant documents relating to the project, including: the Project Proposal and following Addendum, business plan, reports and monitoring information
- Oversee the design of the sample survey instrument (questionnaire) and collection of an appropriate and adequate sample of data prior to the in-country visit.
- Review the information collected in-country and cross check through visiting a sample of Enterprise Promotion Centres and clients as appropriate.
- Compare the enterprise database findings with those generated through the evaluation sample.
- Relate project data to the macroeconomic environment within which the project is operating.

Evaluation Methodology

Preparations began in September 2006, and prior to the main evaluation exercise a detailed sample survey of ESD clients was conducted by team led by a local consultant. The survey involved interviews with clients drawn from 54 Sarvodaya Societies in five districts. In all, 300 entrepreneurs were interviewed about the performance of their businesses: income (benefits); employment; assets, and main challenges faced. Most also gave responses to questions about the quality and their satisfaction with the services delivered by ESD.

The lead evaluator's visits and interviews took place in Sri Lanka over 7 days during November 20 – 30th 2006. In all 21 interviews were conducted with SEEDS and ESD senior managers, with enterprise promotion officers and other project field staff, and other key stakeholders. District visits were made to four enterprise promotion centres and two sites of the new technology resource centres.

List of Informants Interviewed During Evaluation	
Shakila Wijewardena	Managing Director, SEEDS
Sunil Liyanage	Director, Enterprise Services and Training Divisions
Indrani Hettiarachchy	Deputy Director, Banking Division
Kithsiri Wijewarnasoor	Regional Manager (Southern Region)
D.A. Shantha Anwasiri	Regional Manager (North Central Region)
Lal Gunarathna	Regional Manager (Western Region)
Jayantha Weeraseskara	Regional Manager (Central Region)
Pradeep Lakmal	EP Officer, Kalutara District
K.P. Sudath Chandana	EP Officer (Senior), Colombo District
D.S. Pathmasiri	EP Officer (Senior), Galle District
S.M. Rohana Wewathenna	EP Officer, Kurunegala District
D.M.T.B. Dissanayake	EP Officer, Mathale District
Pushpasiri Kumasa	EP Officer (Senior), Kegalle District
Saliya Kumarasiri	EP Officer, Kurunegala District
Shanika Athauda	Manager, Information & Research
Shantha Jayasuriya	Manager, Technology Development
Pujima Adikari	Manager, Plant Tissue-Culture Resource Centre
Gamini Sirinandana	Chief Training Officer, Kandy District
P.D.P. Sanjeeva	Manager, BDS Centre, Kandy District
Anura Attapattu	Enterprise Dev Consultant, Member of SEEDS Board
Margaret Kuruppu	Former Director, Enterprise Services Division

The main project documents reviewed and consulted were:

Project Reports and Documents
APT's Application to the EC for "Support for Enterprise Development", November 2001
EC Addendum to Contract B7-6000/PVD/2001/741/UK/PR, dated 2004
5 Year Business Plan (2004 – 8) of SEEDS Enterprise Services Division
Report of the Mid-Term Review, conducted May 2003
ESD's Annual Report 2004/2005 (April – March)
ESD's Interim report to APT, for July 2004 – December 2005, dated March 2006
APT's Interim Report to EC, for July 2004 – December 2005, dated May 2006
ESD's Annual Report 2005/2006 (April – March)
ESD's Quarterly Progress Reports (October 2005 – September 2006) – 4 documents
A sample of ESD Monthly Progress Reports from each region

The data from the independent sample survey was analysed in detail during and after the in-country visit. A full report of the results is attached as Annex 1.

A tentative exploration was also made of the data on ESD's nascent management information system (the enterprise database) – which contained information on 6,500 ESD clients in 5 (of 20) districts where surveying was complete at the time. A verification comparison was made between the individual information about clients on this ESD database, and that in the sample survey.

The initial findings and conclusions of the evaluator were presented for consultation to a meeting of SEEDS / ESD management on the final day of the in-country visit. Their reactions and responses helped to inform the recommendations.

Evaluation Terminology

In order to avoid ambiguity about the scope of this evaluation, it is worth clarifying the concepts used in this report. There are three levels of results of the project which need to be clearly distinguished:

Measurement Level	Indicators ²
Outputs (Effort)	Completion of activities & tangible results delivered e.g. <ul style="list-style-type: none"> • EP Centres established • ESD clients trained • Market linkages established
Outcomes (Effect)	Use of outputs & sustained production of benefits e.g. <ul style="list-style-type: none"> • Increases in number of enterprises • Increases in employment • Strengthening of markets for business services
Impacts (Change)	Difference from original situation e.g. <ul style="list-style-type: none"> • Improvements in quality of life, health, assets, education etc • Reductions in vulnerability, livelihood insecurity etc

The ToR call for an evaluation of the project's success "with particular reference to *impact* and sustainability". However the type of data and evaluation methods described in the ToR dictate the scope of this exercise in practice is evaluating project outcomes: effectiveness rather than impact.

"Impact" needs to be assessed by the goal-level indicators described in the project's logical framework - such as increased labour force participation and increased resilience to external changes - or by other conventional indicators of human development and poverty reduction that reflect SEEDS mission to eradicate poverty. This sort of impact assessment would best be conducted as a SEEDS-wide exercise.

² This conceptualisation of Outputs – Outcomes – Impacts is derived from INTRAC's Praxis Guide No.1: Oliver Bakewell et al. (2003) *Sharpening the Development Process*, INTRAC, Oxford, UK

The structure of this report

The remaining sections of this report are structured as follows:

- Section 2. The results of the pre-evaluation sample survey are reviewed.
- Section 3. The main findings or observations from the evaluation exercise are described, including lessons from important changes that have taken place in ESD during the project.
- Section 4. The progress of the enterprise database (management information system) is examined.
- Section 5. The project's overall success is assessed with particular reference to outcomes and sustainability.
- Section 6. Finally, key learning points are identified and recommendations are made in the fifth section.

2. RESULTS OF THE INDEPENDENT SAMPLE SURVEY (SEE ANNEX 1)

A sample survey of nearly 300 clients was conducted during September / October 2006 partly in order to validate the large scale monitoring surveys being conducted by ESD during 2006, and partly to contribute extra qualitative material for the evaluation exercise.

The survey data was analysed with the following main questions in mind:

1. What are the main challenges faced by ESD's clients, and how have these changed over time?
2. How do different types of ESD services compare in terms of client satisfaction ratings?
3. How have ESD's clients enterprises performed in terms of employment and profits?
4. What influence do factors such as the owner's gender, the business sector and the initial size of enterprise appear to have on enterprise performance?
5. What effect does the provision of ESD services appear to have on enterprise performance, jobs and income etc.

Unavoidably, the enumerator team had to be assisted to identify individual clients by ESD's EP officers. This meant that some degree of positive 'selection' bias is likely. In addition, there is a 'survivor' bias since only individuals whose enterprises were still active were interviewed. ESD must therefore be cautious about extrapolating the results shown in this survey to their entire client database of 30,000 enterprises.

Finding 1 – Main Challenges Facing ESD's Clients

The main challenges facing ESD's clients differ from before for both new and already established enterprises. Before working with ESD, clients said the major problems faced were access to credit (cited by almost half), inadequate business / technical skills and high input costs.

In contrast, in 2006, three-quarters of clients emphasise the challenge of high input costs, with competition from low-priced alternatives and weather-related problems coming after that. Poor access to credit and inadequate skills have dropped to sixth and seventh in the list of main challenges.

While remaining cautious about attribution, the results suggest that ESD's (and SEED's) work is having a positive effect of in reducing clients' experience of problems with access to credit, inadequate technical or business skills and low self-confidence.

At the same time, these results imply that ESD needs to shift more attention to the now major challenge of improving the competitiveness of clients enterprises in the face of rising costs and competition from other producers (including of course, imported goods).

Finding 2 – Satisfaction with quality of ESD services

When asked to rate their satisfaction with the ESD services they had used, according to four criteria, clients gave very high responses throughout (see table below). Unfortunately, the results are not very robust: for example many clients (16%) made directly negative comments about ESD's services, while simultaneously giving high scores.

Client Satisfaction Rates % of responses at 5 or 6	Value for Money	Convenience of Delivery	Relevance to Needs	Lasting Benefit
Generic Training	95 %	94 %	91 %	91 %
Technical Services	87 %	90 %	83 %	73 %
All	93 %	92 %	88 %	86 %

Generic training courses (e.g. entrepreneurship, SIYB) got relatively better satisfaction ratings than services aimed at upgrading performance of particular types of enterprise (e.g. through technical skills, market information, linkages). The comments from interviewees seem to suggest that clients are less happy with the quality, depth and duration of training and support in these cases.

The main issues raised in negative comments were:

- insufficient depth to technical training;
- insufficient duration of training;
- inadequate coverage of, or support for overcoming marketing challenges
- lack of outreach to rural areas.

Finding 3 – Performance of ESD clients' enterprises

Increases in employment (both paid and unpaid, including the owner) are one of the main desired effects of ESD's work. Since part-time and seasonal employment is common the survey calculated employment on an hourly basis, and aggregated over a year so as to calculate average full-time equivalent (FTE) jobs.

The main survey findings were:

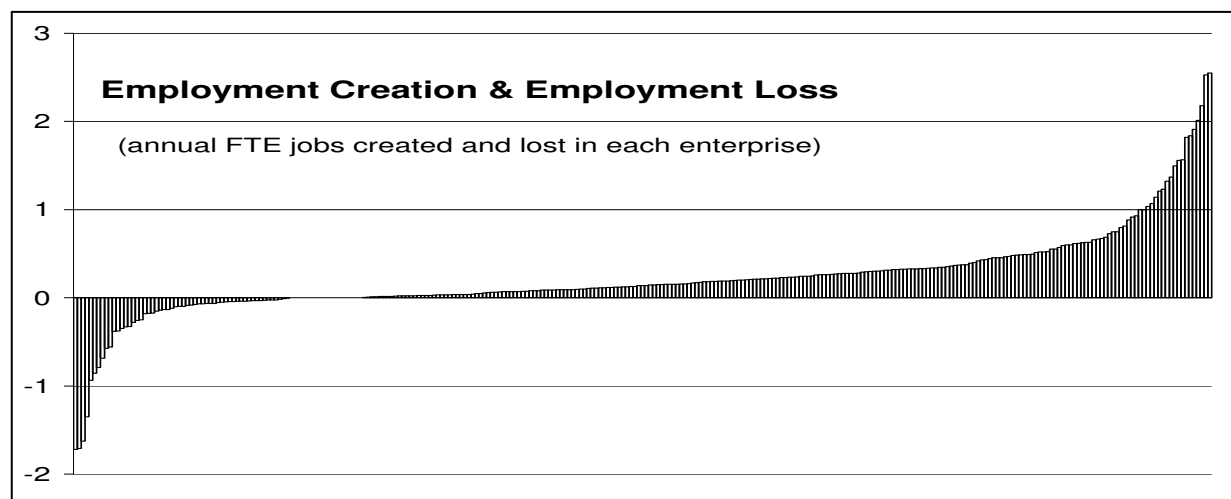
- ESD clients' enterprises each provide work for 2.9 people on average (2.1 FTE jobs)
- Approximately 40% of that work is paid employment (0.8 FTE jobs per enterprise)
- Employment among the sample has grown at about 10% each year (11% for paid work)

Meanwhile, the economic benefits created by enterprises come in two main forms: the profits or benefits in kind earned by business owners, and the wages they paid to their employees. The main overall findings here are:

- ESD clients' enterprises each generate on average 243,000 Rs p.a. in direct economic benefits
- Approximately 65% of this is profits or benefits in kind for the owners, and 35% is wages
- Economic returns created by the sample has grown by 13% per year (Rs 32,000 p.a. per enterprise)

These broad aggregated results look very impressive, especially since the figures have been adjusted to allow for inflation, so this is real reported growth. Nevertheless, interpretation must take into account the survivor and selection biases in the sample mentioned earlier.

Disaggregating the sample into four groups of clients according to the overall performance (growth) of their enterprises, confirms the conventional rule of thumb – that 20% of enterprises generate 80% of growth in jobs and economic benefits. In fact, the true picture is probably even starker, since an unknown number of enterprises that ought to be represented in the far left part of the graphic, ceased trading and were thus excluded from the sample (survivor bias).



Finding 4 - Factors that influence performance of ESD clients' enterprises

There are many possible factors that explain or influence the performance of ESD's clients – and the size of the sample enabled analysis of the influence of three of them:

- the initial size of business,
- the gender of entrepreneur and
- the type of business sector or trade engaged in.

Other factors which could in principle be examined with a larger sample (i.e. the ESD's entire enterprise database of nearly 30,000 clients) include: the level of education / experience of the owner; the district location of the business, the experience or competency of the supporting EP officer. In part, the following analysis is more by way of illustrating the potential for using this sort of data to inform management decision-making.

Breaking down the enterprise sample by size categories did not reveal very striking results.

The results seem to suggest that the best outcomes for job creation and economic growth are created by micro-enterprises: businesses that at the time of engaging support from ESD had already graduated from self-employment status by taking on at least one full-time equivalent paid employee.

Interpretations based on averages can be misleading however. A comparison of enterprise size with performance ranking does not show that initial size has a very strong influence. So, for example:

- 70% of "microenterprises" performed relatively poorly despite good average results of this size category. It is only a minority 30% which really achieve success.
- The very best performing enterprises were spread equally among all three main size categories

Similarly, a gender-based analysis of the sample, did not indicate a strong gender influence on enterprise performance in general. Although male-headed enterprises are in general larger than female-headed, the employment growth rate was faster in women's businesses (albeit from a much smaller starting point) than men's: 18% vs 8% p.a.

A more significant results was that whereas nearly 60% of male-headed businesses were growing well, only 40% of female-headed enterprises were. One of the most likely explanations for this lies in the gender differences between the types of business that men and women own.

Compared to size, or gender differences, the variations in performance found between different type of enterprise are striking. They illustrate how important the business selection process is, both for individual entrepreneurs and for ESD in deciding where to focus its enterprise promotion efforts.

The types of businesses performing significantly better than average, are:

- Vehicle servicing and maintenance (70% male-headed)
- Furniture making & carpentry (92% male-headed)
- Jewellery making (100% male-headed)

- Food processing enterprises (85% female-headed)
- Retail trading (63% female-headed)

The types of businesses that are performing particularly worse than average are:

- Brick / Concrete block making (60 % female-headed)
- Fishery related (100 % female-headed)
- Animal husbandry (75% female-headed) (*small sample of 4 only*)
- Handicrafts (75% female-headed)
- Manufacturing *other than furniture, jewellery, brick & handicrafts* (60% female-headed)

Winners and losers can be found in all sectors (agriculture, trade, manufacturing) but there are large variations in reported performance between different trade or businesses within these categories.

Finding 5 - Effect of ESD's support services

The final question was “what effect does the provision of ESD services appear to have on clients’ enterprises performance, jobs and income etc?” In practice, having no ‘control group’ of non-client enterprises against which to compare results limited the amount of analysis that could be done to answer this question. Clearly it would be wrong to attribute all or even most of the changes in performance, jobs created etc solely to the effect of ESD’s work.

Two slightly different ways of exploring the question were tried – in both cases by comparing clients who had only had very limited support from ESD, with those who had used services repeatedly. For the more generic training courses, a strong relationship between repeat usage and enterprise performance was found. Enterprises that used these generic ESD services repeatedly were significantly more likely to be fast growing businesses. This looks like an encouraging indicator of the effect of ESD’s services. Unfortunately, for trade-specific technical training and individual market support services, the opposite kind of relationship was found – with users more likely to be stable or failing businesses.

The interpretation of these results is open to debate and demands a more qualitative investigation. Do ESD’s generic training services promote business growth? Or is it that poorly performing enterprises simply lack time and resources to use them? Are the trade-specific services failing to help clients, or is it that more successful enterprises are much less likely to turn to ESD for these kinds of support?

Extrapolating from the sample survey

One objective of conducting the sample survey was to try to verify the accuracy of the information on ESD’s enterprise database – covering nearly 30,000 clients in 20 districts. A close match between data about the same individuals, would give us confidence to extrapolate from the sample survey to the whole organisation, while mitigating against the sample biases mentioned earlier.

At the time of the evaluation, ESD client data had just become available for 3 of the districts covered by the independent sample survey (Gampaha, Matale & Matara). We hoped to match entries from the ESD database with up to 150 interviews among the sample survey. Unfortunately, only 39 sample survey clients could be found on the ESD database. In 10 cases the data referred to different enterprises (of presumably the same client) – thus reducing comparable matches to just 29 clients.

It is not clear why so few of the clients surveyed by the independent team appear on the ESD database.

It was also found that within the ESD database there were numerous obvious errors of data entry that render the data relatively useless for producing the kind meaningful analysis described above.

Comparison of matched data showed reasonable correspondence for employment data, less so for sales income & profits data, and poor verification of reported assets / investments.

These results must cast doubt on the reliability of one or both sets of data. Given the relatively high level of supervision involved in the independent survey, it seems probable that weaknesses lie with the ESD database. In any case, it will not be possible to reliably extrapolate from the survey sample to the whole of ESD’s work.

3. OBSERVATIONS & FINDINGS OF THE EVALUATION

ESD's Strategy & Role within SEEDS

The first recommendation of the mid-term review in May 2003, was that ESD should review its contribution to the overall strategy and mission of SEEDS, and modify its own strategies in relation to the other divisions, in order that ESD focus on distinct business services that meet needs of poor micro-entrepreneurs. The reviewers were concerned that ESD's district level staff were too enmeshed in the Banking division operations, and risked developing a 'credit promotion culture' as opposed to an 'enterprise promotion culture' in their work. This risk was manifest in the fact that ESD's district staff shared office space with Bank staff, reported to the Banking Division's district manager, and that a very large proportion of their time was taken up with appraising loan applications and even following up potential loan defaulters.

Autonomous Enterprise Promotion Centres

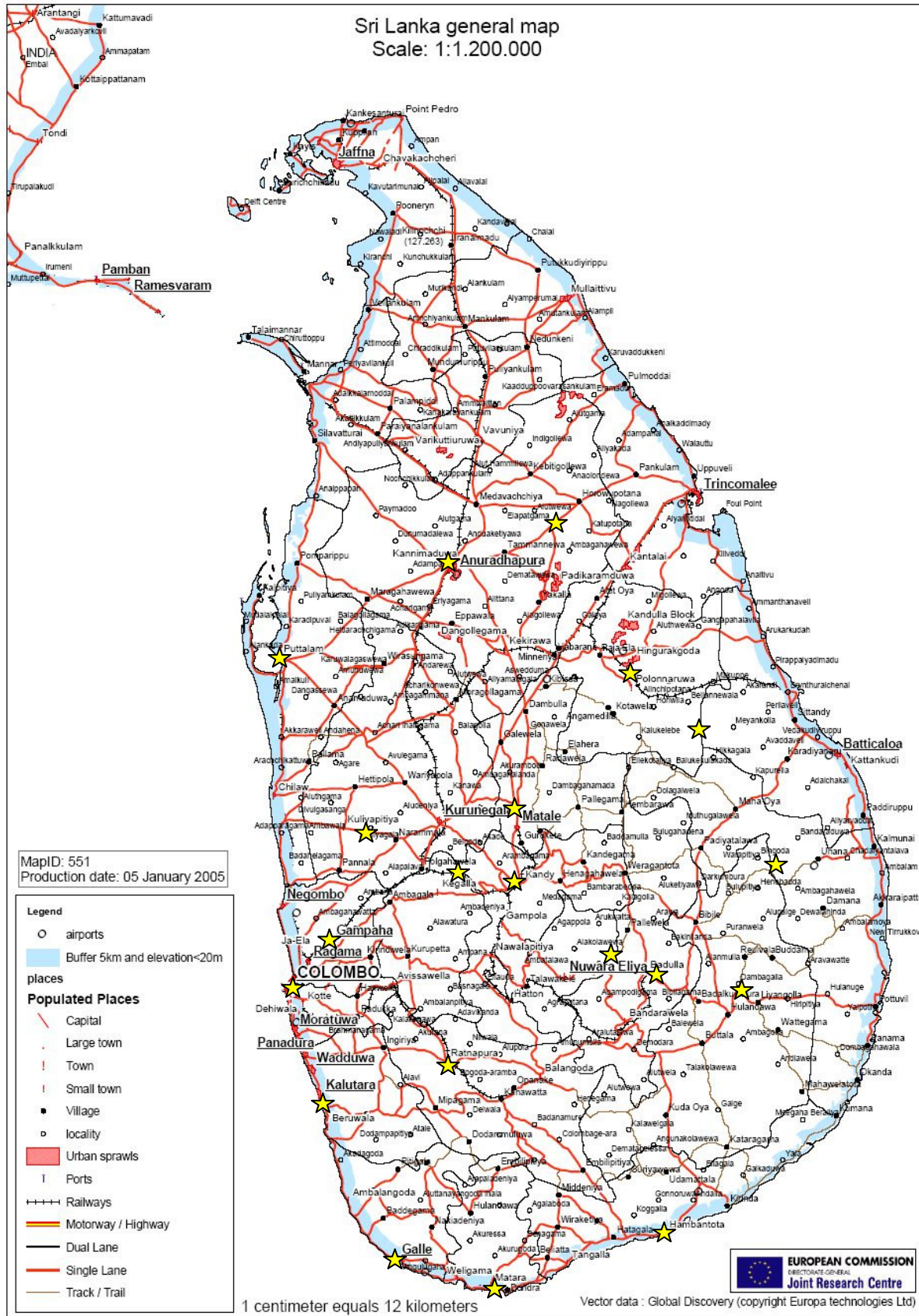
ESD did review its strategy and has set about creating a stronger, more distinct role for the district-level staff. The objective was to establish Enterprise Promotion (EP) centres in each (of 20) district that were stronger, more distinct, self-managing business units. Although in most cases, the EP centre is still physically located in the Banking Division's building, in the best examples, the EP officer now have their own well equipped office with resources (audio-visual, ICTs, literature) and space to serve their clients in.

EP Officer, Saliya Kumarasiri in the Kurunegella District EP Centre at Kuliypitiya



EP officers no longer report to the local (Bank) District Manager, but instead to one of four ESD regional managers, who are based in their respective regions, and have close contact through visits and regular phone-calls. Each EP officer is, in principle, responsible for the financial performance and outputs of their EP centre: with a close monthly monitoring of targets and salary incentives for meeting them.

Locations of ESD's Enterprise Promotion Centres



The outcome of this change has been positive according to all parties interviewed, including the Banking Division Managers, and the EP officers. EP officers are more independent, have clear reporting lines and can focus on their priorities. Decision-making is more efficient. Conflicts of priorities with Bank managers are reduced.

However, only about half the EP centres have been fully established with the kind of independent space and resources illustrated by Kurunegella EPC above. In some districts, SEEDS have been unable to secure a suitable location yet, so EP officers still share an office with Banking officers. In other districts, the EP officer posts are vacant – due to staff turnover challenges described later – and progress on EP centre establishment has therefore been delayed.

Activities of Enterprise Promotion Officers

The activities of the EP officers can be divided up into six areas:

1. Awareness raising and business counselling for Society members
2. Business planning and loan appraisal (for SEEDS banking division)
3. Provision of business and market information
4. Assessment and referral for entrepreneurship & management training courses (through SMTI, the SEEDS training division)
5. Provision of technical skills training services (or referral to externally provided ones)
6. Market linkages and other marketing support services

The relative proportion of EP officer's time devoted to each area varies a lot depending on the local demand, and also on the skill-sets and preferences of the individuals. For example, many EP officers have particular technical skills which they employ to provide training services themselves - rather than referring clients to external providers³.

Interviews with EP officers permitted a rough estimate of the way their time is allocated on average:

Approximate allocations of EP officers' time	
Provision of Technical Training (or referrals)	30 – 40 %
Business Planning & Loan Appraisal	25 – 35 %
Business Counselling and Awareness Programmes	15 – 25 %
Market Linkages and Marketing Support Services	5 – 10 %
Referrals for Management / Entrepreneurship Training	3 - 5 %
Market & Business Information Services	3 - 5 %

Three points are noteworthy:

- a. The provision of technical training services is still the principal activity of many EP officers.
- b. A very significant proportion of their time is still taken up with assisting clients to secure loans by helping them with business plans and appraising their loan applications for SEEDS Bank.
- c. Relatively little time is devoted to market-related services and support such as market information services and the development of market linkages, trade fairs etc.

The relative lack of focus on services that aim to directly assist clients to overcome marketing constraints, contrasts acutely with what the independent survey revealed about the perceived challenges felt by ESD's clients. Several EP officers acknowledged the relative neglect of this area, their own lack of confidence or capacity, and the need to strengthen the resources (information, contacts etc) that could back-up such marketing-related services.

One explanation given by ESD for this is the difficulty of packaging market information and market support 'products' into services which clients are willing to pay for. Currently EP centres' revenue

³ ESD has about 150 external training providers registered, but many are not frequently used

comes mostly from technical training packages, and fees for conducting loan appraisals (which are paid by clients through the Bank). Not surprisingly, the EP officers tend to focus their efforts on these revenue-generating activities.

However, EP officers also continue to participate actively in awareness-raising programmes and group business counselling events, that raise little direct income for EP centres. This an important indicator that needing to meet ESD's financial targets is not the sole factor. The relative weakness of market-related services seems to be more about lack of confidence or unfamiliarity, and the persistence of an older supply-led tradition of service delivery in ESD. Replacing this with a customer-orientated, demand-led culture is obviously taking time.

EP Centres' Client Profile

As financial sustainability through cost-recovery has become more important for ESD, so there are concerns that ESD's focus is shifting away from support for ordinary Sarvodaya Society members, towards more remunerative work for private entrepreneurs and institutional clients.

During interviews, EP officers estimated that about 10 – 20 % of their time goes into support for ordinary SEEDS clients with the smallest (type A) loans. (These loans of up to Rs 50,000 are administered by the Societies themselves, so do not require formal loan appraisals). SEEDS Banking Division has over 90,000 type A borrowers on their books at any time, most of who are borrowing for 'productive purposes' in theory. EP officers support for these clients is mainly confined to awareness seminars, business counselling for groups, and perhaps referrals to entrepreneurship courses. The EP centres earn little revenue from this. In most districts, the EP officers do not seem to monitor the changes in employment that result from this work.

The bulk of EP officers time (50 – 60%) is taken up by services for SEEDS Banking Division's larger (type C) loan clients, who currently number 6,000 nationally. These clients borrow up to Rs 500,000 for business expansion – provided they have a positive appraisal from ESD. EP officers earn a set fee (negotiated with the Bank) for conducting loan appraisals, and also earn most of their other fee income from this category of clients. EP officers typically support and monitor between 100 - 200 such clients during a year – of whom about 70 – 100 are new enterprises.

The remaining 30% of EP officers' time is divided between individual non-SEEDS clients and institutional clients. The former are often seeking help with loan applications to other banks. The latter are typically organisations seeking technical training inputs for their own staff or clients. This work is more likely to contribute to a "profit" for the EP centre, since the EP officers are free to charge whatever the local market will bear. This client base is also more important in the Southern region where the four EP centres have increased demand from non-SEEDS clients due to business services market promotion by the Southern Region Rural Economic Advancement Project. SPREAP subsidises entrepreneurs use of business services through a voucher-type scheme, and ESD has become one of the project's principal service providers.

ESD's Plan for Financial Sustainability

The mid-term review in 2003 recommended that ESD develop a comprehensive business plan laying out how it will achieve its targets for financial sustainability. A Business Plan was agreed for 2004 – 2008 in a consultative process that included APT, ESD management and staff. The key strategies in the plan for increasing revenue and reducing costs include:

- Increase attention to earning income from institutional contracts
- Broaden the client base to include non-SEEDS clients and other institutions
- Introduce a sliding scale of charges for different categories of clients
- Reduce the EP officers time spent on loan appraisals for SEEDS Banking Division
- Increase transfer / referral of service delivery activities to other (external) resource people

It is clear from the interviews with EP officers and other SEEDS staff that ESD has tried to implement changes that achieve these objectives. The most apparent changes are in the client base, which is now much more diversified in many EP centres. Charges for non-SEEDS clients have been raised to reflect cost of delivery. Time spent on loans appraisals appears to have been reduced, although perhaps not by as much as anticipated – and some EP officers still complain about excessive bureaucracy in the Banking Division loan procedures.

EP officers do now refer or sub-contract service delivery to external resource people, but not as much as is probably necessary if ESD is to scale up its overall business to a sustainable level. Some ESD staff hold the view that external service providers (usually private individuals) are either too expensive, or not of sufficiently reliable quality, to be used more.

ESD's Charges for Services

ESD has, through negotiation with SEEDS, introduced more variable charges for its services, with higher rates for non-Sarvodaya members. However, charges for ordinary SEEDS clients are still very low – e.g. clients might pay Rs 100 to register for a group business counselling event, Rs 200 per day for group-based training course, Rs 400 for arranging a forward marketing contract. The pricing of ESD's services seems to be done on a very limited cost-plus basis – in which only the 'marginal' operational costs of EP officer's time and direct expenses are included. Little account seems to be taken of the real operational costs incurred in running a large organisation with all the infrastructure, transport, administrative and management support that backs up the EP centres. Even a cursory examination of the ESD accounts shows that these head-office and regional management 'overheads' are at least as large as the currently very modest direct costs (Rs 5 – 6 million p.a.) of the EP centres themselves.

ESD's charges have remained unrealistically low for several reasons. Firstly, there is a strong belief in ESD that the bulk of their clients (Sarvodaya members) can not be expected to pay more – because they are too poor or because it is SEEDS duty to serve them. Many EP officers reported a tension between the need to generate greater income and the desire to devote more time to services for 'ordinary' Sarvodaya members. Secondly, there is unfair competition from other services, sometimes freely available, provided by other NGOs or public institutions – although reputedly of lower quality.

There are three problems with under-estimating real costs and thus setting prices too low:

- i. it means ESD is earning less revenue, by effectively subsidising all its customers – including organisations and individuals that could perhaps afford to pay more
- ii. by under-valuing EP officer's time, it distorts ESD's decision-making about how to use resources efficiently (e.g. thinking that external resource people are too expensive)
- iii. it contributes to the broader problem of weak markets for business services, by suppressing prices for other private service providers.

It would make more sense for ESD to set prices at a realistic level – one that reflects ESD's full operational costs – and then to provide explicit discounts for clients it wishes to subsidise

Management Issues for ESD

Restructuring around Regional Managers

One of the main recommendations of the mid-term review in May 2003 was that ESD "undertake a significant re-organisation of its operations / structures and staffing", in order that the EP centres become more autonomous business units, and the head office takes a more facilitative role. As a result, a review of ESD management took place in 2003 with a view to reducing head-office staffing and costs, clarifying and improving management of EP officers and driving forward sustainability of the new EP centres. The consultant (Udan Fernando) recommended a restructuring of ESD management focussed on creating four 'regional' managers posts. This basic proposal was to replace the formerly overlapping management of ESD's field staff by multiple HO-based unit managers (enterprise development, marketing, technical skills) and local district (Banking Division) managers, with a more simple regional hierarchy.

The restructuring was implemented during 2004. Four new posts were created, and filled by experienced internal candidates. Also, as a result, SEEDS have been able to merge the two previously separate Director posts for Training and Enterprise Services divisions.

The restructuring process seems to have been conducted very successfully. Three of the new managers are now based in regional towns (Galle, Kandy, Anuradhapura) and only one (for Western region) in Colombo. They have explicitly taken over line management of EP centres, and maintain close contact with EP officers through visits and regular phone-calls. As result, the EP officers interviewed say that management decision-making is faster, they feel better supported and more empowered to pursue ESD's objectives. The district (Banking Division) managers I met were also happy with the clarity of the new line-management arrangements.

Interestingly, the main complaints expressed about the new arrangements came from the regional managers themselves. They feel isolated at times from the head-office, still find decision-making slow, and feel insufficiently empowered (for example, in terms of their financial authority which is limited to Rs 20,000, or their influence over human resource management). They are also concerned that because their own time in the head-office is limited, and the ESD Director's time is shared with Training division, insufficient attention is being paid to ESD's strategic issues – perhaps even that ESD is in danger of being side-lined within SEEDS.

The relationship between regional managers and the ESD director is clearly still evolving – with some differing expectations on both sides. In contrast to the above observations, the Director feels that the regional managers have yet to grasp the authority and leadership potential inherent in the new posts. A more open and trusting dialogue among these key individuals would probably be very rewarding for ESD.

Recruitment and Retention of Staff

The biggest challenge ESD have faced during the project has been related to the recruitment and retention of staff. In 2005, the government launched a graduate employment programme offering government posts to huge numbers of young people. These public sector jobs are low paid, but secure and still socially-prestigious. ESD lost 13 staff in 2005 to this programme, and more have left in 2006. In addition, many members of the field investigators network (see below) were lost.

Partly due this programme, but also because of the expanding urban commercial sector, it has proved difficult for ESD to recruit and retain new staff. SEEDS remuneration rates, especially for new staff, are still relatively low compared to urban wages, despite recent increases in non-salary benefits and allowances.

In November 2006, there were six vacancies for EP officers, and several of the EP centres are currently dormant for this reason. In other districts, relatively inexperienced EP officers are struggling with less than adequate peer-support or induction. Young and inexperienced EP officers have fewer skills to offer clients, and may lack credibility in eyes of their clients.

Employment Promotion Officers (vacancies & length of employment)					
Region	Posts	< 1 year	1 – 5 years	> 5 years	Vacant
Western	5	0	1	2	2
Central	6	1	3	0	2
North-Central	5	1	2	2	0
Southern	6	1	0	3	2
Total	22	3	6	7	6

The overall impact of this problem has been huge – including the collapse of the field investigator network, and more alarmingly, a 25% decline in the rate of job / enterprise creation in 2006 compared to 2005. It has effectively overwhelmed ESD's efforts to improve the capacity and competencies of its district staff as recommended in the mid-term review.

This situation threatens the future success of new initiatives around technology resource centres (see below) and could undermine any investment that ESD makes in building EP officers capacity for delivering market-related services in future. It remains the highest priority issues for ESD.

Managing & motivating the EP officers

Recruiting new EP officers is essential, but so is retaining them as inspired and productive staff. Interviews with existing EP officers, both experienced and inexperienced, revealed that ESD has a potential problem with staff motivation. The EP officer role can be arduous and lonely – with much local travelling and placements in locations far away from family support.

ESD has tried to compensate staff through an incentive scheme – linked to the financial performance of each EP centre. EP officers in centres which exceed 100% cost-recovery, earn a bonus worth 25% of the nominal profit. This is a good idea in principle. However, in practice it is perceived to unfairly reward staff lucky enough to be based in more profitable districts (e.g. Southern region), rather than effort.

Financial packages are only part of the issue. The initial induction process seems to be crucial in establishing a commitment to SEEDS mission and the motivation to stay. New staff need to be actively made to feel appreciated. It is possible that the regional managers – highly competent and experienced technicians – do not fully appreciate their necessary new role as people managers too.

Technological Capacity and Competence

Another of the main recommendations of the mid-term review in 2003 was that ESD focus on “core services in which it could develop deep competency and capacity”. The advice was both about identifying key sectors in the economy with good potential for micro-enterprises, and also about narrowing the range of business services offered so as to improve quality. The wisdom of this advice is borne out by the results of the sample survey (Annex 1) which found some clients complaining about lack of depth to some technical training / services.

Since 2003, ESD has continued to implement a wide range of technology development and demonstration projects – in diverse subjects from bee-keeping to hydroponics, including work that is funded independently from the EC co-financed budget. The main strategic development however has been to channel technology development activities and services into discrete sectoral units, now called resource centres – serving sectors which ESD believes have strong commercial potential for their clients. Five resource centre facilities have been established so far, mostly opening during 2006:

- Plant Tissue-culture Propagation Resource Centre (Kandy) – opened Nov 2006 providing sales of plant materials, and provision of technical information / advice
- Mushroom Cultivation Resource Centre (Kegalle) – opens Dec 2006 providing technical training, information services, sale of spawn & market linkage services
- Agro-Business Resource Centre (Dambulla) - providing market linkage services, also sales of soil-testing equipment
- Garment-Sector Resource Centre (Matara) – opened Nov 2006 providing technical training in cutting, tailoring, machine repair, formal qualifications
- Food Technology Resource Centre (Galle) – opened Aug 2006 providing technical training in food processing, packaging, standards

The basic concept is to develop ESD's deep technological competence through semi-independent resource centres that could eventually spin off as commercially viable units. ESD's has made an initial time-bound investment, but is not committed to long-term financial support.

Initially, the work was managed by various EP officers, but since April 2006 each centre has a local manager tasked with running its own facility and delivering on a business plan for financial sustainability. They are managed by the Technology Development manager in Colombo, but will not be expected to contribute to head-office costs. EP officers will still be involved, naturally, in referring clients to these centres – but the centres hope to be seen as independent, high-quality, business-orientated ventures (rather than donor-supported initiatives).

At time of this evaluation, only the Food Technology centre was yet commercially active, so the viability of the business plans has still to be tested.

Marketing-related Services

The question of ESD's capacity and competence in providing marketing-related services did not arise strongly in the mid-term review, but it was repeatedly raised by informants during this evaluation. ESD has made strenuous efforts to expand the range and reach of services which help clients market their products. These services include:

- Training courses in practical marketing skills (through SMTI)
- Market information – based on market research by ESD
- Organisation of local and national trade fairs
- Facilitation of direct market linkages to both suppliers and buyers
- Brokering of commercial contracts with buyers (including forward sales contracts)
- Establishment of retail sales outlets

The ESD annual reports provide evidence of a number of successful market linkage initiatives – for example benefiting mushroom cultivators, ornamental plant growers, garment producers, vegetable and fruit farmers and a large number of small-holder dairy producers. There have been several trade fairs organised including a 3-day long national trade fair in Colombo. It is hard to get a sense however of ESD's overall capacity or competence, especially at the EP centre level. Many informants also expressed concern that 'marketing skills' are a key weakness for ESD clients, and ESD is not well equipped to adequately respond.

Among EP officers, some feel confident about facilitating linkages and brokering contracts for clients, but other (less experienced) lack contacts, credibility and confidence. Market research has taken place for various products (e.g. *Kurakkan* flour, fresh wood-apple), but there is no systematic supply of relevant up-to-date market information to EP officers to back up their service offering to clients. Workshop designed to share information on new business opportunities with clients have not been well attended. Perhaps it is not surprising therefore that the amount of time devoted to marketing-related services by EP officers is limited.

One of the most promising initiatives has been the 'forward sales contract' service – in which EP officers act as brokers between (mainly agricultural) producers, buyers and the SEEDS bank. ESD has been able to charge a commission fee for this work – although rather too small (Rs 400), it illustrates the potential opportunity for a sustainable service.

4. PERFORMANCE MONITORING SYSTEM (See Annex 2)

One recommendation of the mid-term review in 2003 was that ESD's monitoring and reporting system should be redesigned to focus more on individual enterprises and the effect of ESD's support / relationship, rather than on activities conducted. In other words, on outcomes rather than outputs.

ESD have made a big effort in this direction through the establishment of an enterprise database (an embryonic management information system in effect) and the training of a cadre for 'field investigators' to collect information from ESD's clients on a regular basis.

Field Investigator network

Establishing the field investigator network was a major activity during 2004, with some success. A cadre of at least 200 enumerators was trained in 16 districts, and began work collecting various kinds of client survey data for ESD, and for other organisational clients including SPREAP and ILO.

However, during 2005, the cadre was decimated by the graduate recruitment programme, and functionally collapsed. ESD had to recruit temporary enumerators in order to complete its first (baseline) survey of all clients in 2006.

Enterprise Database

The enterprise database now (Dec 2006) contains baseline information about 29,000 clients or former clients of ESD's services, mostly collected during the last few weeks of 2006. The data is stored in Access database files, and is managed by ESD's Information & Research Manager.

Unfortunately, comparison of data on the ESD database with the independent sample survey casts doubt on the reliability of one or both datasets – especially the sales and income (profit) information. Given the relatively high level of supervision involved in the independent survey (see Annex 1), and the issues listed below it seems probable that weaknesses lie with the ESD data.

Many other problems were identified with the ESD database, including:

Data Collection: ESD client questionnaire form

- The system is not designed to cope with data from clients with more than one enterprise.
- The mechanisms for categorising the type of enterprise and type of ESD service is failing or not properly used.
- Insufficient distinction is made between full-time and part-time employment, and also between paid and unpaid labour.
- Limited work has yet been done on further monitoring (follow up) of clients so that changes, effects and impacts can be explored. A follow-up study was designed to sample 200 clients during 2006. At the time of the evaluation, data from 113 had been collected.

Database Management: design, data entry, security

- The DB structure and design fails to exploit the potential in Access for managing different kinds of information as a relational database
- The system does not have unique identification numbers for each client and enterprise, making it impossible to track changes over time
- The data entry form does not contain sufficient automatic checks to ensure accurate data entry
- Some data field formats are not set up properly, rendering data valueless in computation and thus causing even the simple totals and averages to be unreliable

Data Use: analysis and use of results from MIS

- No work has yet been done on programming the database to produce standard reports with useful analysis of issues that might influence management decisions.
- There is little appreciation yet of the potential for linking analysis of data (employment, income, ESD services) to other desirable variables (e.g. cost-recovery rates, client's perception of ESD service quality)

Conclusions

The need for adequate monitoring, and the desire for better knowledge about the division's outputs and its effect on client's enterprises is manifest within ESD. Unfortunately the efforts to date have not borne great fruit. A radical re-think is needed in relation to all three components of the MIS system.

For data collection: a field investigators cadre still looks like a good idea in principle, provided the right incentives can be found to retain them and supervise the quality of their work. Unfortunately, much of the data collected so far looks very unreliable. Improvements to the database design (forms) could help ensure the integrity of the data they provide. Meanwhile many data elements required for an effective MIS could be collected and inputted by existing ESD officers,

For data management: the database and its associated data-entry forms (questionnaires) need completely overhauling. ESD seriously underestimated the programming skills required to design and build a robust Access application tailored to ESD's needs. This 'design and build' requires specialist technical input. Neither the existing manager nor her predecessors could have been expected to have these skills. ESD need to invest in professional technical Access-programming support to achieve this.

For data analysis and use: the full potential of Access to analyse survey data and produce useful information that is relevant to ESD's decision-making or donor-requirements, has hardly been explored. Currently, the database is effectively little better than a spreadsheet – used to extract totals and averages of isolated values. The power of a relational-database to contribute to management decision-making through analysis of relationships and trends, comparison of results over time etc is not yet appreciated or exploited. Some examples of what could be achieved are described in Annex 2.

The MIS manager needs to be able to maintain the database, to identify and 'clean' suspect data, to modify data entry forms, to design intelligent 'queries' and produce reports that address donor, management and staff needs. ESD will need to invest in specialist training for the MIS manager to achieve this level of Access competence.

5. OUTCOMES OF THE PROJECT

The anticipated outcomes of APT & ESD's "Support for Small Enterprise Development" project can be summarised under five headings:

- a. effects on employment of ESD clients and their employees
- b. effects on income, profits and wages of ESD clients and their employees
- c. increases in ESD's financial (and institutional) sustainability
- d. improvements in the ESD's efficiency (use of funds to create benefits for clients etc)
- e. wider influence of lessons from ESD's work in the livelihoods / enterprise development sector

Each of these is evaluated below in turn.

Employment Outcomes

Targets:	<ul style="list-style-type: none"> • Number of active enterprises on ESD's client-base increasing by 3,328 every year • Number employed in ESD's clients' enterprises increasing by 8,990 each year
-----------------	---

Achievement:

Reported Results		2004		2005				2006		
Increase in # of active enterprises	Each Qtr	522	1254	689	885	1123	571	807	563	597
	Cuml. Year				3350	3951	3268	3386	3064	2538
	% Target				101%	119%	98%	102%	92%	76%

These quarterly results compiled from each district indicate that ESD was exceeding its target for increasing number of active enterprises during 2005. However results have slipped back somewhat during 2006 - largely due to staffing constraints discussed later on.

Reported Results		2004		2005				2006		
Increase in # of workers employed	Each Qtr	371	524	262	2213	2223	1108	1870	1151	1169
	Cuml. Year				3370	5222	5806	7414	6352	5298
	% Target				37%	58%	65%	82%	71%	59%

The employment results have not fully met the target, but this is not surprising given what the sample survey found about the average number of jobs per enterprise (2.1 including the owner). In other words, the employment target was probably unrealistic.⁴

The reported results are consistent with what we know about total employment among ESD's client enterprises, and the employment growth rate revealed among the independent sample survey.

i.e. 29,000 clients x 2.1 jobs x 10% annual growth = 6,000 extra jobs per year

However, as noted earlier the sample was certainly biased and it would be surprising to find that the sample's 10% employment growth rate replicated across the entire client-base. Interviews with EP officers did reveal some discrepancies in how this key data is defined and collected – in a fairly ad hoc manner by the officers themselves. The most significant fact is that many EP officers were only recording enterprise start-ups and the jobs created when services or loans were provided, but not jobs lost in businesses that subsequently shrank or closed. Since a proportion of jobs are seasonal

⁴ By way of comparison, a 2004 impact assessment of ILO's SIYB training programme in Sri Lanka found that

- "Start Your Business" participants created enterprises with on average 2.3 workers (including the owner)
- After training, existing enterprises increased their number of paid employees by just 0.1 per enterprise on average (in fact only 1 in 8 enterprises took on anyone extra).

Abeyseriya, Vithanage & van Lieshout (2005) SIYB Sri Lanka Impact Assessment 2004, TNS Ltd, Colombo

(especially in agriculture), this would give an exaggerated result. This highlighted the importance of establishing a more robust management information system – as discussed later.

Even bearing these caveats in mind, the creation of several thousand extra jobs (paid and unpaid) ever year is a very significant achievement, especially given the economic stagnation and employment decline found in many rural districts.

Financial Benefit Outcomes

Targets:	<ul style="list-style-type: none"> • Average income (profits) of client entrepreneurs rising by 15% each year • Average wages of client's employees rising by 10% each year
-----------------	---

Achievement:

Initial attempts during 2004 on the part of EP officers to collect and collate this information directly from their clients did not work. By mid 2005, ESD decided to rely on the monitoring surveys planned for constructing the enterprise database as more reliable basis for establishing these outcomes. The idea was that the first surveys would provide a baseline for subsequent monitoring of this key indicator.

Unfortunately, implementation of these surveys was delayed for reasons discussed later, and the first full survey was only completed in December 2006 – after this evaluation exercise took place. This data, when compiled, provide ESD with a snapshot of their clients earnings and wages at this time.

Meanwhile, the only data available for assessing the outcomes is that generated by the independent sample survey. This asked 300 entrepreneurs to report the wages paid to workers, and the financial benefits generated by their businesses (both cash and goods in kind) for their households.

The first table shows average financial benefits and wages reported by each enterprise.

Financial Benefits per enterprise (sample survey)	Rs per year	Increase /yr	Rate of Increase
Average Annual Profits per Enterprise	158,000	16,950	11 %
Average Annual Wages Paid per Enterprise	85,000	15,150	18%
Combined Financial Benefits per Enterprise	243,000	32,100	13%

The second table shows average benefits and wages for each individual worker.

Financial Benefits (from sample survey)	Rs per month (FTE)	Rate of Increase
Average Profit Rate per Unpaid Worker (including owner)	9,530	1 % p.a.
Average Wage Rate per Paid Worker	9,380	8 % p.a.
Average Financial Benefits per Worker (Paid & Unpaid)	9,480	3 % p.a.

The survey figures – which have been adjusted for inflation - look very impressive even if they do not fully achieve the targets. If representative of the entire ESD client base, they would indicate that ESD is substantially meeting its financial outcome targets. However, as described earlier, it is unlikely the sample survey was fully representative and it would be unwise to extrapolate these results to the whole client base.

It is interesting to note that the profits or benefits per unpaid worker are very similar to the reported wages per paid worker – although reported wage rates are increasing faster. A rise in real wage rates is consistent with the reported difficulty in retaining staff, even if the actual reported wage rate looks a little exaggerated.

Sustainability Outcomes

Targets:	<ul style="list-style-type: none"> • ESD's overall dependence on donor funding reduced to 27% • Clients' contribution to the total ESD budget risen to 21% • Clients' contribution to EP centres' local operational costs increased to 75%
-----------------	--

Achievements:

Before discussing the results in this section, a word about ESD's wider operations is necessary. During the duration of the project (2002 – 2006), the Division has undertaken many activities in areas outside the scope of the EC funded project (its core business services programme). Examples include contracts with BSSF⁵, various technical projects which generated their own revenue, and ESD's participation in relief efforts following the Dec 2004 tsunami.

In part, these non-core activities are motivated by the need to diversify income sources and spread overhead costs, so as to increase the overall financial and institutional sustainability of the organisation. Together these other 'projects' made a considerable contribution to net income and so contribute to the first target above.

Ideally, the evaluation of sustainability would use information that entirely disaggregated the income and expenditure related to the EC-project activities from other financial streams. More ambitiously it would also separate out ESD's recurrent operational expenditure from investment expenditure (e.g. on training staff, opening new EP and technology resource centres, developing new products). SEEDS finance department tried to make this sort of analysis available during the evaluation, but unfortunately simultaneous pressure from an external audit exercise frustrated their good intentions.

The following figures are therefore based uncritically on those reported in ESD's three quarterly reports to APT UK in 2006. They provide, I believe, a fair summary of the current sources of income for the operational costs of the core programme work covered by the EC project. ESD and APT have defined this core programme's operational costs to exclude investment in programme development, technology research and staff development, as well as other 'projects' mentioned above.

Sources of Income for ESD's Operational Costs	Total (Jan – Sep 2006)	
Client (owner or worker of MSME)	3,529,000	24%
Commercial firm (private sector)	309,000	2%
Contracts for specific activities from local institutions	1,000,000	7%
Interest from reserve + pilot projects	5,081,000	35%
Sub-total	9,920,000	67%
Donor grants for program	4,791,000	33%
Total	14,711,000	100%

This "operational costs budget" (around Rs 20 m /year) makes up approximately 70% of ESD's core programme costs (around Rs 28 m/year), but only half of ESD's total annual expenditure (Rs 40 m).

At 33%, ESD's reliance on donor grants for operational costs is significantly better (lower) than the 42% found by the mid-term review in 2003. ESD has not fully achieved its target of 27%, but it is well on the way. To a large extent the reduction in donor dependency has been accomplished by the shrewd investment of 'profits' from various projects in an endowment reserve fund. Interest from this fund now makes up 35% of all income to the core programme operational costs.

⁵ Business Services Support Facility (BSSF) is an ADB-funded government project for which ESD successfully won the contract to deliver in central province

Payments from ESD's client entrepreneurs now makes up 24% of this income (above target) – a considerable improvement on the 14% in 2003. This reflects a determined effort to increase cost-recovery rates, and reach new types of clients willing to pay for effective services. ESD's achievement has been assisted by the SPREAP⁶ programme which has boosted demand for business services in southern province (at least temporarily).

ESD's achievement in relation the final indicator (cost-recovery rate at district level) is trickier to assess objectively. An ambitious target of 75% recovery of local operational costs from clients was set for each EP centre. By December 2005, ESD reported that six EP centres were regularly achieving 100% cost-recovery, three exceeded 70% and three passed the 60% mark. Examining information about income and expenditure in 2006 showed that district-level operational expenditure (about Rs 550,000 per month) was actually exceeded by income (averaging Rs 580,000 per month) – an overall cost-recovery rate for EP centres of 107%.

However, before celebrating this achievement, it is very important to note that ESD define the district-level operational costs of the EP centres very narrowly. In particular, the EP centres only budget 10% of direct costs as a contribution to overheads (equating to around Rs 40,000 per month in total). In practice, the four regional managers' salaries, offices, travel and overheads budget alone exceeds Rs 320,000 per month. Factoring in the full costs of the regional managers into the budget for ESD's business services delivery operation reduces the cost-recovery rate to approximately 65 - 70%.

Meanwhile, the ESD head-office budget (excluding investment etc) is at least Rs 800,000 per month – a proportion of which ought realistically to be attributed to supporting the EP centres too. Depending on how this is attributed to operational costs, the full cost-recovery rate comes down to below 60%.

Income at EP Centres for Business Service Delivery (2006)	Cost Recovery
as % of all EP Centres direct costs (including 10% overhead)	107 %
as % of all EP Centres direct costs plus Regional Manager's costs	65 – 70 %
as % of all EP Centres direct costs plus Regional Manager's costs and including a proportion of HO operational costs	50 – 60 %

The point of these calculations is not to disparage ESD's achievements, but to highlight an important implication for the way ESD prices its services to clients (especially institutional clients). It is probably wise not to explicitly ask EP officers to shoulder the full burden of ESD's organisational costs. However, nor must ESD or SEEDS ever forget that the 10% overhead in no way covers the real costs of supporting and managing the EP centres. The real overhead on EP centres is more like 100%. ESD needs to take this into account in particular when setting the prices for its services to institutional clients, including SEEDS Banking Division, so it does not inadvertently or unknowingly subsidise them.

Efficiency Outcomes

Target:	• The cost-benefit ratio of increased profits & wages to ESD costs is at least 7.5 : 1
----------------	---

Achievement:

As mentioned above, ESD gave up attempting to collect information on profits and wages directly from their clients in 2004, seeking to rely on the planned monitoring surveys instead. Therefore the only basis for assessing their achievement lies with the independent sample survey. Great care must be taken in extrapolating this to the whole population of ESD's clients however.

There are various ways of calculating this ratio, none are ideal. Here are three examples:

⁶ Southern Province Rural Economic Advancement Programme – ADB funded

- Among the sample enterprises surveyed, the average annual increase in financial benefits (profits, good-in-kind, wages) enjoyed was Rs 32,000 per enterprise. Extrapolated (unrealistically) to all 29,000 clients on the database this would give Rs 930 million per year, or 46 times ESD's operational budget.
- Among newly established enterprises in the sample, the average annual financial benefits in the first few years are Rs 44,000 / year – although this result is certainly exaggerated by 'survivor' bias. Extrapolating this to the 3,200 new enterprises established each year, and assuming they survive just one year on average, gives Rs 140 million per year of new income and wages, or roughly 7 times ESD's operational budget. However, this figure does not include benefits enjoyed by those ESD clients with established enterprises.
- Among full-time equivalent workers in the sample (paid and unpaid) the average financial benefits received were Rs 114,000 per year. Extrapolating this to 6000 new jobs reported as created per year, and assume that each job is 72% FTE (a finding from the sample survey), and lasts just one years on average, then the total benefits generated are Rs 480 million per year. This is roughly 24 times ESD's operational budget.

None of these three measures is satisfactory – they all rely on big assumptions and fairly wild extrapolations. Furthermore, it is impossible to estimate accurately what proportion of these benefits can be attributed to the work done by ESD in assisting start-up or growth of their client's enterprises.

Nevertheless, all three calculations seem to indicate that the overall cost-benefit ratio for ESD's work is highly attractive. Even if only 10% of the benefits calculated are real and attributable to ESD, then it still looks as if the financial benefits of ESD's work outweigh the costs several times over.

Learning & Influencing Outcomes

Target:	<ul style="list-style-type: none"> • A development-orientated model for marketing business services to small and micro-enterprises in rural and urban communities is demonstrated • Lessons learned in developing this model are shared with other enterprise development / BDS agencies (& by implication influence their policies and practices)
----------------	--

Achievements:

Demonstrating the model

The question of whether ESD have successfully demonstrated that their model of business service delivery to MSEs works in rural and urban communities is still an open one. Certainly, ESD have established an impressive network of Enterprise Promotion centres in almost all 20 districts in which SEEDS operates. ESD have created an appropriate decentralised structure, based on four experienced regional managers, to support and supervise the district EP staff. They have also constructed a clear distinct identify for the EP centres in relation to the much larger Banking division structures. The ESD is moving towards financial sustainability, and has raised its cost-recovery rates to a level which makes genuine customer-led market-orientation on the part of staff more likely.

There are some challenges however. Not all the EP centres are fully staffed, and there are some concerns about retention and development of the front-line staff on which the services depend. Some of the EP centres are not yet properly equipped and separated from the Banking division offices. The level of income from fees paid directly by clients is still relatively low, and a supply-driven ethos is still discernible in some staff. Meanwhile, some staff have concerns that ESD is already in danger of becoming unaffordable for the poorest target clients. The viability of important new initiatives such as the technology resource centres has yet to be tested.

The important point, I think, is that ESD have demonstrated that in the right circumstances, with well-motivated and competent staff, the EP centre model of service delivery and BDS facilitation does work successfully. The best examples of EP centres appear to operate well as accessible one-stop shops

providing micro-entrepreneurs with business information and advice, practical help with securing loans (especially from SEEDS), referrals towards useful training and technology services and linkages to new buyers and markets. The EP centres' close proximity to, yet autonomy from, financial service providers (i.e. SEEDS district banking offices) is a very important factor in this success - one that distinguishes ESD from most other business service providers.

ESD have not (yet) succeeded in providing business services on a quasi-commercial basis (without effective subsidy) except to a small minority of clients – so the ideal outcome of developing sustainable markets for business service remains elusive. However, there is some evidence that the economic benefits generated by ESD's work convincingly outweigh the costs. There are also plenty of explanations for why, despite their long-term value, micro-entrepreneurs are unwilling or unable to pay up-front the real costs of these business services.

The main challenge for ESD now is whether it can effectively replicate the success demonstrated by a few the best EP centres – those with more prosperous districts, or with outstanding staff - across all of Sri Lanka's districts. The ESD 'model' will not be fully proven until it can do this. The greatest part of this challenge lies in strengthening the management of human resources – and showing that competent staff can be recruited, developed and retained even in less attractive locations.

Sharing the lessons

There is plenty of evidence in ESD's annual reports that the organisation is well respected within Sri Lanka for its work in small enterprise development. The Director and other managers are regularly invited to participate in workshops and seminars by other institutions. On two or three occasions, ESD has been asked to collaborate with social researchers from universities in Europe and Australia. Most significantly, following the tsunami disaster in Dec 2004, ESD was approached by many relief and development agencies to provide advice on livelihood rehabilitation.

In April 2005, ESD with APT's help, organised its own international workshop on 'Integrating Small Enterprises into the Wider Economy' with sixty participants bringing national and international expertise from public, private and NGO sectors. There is little doubt that ESD is keen to encourage and participate in the debates among practitioners and donors within the enterprise development / business services industry.

The potential opportunity for ESD to contribute knowledge to these debates is great. Outside of Bangladesh – where BRAC, PROSHIKA and others have enormous client-bases - ESD is one of the larger business services / enterprise support agencies in the world. A client-base of 30,000 enterprises provides a very solid foundation from which to generate evidence – both quantitative and qualitative – about what works and does not work. Unfortunately this has opportunity has hardly yet been exploited.

Part of the reason is that, despite concerted efforts since 2004, ESD has not established a credible and effective system for monitoring the outcomes of its work. While outputs (trainings, linkages, services delivered) are recorded conscientiously, the effects on incomes, profits, jobs are still largely guess-work. The field investigator network was instigated to address this, but failed largely for reasons beyond ESD's control. The absence of 'hard' evidence makes it difficult for ESD to demonstrate the value of its work, or the validity of the lessons it is learning, to external audiences or even to colleagues in SEEDS.

Because of their scale, ESD's experiences, such as the experiment with the field investigator's network, are valuable. Even without 'hard' quantitative evidence, ESD with APT's help could probably have done more to share the progress of the project and the lessons being learned, with other practitioners and researchers in the industry internationally – through published articles, participation in industry networks or communities of practice. This is the only outcome where the project has not met or come close to achieving its target.

6. CONCLUSIONS & RECOMMENDATIONS

Bolster the Cadre of EP Officers

In enterprise development, most benefits in jobs and income are attributable to the growth of a relatively few enterprises (as illustrated by the sample survey of ESD clients). The future impact of ESD's work depends on recognising winners among its small-scale entrepreneur clients, understanding their specific individual needs, and providing relevant, affordable services to address those needs. Ultimate responsibility for this customer-orientation lies in the hands of the EP officers. Examples of well-performing EP centres show that where these staff are competent, motivated, adequately-resourced and capable of self-management, they can deliver the ESD's mission.

Therefore, ESD's principal strategic priority should be to create conditions where it can recruit, retain, motivate and strengthen the performance of these key frontline individuals. In particular...

- ESD should monitor the competitiveness of its salary and incentive structures for EP officers to ensure it is offering a package that can attract and retain staff of the calibre demanded by the role.
- Where there are vacancies, recruiting new EP officers should be a top priority. However, ESD should be wary of compromising on levels of experience, flair and competence needed for the role.
- The cost-recovery-related bonus scheme could be adjusted so that it rewards relative improvements in EP centre performance (rather than simply a percentage of "profits"). This could create incentives for all staff, not just those lucky enough to be located in lucrative regions.
- Performance targets should be broadened to include indicators of EP centre effectiveness (e.g. in increasing employment, and incomes of the poor). This will be greatly assisted by having an effective management information monitoring system (see below).

Strengthening the Role of ESD Regional Managers

The recent decentralisation of some head-office functions to four ESD regional managers is definitely proving to be a positive move overall. More needs to be done to engage and empower the post-holders, particularly in their role as line-managers of the EP officers. Their role in nurturing and reducing the isolation felt by new EP staff is vital. Everyone must understand that RMs have taken over responsibility for line-management from Bank Division managers. Regional managers have to learn to build and lead regional teams of EP officers. They need to be able to reinforce the team's identity and distinct role, establish a supportive team culture and offer an inspiring vision of the success that EP centres can achieve.

- ESD should train and support the Regional Managers to be people managers (as well as technical experts). Focus on team building tools and leadership skills in particular.
- SEEDS Directors may need to reflect on the management styles of the organisation. ESD staff need to be self-motivated, entrepreneurial decision-makers at both regional and district level. A hierarchical culture that works well in Banking, may be less effective for managing ESD.
- A convincing vision of ESD decentralisation is needed to underpin the emerging RM role. It should describe how regional resources and authority will grow, and how Head Office resources and responsibilities will shrink, over time. ESD's Director and RMs should openly negotiate a progressive delegation of decision-making powers, responsibilities and resources to regions and districts.
- ESD should explore systematic use by Regional Managers of basic performance management tools – such as annual performance appraisals, linked to targets, support plans and skills development plans. Delivered sympathetically, these tools could improve communication with EP officers and sharpen the process of team building.

Managing and Developing the Skill Sets of EP Officers

The role of an effective EP officer is multi-faceted and also varies from region to region. The skill sets they bring to the job also depend on their personal backgrounds. This diversity is a strength for ESD, but it also creates challenges in managing and developing human resources in a systematic strategic way. One danger for ESD is of significant skill gaps opening up in particular regions. Another risk is that EP officers' skills will be spread too thinly to be effective.

- At both national and district level, ESD needs to invest more in understanding which of its services are most highly valued by its different clients, so that staff skills development is client-led.
- Ultimately ESD's understanding of client demand should derive from a management information system (i.e. through collecting client feedback at the moment of service delivery, and through follow-up surveys of clients)
- ESD should establish and maintain a skills / competency audit of staff so the organisation knows where its strengths and weaknesses lie, and can plan strategically to fill gaps and develop staff skills.
- Skills development planning should be clearly linked to the performance management process of EP officers – so as to address individual weaknesses, build confidence and encourage client-led approaches.
- Where significant skill / competency gaps are shared across several districts, ESD should invest in relevant skills development programme for staff. Areas such as 'customer relations', 'business counselling' and 'building market linkages' are all likely candidates for this kind of investment.

Strengthening Market-related Services

The principal un-met demand from ESD's clients seems to be for services that help them tackle market-related constraints better: e.g. lack of information about emerging market opportunities, fierce competition from other producers, lack of access to marketing outlets or buyers. Almost certainly many ESD clients embark on enterprises without an accurate assessment of market requirements, or in markets that are already heavily saturated. This market illiteracy has a high cost for them in business failures, and possibly for SEEDS in terms of loan default.

ESD has shown that market-related services, such as accurate market information, facilitated linkages to buyers, market-focused business clinics, help with financing transactions with larger buyers and access to retail outlets, are relevant and highly valued by its clients. However, many times individual EP officers are probably not a great deal better informed about the market issues than their clients, so much could be done to strengthen such services.

- ESD should explore ways to develop a local market information service for clients in key sectors – offering up-to-date information about the characteristics of market demand for popular products in each region. The research necessary to do this is probably best conducted and coordinated from regional managers' offices rather than head-office.
- ESD should strengthen its promising work in providing producer-buyer-linkage services. Experiences have been very varied to date, so ESD should systematically monitor and analyse results so as to identify lessons about what does or does not work.

ESD has already demonstrated that it is possible to charge fees or commission for some market-related services (e.g. in forward marketing agreements, sector-specific business-clinics). Other services (e.g. market information) have public-goods characteristics which make cost-recovery difficult. However, the cost of not providing market-related services are also high in terms of business failures and lower overall impact of ESD's work.

- ESD needs to explore innovative ways of recovering costs for market-related services. For example, market research costs might be factored into the charges for doing business loan appraisals.

Technical Training Resources

Many of the existing EP officers have personal backgrounds as technical advisers and trainers in specific technical skill areas. Technical competencies help give EP officers credibility with their clients. However, the desire to apply their established skills may be encouraging unhelpful 'supply-driven' practices to persist, and distracting officers from paying adequate attention to other essential EP activities.

The EP centres can only reach and serve significant numbers of clients (achieve impact) if the EP officers act principally as referral agents and facilitators of access to services. Use of specialist external resource people has the double advantage of both overcoming ESD's current main constraint (staff time), and encouraging a more vibrant market for business services generally in Sri Lanka.

- EP officers need to strike an appropriate balance between fulfilling the diverse requirements of the role, and delivering particular services in which they have a personal competence (e.g. technical training).
- Greater use might be made of external resource people to deliver technical training, where this frees EP officers to concentrate on other tasks, or enables a higher quality service. The expense of using external trainers needs to be weighed against the real costs of EP officers' time – including ESD's overheads.
- ESD should review the fees for external resource people to ensure that technical training is of adequate quality, and evaluate their performance accordingly.

ESD Resource Centres

The five specialist resource centres opened in 2006 provide a great opportunity for ESD to develop sectoral expertise as recommended in the 2004 review. The resource centres should help reduce some of the pressures on EP officers, and allow the EP centres to function more efficiently as referral points for clients. The resource centres each have different business models – with various mechanisms for cost-recovery, and some of these carry risks.

- Where resource centres intend to raise revenue from sales of inputs or products, ESD should beware the centres become competing market-actors in the sectors they are supposed to be supporting (e.g. as described in the new EC proposal for the Food Processing Training Centre).

Managing the Cost Recovery Equation

ESD has taken great strides to put the EP centres on a sustainable financial footing. Setting achievable cost-recovery targets for district-level income has encouraged some EP officers to be more innovative and entrepreneurial. At the same time, many staff are concerned that an exclusive focus on cost-recovery targets may compromise ESD's mission by reducing the incentive to improve services for poorer clients and thus affect the poverty impact of ESD's work overall.

Internally, ESD management therefore needs to reassert a commitment to a 'balanced scorecard' strategy – i.e. one which also values client satisfaction, meeting SEEDS' internal objectives, and most importantly achieving impact on poverty, alongside cost-recovery targets. In other words, ESD needs to beware the risk of shifting from a 'supply-led' culture to a purely 'revenue-led' culture.

- Performance targets for EP officers and RM's need to also include at least some non-financial objectives – for example related to the creation of sustainable employment for poor people

When head-office overheads, management, recruitment and training are included, the real costs of running EP centres are much higher than the cost-recovery targets set for EP officer to achieve. This fact needs to be taken into account when calculating and setting service charges.

- As far as market will bear it, ESD should seek to increase charges to better-off clients and those institutions (incl. SEEDS own Banking Div) that can afford it, so they are closer to real costs which ESD incurs when overheads are taken into account.

- ESD should give more authority to the regional managers to set prices for services locally to reflect the market in their locality.
- ESD RMs should regularly review true costs of different services and withdraw from those services which cost significantly more to deliver than clients are willing to pay (for example because prices are suppressed by competition from free or heavily subsidised alternatives).

Cross-Subsidies for Poorer Clients

Raising prices could give ESD greater scope for directing its financial resources to important target groups of its own choosing e.g. women entrepreneurs, poorer SEEDS clients, employment-creating businesses. Increased income from institutions and better-off clients could be used to cross-subsidise those less able to pay. This would help ESD keep to its mission of reducing poverty and promoting pro-poor enterprise.

- ESD should look at re-establishing a visible subsidy system for targeted SEEDS clients using coupons or vouchers. Even a small annual subsidy fund (e.g. Rs 3 million p.a.) would make a big difference to the focus of EP centres' work.
- EP officers should have the discretion to target subsidies for those clients whose enterprises are most likely to help ESD achieve job creation and income growth for poorer people.
- ESD can learn lessons from global literature about "voucher" systems which is accessible from sites such as www.bdsknowledge.org and particularly the work of Lara Goldmark (Vouchers: From practice to principles, USAID MIP, 2001).

Management Information System

If ESD is to improve its services, increase its effectiveness, and sustain investment from donors, it must develop a credible management information system that gives both managers and EP officers accurate and timely feedback on their performance and ESD's impact. A good MIS should enable decision-making by providing information on the effectiveness of different ESD services; comparing results in different districts or for different types of enterprise. Such feedback is essential for ESD to systematically learn to improve its services, and to back up performance incentives for staff. A comprehensive MIS would also enable ESD to talk authoritatively about the effectiveness and impact of its work to external audiences in SEEDS, among donors and within the wider enterprise development industry. Finally, an effective MIS would help ESD to retain or increase its market share of the real demand for services from clients, amongst the competition.

- ESD should step up its investment in monitoring effectiveness indicators, and managing the resulting data to produce credible and useful information about the Division's performance. *Detailed recommendations are given in Annex 2 of this report.*
- APT and ESD should seek modifications to the new EC project budget to increase the resources available to invest in creating an effective MIS
- Operation of the management information system needs to be treated separately from other responsibilities of the existing Research and Information Department, such as public relations communications and market research.

Assessing Impact

The intended outcomes of ESD's work are higher enterprise profits and job creation. ESD's performance should be measured by these outcomes. One unfortunate consequence of the flaws in the enterprise database to date (Annex 2), is that it is not yet possible to say confidently whether ESD's services are benefiting poorer entrepreneurs in particular. The database does classify ESD's clients into poor and non-poor categories, but we do not yet know whether there are differences in outcomes between these groups.

More importantly, the final impact of ESD's work can not be disentangled from the work of SEEDS other divisions. If SEEDS works well, the outcomes produced by Banking, Training and Enterprise Services Divisions should come together – complementarily - to reduce poverty and improve livelihoods of SEEDS clients. Assessing this impact (change) therefore needs to be a shared responsibility.

- SEEDS should develop a systematic methodology for assessing the ultimate impact of all the division's work on the livelihoods and poverty of SEEDS clients

ANNEX 1 – INDEPENDENT SAMPLE SURVEY

December 2006

Introduction

This annex report describes, and summarises the results of, a small but detailed representative sample survey of ESD clients prior to the evaluation of ESD, SEEDS. APT UK agreed to this survey partly in order to validate the large scale monitoring surveys being conducted by ESD during 2006, and partly to contribute extra qualitative material for the evaluation exercise.

Sample Survey Methodology

The sample survey conducted in Sept/Oct 2006 was organised by an knowledgeable consultant – Anura Atapattu, using a team of seven enumerators who were led and supervised by an experienced researcher. Enumerators were introduced to the survey instrument: a questionnaire that is attached to this annex below. They were then trained for 2 days in a workshop that was attended by ESD’s regional managers to ensure they understood the organisation’s work.

The survey team then worked together consecutively in five randomly selected districts. In each district, the team spent 3 days and interviewed 60 individual ESD clients from a randomly selected list of Sarvodaya Societies.

In all, 295 entrepreneurs were interviewed about the performance of their businesses: income (benefits); employment; assets, and main challenges faced. Almost all interviews also gave responses to questions about the quality and their satisfaction with the services delivered by ESD. A total of 594 service ‘events’ were recorded (average 2.0 per client) In addition, 192 clients (65%) answered questions about the historical performance of their enterprise prior to receiving assistance or services from SEEDS ESD.

Two thirds of entrepreneurs (68%) were women: a figure that is happily very close to the norm for clients listed on ESD’s national database (68% of 26,000 clients in 19 districts are female).

Summary of Interview Sample

Enterprise Sector	Number	% Female Clients
Agriculture	39	77 %
Agro / Food Processing	36	86 %
Manufacturing	66	47 %
Services (incl dress-making)	94	74 %
Trading	60	65 %
ALL	295	68 %

Reflections on Methodology

Field work seems to have been conducted conscientiously, and data looks reasonably consistent. There were for example no major discrepancies between results in different districts. The questionnaire worked well: lessons learned from this small survey could inform modifications for future use of this type of instrument.

The survey locations were chosen at random. However, unavoidably, the enumerator team had to be assisted to find and identify individual clients by ESD’s EP officers. This meant that some degree of positive selection bias is likely. In addition, the sample inevitably suffered from ‘drop-out’ bias since only individuals whose enterprises are still active were interviewed.

For both these reasons, ESD should be very cautious about extrapolating the results shown in this survey to their entire client base.

Analysis of Data

The survey data has been analysed in various ways with the following main questions in mind:

1. What are the main challenges faced by ESD's clients, and how have these changed over time?
2. How do different types of ESD services compare in terms of client satisfaction ratings?
3. How have ESD's clients enterprises performed in terms of employment and profits?
4. What influence do factors such as the owner's gender, the business sector and the initial size of enterprise appear to have on enterprise performance?
5. What effect does the provision of ESD services appear to have on enterprise performance, jobs and income etc.

Two important caveats apply to the interpretation of these results:

First, as noted earlier, there is an inevitable "survivor" bias in this sample since only enterprises that have survived to date were interviewed in this survey yet it is well known that a large proportion of new enterprise start-ups fail within their first year or two.

Second, we must be cautious about attributing any observed changes solely to the influence of ESD's or indeed SEEDS services and support.

Results of the Analysis

1. Challenges Facing ESD's Clients

Interviewees were asked to identify the main challenges they currently face in running their business, and also those that they faced in the past before getting support from ESD. This date varied, but on average the clients had been involved with ESD for four years.

The main challenges described by ESD's clients now is significantly different from what they say they faced before being supported by ESD. This is for both new and established enterprises.

- In the past, before working with ESD, clients said the major problems faced were access to credit (cited by almost half), inadequate business / technical skills and high input costs.
- Today three-quarters of ESD clients emphasise the challenge of high input costs, with competition from low-priced alternatives and weather-related problems after that. Poor access to credit and inadequate skills have dropped to sixth and seventh in the list.

<i>Main Challenges or Problems cited by ESD Clients</i>	Now	Prior	Difference
Rising costs of raw materials or other inputs	75%	40%	+ 35 %
Difficulty or high cost of obtaining loans (getting credit)	21%	47%	- 26 %
Lack of confidence about own business & technical skills	19%	42%	- 23 %
Lack of self-confidence	3%	21%	- 18 %
Competition from others who sell at lower prices	39%	23%	+ 17 %
Difficulty in managing books / accounts	9%	24%	- 15 %
Unreliable infrastructure (roads, electricity, water)	37%	23%	+ 14 %
Effects of bad or unpredictable weather	30%	19%	+ 11 %
Difficulty of obtaining or retaining skilled labour	24%	14%	+ 10 %
Competition from better branding, packaging, quality	16%	8%	+ 8 %

Other results were explored by looking at differences based on gender, type of business and business performance:

- Women entrepreneurs are more concerned than men about inadequate business and technical skills in their businesses, and about competition from higher quality producers. This partly reflects the type of businesses many women run, e.g. food processing, dress-making, where competition is probably fiercest. It might also reflect greater willingness by women to report these concerns.
- There were few differences between responses of older and newer enterprises, except in relation to difficulties of securing skilled labour – a problem which new businesses have yet to encounter.
- A comparison between weaker (steady or failing) enterprises and stronger (growing) enterprises, shows that price competition, weather-related problems and rising input costs are more of an issue for the former. Meanwhile growing businesses are more concerned with weak infrastructure.

On the face of it, while being cautious about attribution, these results suggest a strong positive effect of ESD's (and Banking Division's) work in reducing clients' prior experience of problems with access to credit, inadequate technical or business skills and low self-confidence.

At the same time, these results suggest that ESD now needs to shift more attention to the major challenge of improving the competitiveness of clients enterprises in the face of rising costs and competition from other producers (including of course, imported goods).

2. Satisfaction with quality of ESD services

All interviewees were asked to rate their satisfaction with the ESD services they had used, according to four different criteria:

- The value for money of the service (where fees were paid)
- The convenience of the service delivery location and timing
- The relevance (fit) of the service to their actual needs or problems
- The extent to which the service helped increase the profitability or viability of their business

There were inconsistencies in the way clients identified different ESD services which, despite the enumerators' preparatory workshop, meant that it is not possible to fully disaggregate the scores for different services as had been intended. I have therefore simply divided the range of services into two classes: generic training that is relevant to any entrepreneur, and technical services that relate to specific types of business.

Broad Categories of ESD services

ESD Generic Training	ESD Technical Services	
Loan Appraisal	Dress Making training	Advertising Directory
Entrepreneurship Training	Food Processing Training	Market Linkages
Business Management training	Technical Training unspecified	Aluminium Fabrication
Marketing Management Training	Exhibitions (participation)	Curtain Making
Business Development training	Soap Production	Skills Development Training
Self Employment Training	Agricultural Technical Training	Teachers Training
CEFE Management training	Agricultural Plantation Training	Dairy Management
Small Business Training	Business information	Candle Making
ILO SIYB Training	Beauty Treatment	Carpentry
Leadership Training	Flower Exhibition	Mushroom Production
Accounting Training		

Clients were asked to score their agreement or disagreement with four related statements e.g. “the service provided by ESD was relevant to my needs”, using this scale:

1 Strongly disagree	2 Disagree	3 Slightly Disagree	4 Slightly Agree	5 Agree	6 Strongly Agree
----------------------------	-------------------	----------------------------	-------------------------	----------------	-------------------------

Unfortunately, this method did not work well. Almost all respondents gave high scores (5, 6) even when their other recorded comments were negative. This suggests either the question was not properly presented, or that clients felt reluctant to overtly “disagree” with the interviewer’s statements. Also only half of clients responded to the statement about good value for money.

Assuming that a score of 5 or 6 indicates ‘satisfaction’ with a service, the results are shown below. This assumption could be checked in future, by testing negative statements in place of positive ones, to calibrate a neutral response.

Satisfaction “rates” (% of responses at 5 or 6)	Value for Money	Convenience of Delivery	Relevance to Needs	Lasting Benefit
Generic Training	95 %	94 %	91 %	91 %
Technical Services	87 %	90 %	83 %	73 %
All	93 %	92 %	88 %	86 %

These apparently very good results need to be treated with caution. As mentioned above, some clients (16%) made directly negative comments about ESD’s services, while simultaneously giving high scores. Given that on average 90% of responses were 5 or 6, the fact that ‘only’ 73% of clients were satisfied with the lasting benefits (profits or viability) of technical services, might be a concern.

The main issues of complaint were:

- insufficient depth to technical training;
- insufficient duration of training;
- inadequate coverage of, or support for overcoming marketing challenges
- lack of outreach to rural areas.

Overall, these results are not sufficiently robust to be the basis of clear recommendations. When it comes to services aimed at upgrading performance of particular types of enterprise (e.g. through technical skills, market information, linkages) there are some indications here that ESD is not yet providing the quality, depth and duration of training and support that its clients would ideally like.

3. Performance of ESD clients’ enterprises

This section is concerned with the effects of ESD’s work on the performance of clients’ businesses. The survey provided information about the current status of each business. The main indicators considered for analysis were:

- a. Employment – both paid and unpaid, and converted into full-time equivalents
- b. Wages Paid – as estimated by the owner
- c. Profits or Benefits – based on both reported cash profits and goods in-kind benefits
- d. Turnover – based on estimated gross sales income
- e. Assets – including stocks, equipment, buildings and land

In addition, for enterprises established prior to first receiving support or services from ESD, interviewees were asked to estimate these indicators at that time. On average, the length of the client relationship with ESD was four – five years. Financial estimates were then adjusted for inflation. Such retrospective questioning is far from ideal, but in the absence of any other baseline data, it was worth experimenting with this method.

Examination of the raw data, and comparisons with the ESD’s monitoring survey (see Annex 2), give reason to have greater confidence in the first three indicators. Data for turnover (gross sales) and for assets (land, equipment, buildings, stocks) did not appear reliable or consistent.

Overall Results Across the Whole Sample

Increases in employment (both paid and unpaid) are one of the main desired effects of ESD’s work. Since part-time and seasonal employment is common the survey calculated employment on an hourly basis, and aggregated over a year so as to calculate average full-time equivalent (FTE) jobs

Defining Employment
 One FTE job is calculated as: 50 weeks x 6 days x 8 hours = 2400 hours/year
E.g. 12 people x 20 hours/week x 25 weeks/year = 6000 hours/year = 2.5 FTE jobs
Paid employment is that work which is remunerated by wages.
Unpaid employment includes both the owner’s own time, and the work of other household members, who all benefit directly or indirectly from enterprise profits or goods in kind.

The main findings are:

- On average ESD clients’ enterprises each provide work for 2.9 people
- On average the hours worked amount to 2.1 full-time equivalent jobs (72% full time)
- Approximately 40% of that work is paid employment.
- Employment among the sample has grown at about 10% each year

Average FTE jobs per enterprise	Paid Employment			Unpaid Employment			All Employment		
	FTE	Growth Rate		FTE	Growth Rate		FTE	Growth Rate	
All Sample	0.8	0.09	11 %	1.4	0.14	10 %	2.1	0.22	10 %

The survey looked at the economic benefits created by enterprises in two forms: the profits or benefits in kind earned by business owners, and the wages they paid to their employees. Both represent direct economic benefits for the community.

The main overall findings here are:

- ESD clients’ enterprises each generate on average 243,000 Rs p.a. in direct economic benefits
- Approximately 65% of this is profits or benefits in kind for the owners, and 35% is wages
- Economic returns created by the sample has grown by 13% per year on average

Average benefits per enterprise	Profits / Benefits in Kind			Wages			All Benefits		
	Rs	Growth Rate p.a.		Rs	Growth Rate p.a.		Rs	Growth Rate p.a.	
All Sample	157,500	16,900	11%	85,400	15,100	18%	243,000	32,100	13 %

These results look very impressive, especially since the figures have been adjusted to allow for inflation, so this is real reported growth. Nevertheless, interpretation must take into account the bias in the sample mentioned earlier.

The analysis was next extended by assigning each individual enterprise in the sample a performance grade (A – D). The grade is based on the individual enterprise’s growth rates for employment, profits and wages, while taking into account the current size of business and other subjective factors.

Enterprise Performance Grade – Main Criteria		Employment Growth	Profits & Wages Growth
A	Fast Growing	more than 20 % per year	more than 25 % per year
B	Growing	more than 5 % per year	more than 5 % per year
C	Stable	between plus/minus 5% year	between plus/minus 5% year
D	Failing	below minus 5 % per year	below minus 5 % per year

Dividing the sample up on this basis reveals that vast majority of employment is achieved by a relatively small number of enterprises. The table shows for example that the best performing 50 enterprises (17% of sample) accounted for almost all the growth in paid employment:

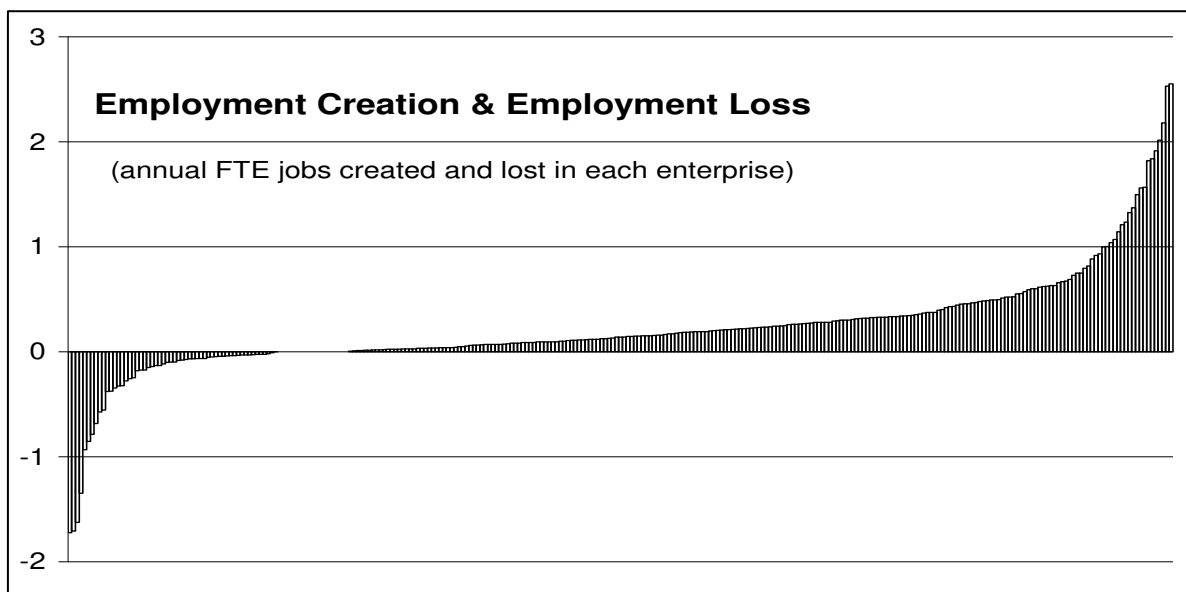
FTE employment growth per year by rank	Enterprises in Sample		FTE 2006	Annual Increase Paid Work	Annual Increase in Unpaid Work	Annual Increase All Employment
A performers	50	17%	176	27	13	40
B performers	84	28%	172	4	22	26
C performers	130	44%	244	1	8	9
D performers	31	11%	38	-6	-2	-8
ALL enterprises	295	100%	630	25	41	66

A very similar pattern is shown by the financial results, with the same 50 enterprises responsible for 81% of the annual increase in earnings and wages.

Financial growth per year by rank	Enterprises in Sample		Profits / Benefits Rs /yr	Wages Rs /yr	Combined Rs /yr
A performers	50	17%	3,746,000	3,934,000	7,680,000
B performers	84	28%	1,744,000	629,000	2,373,000
C performers	130	44%	453,000	308,000	761,000
D performers	31	11%	- 943,000	- 403,000	- 1,346,000
ALL enterprises	295	100%	5,000,000	4,468,000	9,468,000

Thus the conventional rule of thumb – that 20% of enterprises generate 80% of growth is confirmed here for both sets of figures. This is well illustrated by the graph below showing annual FTE employment creation and loss in each individual enterprises, with D ranking performers on the left and A ranking performers on the right.

Each tiny vertical bar represents one enterprise, and the height of the bar shows the average annual increase (or decrease) in FTE employment in that enterprise.



These results raise the obvious question: what factors can explain the different performance of enterprises. The next section examines three possible sources of variation: the initial size of enterprises, the gender of owners and the type of trade or business activity engaged in. Other factors which could in principle be examined with a larger sample (i.e. the ESD’s entire enterprise database of nearly 30,000 clients) include: the level of education / experience of the owner; the district location of the business, the experience or competency of the supporting EP officer. In part, the following analysis is more by way of illustrating the potential for using this sort of data to inform management decision-making.

4. Factors that Influence Performance

Influence of initial enterprise size on performance

To do this analysis, the enterprises were assigned to four 'size' categories according to their initial employment status at the time when ESD started providing support services.

Size Category	Employment status at time when ESD support began	Number
New start-ups	started after ESD support began	103 (35%)
Self-employed	had no significant paid employees	134 (45%)
Micro-enterprises	had between one and five paid FTE employees	47 (16%)
Small enterprises	had more than five paid FTE employees	11 (4%)

The table below summarises employment changes with results broken down by these size categories:

Average FTE employment per enterprise	Paid Employment		Unpaid Employment			All Employment	
	FTE	Annual Growth	FTE	Annual Growth	FTE	Annual Growth	
New start-ups	0.3	0.09	1.3	0.33	1.6	0.42	
Self-employed	0.2	0.07	22 %	1.2	0.08	6%	
Microenterprises	1.8	0.26	14 %	1.9	- 0.07	- 4 %	
Small enterprises	6.0	- 0.46	- 8 %	1.8	- 0.08	- 4 %	
All Sample	0.8	0.09	11 %	1.4	0.14	10 %	

The initial size has a big influence on the employment growth rates. For example, as one might expect, unpaid work grew fastest amongst new start-up enterprises (0.33 jobs per enterprise per year).

Although this result is exaggerated by the absence of data from new enterprises that presumably failed.

The greatest accumulation of paid work occurred among microenterprises (0.26 jobs per enterprise per year) as they expanded. The sample of more established small enterprises did very badly on average – shrinking employment on average at 8% per year, but this was very small sample (11)

The next table summarises financial results in the same way, broken down by these size categories:

Average annual benefits per enterprise in 2006	Profits, Benefits in kind + Wages		
	Rs / Yr	Annual Growth	
New start-ups	184,000	44,000	
Self-employed	178,000	19,900	11 %
Microenterprises	410,000	51,500	13 %
Small enterprises	866,000	- 14,200	- 2 %
All Sample	243,000	32,100	13 %

Again the greatest average increase in financial benefits is achieved by microenterprises (51,500 Rs per year). New start-ups also did quite well (44,000 Rs per year) although we must be cautious about these results due to the lack of data from start ups that have not survived to be interviewed.

These results together seem to suggest that the best opportunities for enterprise promotion lie with micro-enterprises: businesses that have already graduated from self-employment status. Interpretations based on averages can be misleading however. A comparison of the enterprise size with performance ranking does not show that size has a very strong influence. So, for example:

- 70% “microenterprises” performed poorly (C or D) despite good average results of the category.
- the best performing (A) enterprises were spread equally among all three main size categories

Enterprise Performance Rank	A	B	C	D
New start-ups	18%	42%	40%	0%
Self-employed	17%	25%	43%	15%
Microenterprises	17%	13%	55%	15%
Small enterprises	0%	9%	55%	36%
All Sample	17%	29%	45%	11%

In conclusion, established micro-enterprises seem to be the most effective job-creators and generators of wealth, but size is not a good basis alone for selecting which enterprises to invest support in.

Influence of entrepreneurs' gender on performance

The same results as above are shown in the next three tables with a gender analysis.

Average FTE employment per enterprise	Paid Employment			Unpaid Employment			All Employment		
	FTE	Annual Growth		FTE	Annual Growth		FTE	Annual Growth	
Female Headed	0.4	0.07	18 %	1.4	0.13	9 %	1.8	0.20	11 %
Male Headed	1.6	0.13	8 %	1.3	0.15	12 %	2.8	0.28	10 %
All Sample	0.8	0.09	11 %	1.4	0.14	10 %	2.1	0.22	10 %

Average annual benefits per enterprise in 2006	Profits, Benefits in kind + Wages		
	Rs / Yr	Annual Growth	
Female Headed	179,000	20,500	11 %
Male Headed	383,000	57,400	15 %
All Sample	243,000	32,100	13 %

Enterprise Performance Rank	A	B	C	D
Female Headed	13%	27%	47%	13%
Male Headed	26%	33%	38%	4%
All Sample	17%	29%	45%	11%

The results do not indicate a very strong gender influence on enterprise performance in general. Male-headed enterprises are in general larger than female-headed, especially in terms of paid employment (on average 1.6 compared to 0.4 paid FTE jobs per enterprise). However, starting from this small base the employment growth rate is faster in women's businesses than men's (18% vs 8%).

More significant perhaps is that whereas nearly 60% of male-headed businesses are performing well (A or B ranked) this figure is only 40% in female-headed enterprises. One of the most likely explanations for this lies in the gender differences between the types of business that men and women own.

A detailed breakdown is shown here:

Enterprise Subsector	No.	Female	Enterprise Subsector	No.	Female
Beauty Salons	8	75%	Cultivation	29	72%
Vehicle Services	10	30%	Animal Husbandry	4	75%
Dress Making	61	90%	Fishery	6	100%
Other Services	15	40%	ALL Agriculture	39	77%
All Services	94	74%	Spices Processing	10	90%
Handicrafts	8	75%	Food Processing	26	85%
Brick Making	15	60%	All Processing	36	86%
Jewellery Making	6	0%	Trade Retail	35	63%
Furniture Making	12	8%	Trade Garments	5	100%
Other Manufacturing	25	60%	Other Trade	20	60%
All Manufacturing	66	47%	All Trade	60	65%
			ALL	295	68%

Although ESD's clientele is predominately female, this is particularly due to the number of female-headed enterprises in dress-making, spices and food processing. The next section examines the influence of enterprise type on the performance of ESD's clients.

Influence of enterprise type on performance

An initial comparison of performance between enterprises based on the different sectors does not reveal very useful results. Processing sector enterprises seem to do relatively well, and agricultural sector enterprises relatively poorly; but the differences within categories is greater than between them.

Sector	No.	FTE Employment Growth Rate	Economic Benefits Growth Rate	Performance Rank A or B
Agriculture	39	11 %	7 %	36%
Processing	36	15 %	19 %	61%
Manufacturing	66	7 %	11 %	41%
Services	94	9 %	14 %	48%
Trade	60	13 %	15 %	43%
All Enterprises	295	10 %	13 %	45%

A more detailed breakdown of enterprise types (see table below) is much more revealing and useful. The table shows the different types of business ranked by their relative performance, with the most successful types of business at the top.

The types of businesses performing significantly better than average, are:

- Vehicle servicing and maintenance (70% male-headed)
- Furniture making & carpentry (92% male-headed)
- Jewellery making (100% male-headed)
- Food processing enterprises (85% female-headed)
- Retail trading (63% female-headed)

The types of businesses that are performing particularly badly are:

- Brick / Concrete block making (60 % female-headed)
- Fishery related (100 % female-headed)
- Animal husbandry (75% female-headed) (*small sample of 4 only*)
- Handicrafts (75% female-headed)
- Manufacturing *other than furniture, jewellery, brick & handicrafts* (60% female-headed)

Enterprise Type	Number of Enterprises	Employment per Enterprise	FTE Employment Growth Rate	Economic Benefits Growth Rate	Performance Rank A or B
Vehicle Services	10	4.7	12%	22%	80%
Food Processing	26	2.5	18%	20%	69%
Furniture Making	12	4.1	14%	17%	75%
Retail Trading	35	2.1	13%	18%	40%
Jewellery Making	6	3.6	9%	8%	67%
Garments Trading	5	2.0	22%	13%	40%
Dress Making	61	1.5	11%	13%	43%
Other Trading	20	1.8	9%	9%	50%
Spices Processing	10	2.0	3%	11%	40%
Other Services	15	2.5	5%	8%	53%
Agriculture (general)	29	3.2	15%	8%	38%
Beauty Salons	8	1.1	9%	6%	38%
Brick Making	15	1.3	4%	8%	33%
Fishery	6	4.6	7%	7%	17%
Animal Husbandry	4	1.5	8%	1%	50%
Handicrafts	8	1.8	6%	5%	25%
Other Manufacturing	25	1.5	1%	5%	28%
All	295	2.1	10%	13%	45%

The variations in performance between different type of enterprise shown in this table are striking. They illustrate how important the business selection process is, both for individual entrepreneurs and for ESD in deciding where to focus its enterprise promotion efforts.

5. How do ESD services influence enterprise performance?

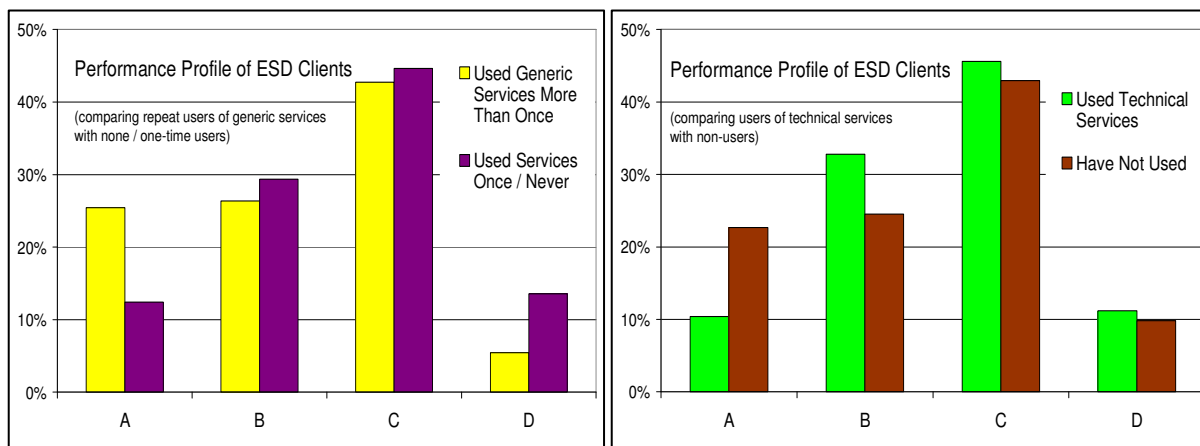
The final and most important question we would like to answer is “what effect does the provision of ESD services appear to have on clients’ enterprises performance, jobs and income etc?” In practice, in the absence of a data describing a ‘control group’ who did not get ESD services (against which to compare results) there is only a limited amount of analysis that can be done to answer this question.

One approach is to examine if the usage of services varies between the different enterprises based on their performance ranking. The next table shows how many ESD services (events) were used by each enterprise in the performance ranks A – D:

Number of ESD Service “events” delivered per client					
Performance Grade:	All	A	B	C	D
Generic Training Courses	1.4	1.7	1.3	1.4	1.1
Technical Training & Individual Support	0.7	0.3	0.9	0.7	0.7
All Services	2.0	2.0	2.1	2.0	1.8

Another way to analyse the data is to divide the clients into two categories: those who used services more often (repeat users) and those that used them only once (or never for technical support). The two charts below show how these groups compare in terms of their performance ranking (A – D).

For example, 25% of clients who used generic services more than once are A grade performers, whereas only 12% of clients who used these services once or never achieved this rank.



For the generic training courses, there is a strong relationship between the number of courses attended and the performance rank. Enterprises that used ESD services more often were more likely to be A or B ranked performers. This looks like an encouraging indicator of the effect of ESD’s services. Since A ranked enterprises account for at least 80% of the increase in jobs and wealth in the sample, the second interpretation implies that ESD’s work has a very major effect.

Unfortunately, when comparing enterprises for technical training and individual support services, the best performing enterprises use ESD’s services least of all. There is no clear correlation between services and performance, and in fact most A-ranked enterprises have not used these services.

The interpretation of these results is open to debate and more qualitative investigation. Do poorly performing enterprises simply find it difficult to take advantage of ESD’s services for want of time and resources? Or does the greater use of ESD’s service create these positive effects?

SEEDS BUSINESS SURVEY INSTRUMENT

1. General Information

- 1.1 Name of owner:
- 1.2 Who are other people engage in your business 1.....
- 1.3 Home address:.....
- 1.4 Telephone:
- 1.5 Gender : FEMALE / MALE
- 1.6 Member of SSS: NO / YES Year of Joining?.....
- 1.7 Society Name:

2. About Your Business Now

- 2.1 Name of business:.....
- 2.2 Business address:.....
- 2.3 Year the business started:..... Is it still running: NO / YES
- 2.4 What type of business is it? (If the is more 1 type then rank their business according to the priority)

Trading	Services	Agriculture	Animal Husbandry	Fishery	Manufacturing	Other
---------	----------	-------------	------------------	---------	---------------	-------

- 2.5 Brief Description of Business (products, services, customer market):
- 2.6 What are the main challenges / problems you face in your business **now**

1. Competition from others who sell at lower prices	
2. Competition from others who have better branding, packaging, quality etc	
3. Difficulty or high cost of obtaining loans (getting credit)	
4. Effects of bad or unpredictable weather	
5. Lack of confidence about own business and technical skills or knowledge	
6. Inadequate of self confidence	
7. Rising costs of raw materials or other inputs	
8. Difficulty of obtaining or retaining skilled labour	
9. Difficulty in managing books / accounts	
10. Unreliable infrastructure (roads, electricity, water services etc)	

3. Employment This Year

- 3.1 Including yourself, how many people work in or for the business altogether?

3.1 You
3.4 Unpaid work
3.5 Paid
- 3.2 Are there forward or backward linkages in your business which directly provide employments to others (Ex: subcontracting, out growing)

Forward	Backward
---------	----------
- 3.2 How much of **your own time** in total do you put into your business?:
 Estimated as Hours / Week FOR Weeks / Year .
- 3.3 How much **unpaid work** in total is contributed by other family members:
 Estimated as Hours / Week FOR Weeks / Year .
- 3.4 How much **paid employment** in total is provided to other people (excluding sub contract):
 Estimated as Hours / Week FOR Weeks / Year .
Example: if 3 people each work 15 hours a week, put 45 hours in total
- 3.5 How much do you spend in total on **wages for employees** for the business (Incl linkage fees):
 Estimated either as Rupees / Week OR Rupees / Year.

4. Current Profits / Benefits From the Business

- 4.1 How much income do you get from your **sales (gross income)** on average:
 Estimated as Rupees per Week Month Year.
- 4.2 Do you use any of the money (income) from the business for yourself or your household? If yes, what do you estimate is the amount of **money from the business that is spent for yourself or your household?**
 Estimated as Rupees per Week Month Year.

4.3 Does your own household use any of the goods or services produced by your own business?: If yes, what do you estimate is the value of your own business's **goods or services which are used by your household** ?

Estimated as Rupees per Week Month Year.

4.4 After using money from the business for yourself or your household (as above), and buying inputs, paying wages, taxes and bills for the business, how much **money do you usually have left** ?

Estimated as Rupees per Week Month Year.

NET PROFIT TOTAL (= 4.2 + 4.3 + 4.4)

Estimated as Rupees per Week Month Year.

5. Current Investment

5.1 What do you estimate is the value of any **land you own** that is used in your business?

Land value estimated as: Rupees.

5.2 What do you estimate is the value of any **buildings you own** that are used in your business?

Building value estimated as: Rupees.

5.3 What do you estimate is the value of any **equipment you own** that is used in your business?

Equipment value estimated as: Rupees.

5.4 What do you estimate is the value of any **cash, stocks & materials** held in your business?

Equipment value estimated as: Rupees.

5.5 Do you owe any money (e.g. **outstanding loans**) for the business

Outstanding Loans estimated as Rupees.

6. Business Services Received from ESD

6.1 What forms of assistance, training or services have you received from ESD?

Ask open question first, and only then offer a list (from a separate prompt sheet).

Record in the table below.

6.2 In which year did you receive the service / assistance? (Year)

For repeat usage, show each service 'event' on a new line

6.3 How many hours did you attend, or did the training last (if appropriate)?

6.4 How much did you pay in fees or other expenses to receive the service?

Using this scale, indicate your agreement or disagreement with the following statements					
Strongly disagree	Disagree	Slightly Disagree	Slightly Agree	Agree	Strongly Agree
1	2	3	4	5	6

6.5 "The service / assistance provided by ESD was **good value** for my money"

6.6 "The timing and location of the service / assistance provided by ESD was **convenient** for me"

6.7 "The service / assistance provided by ESD was **relevant** to my needs or problem"

6.8 "The service / assistance provided by ESD **helped me** increase the profitability or viability of my business"

	When	Type of Service or Assistance	Duration	Fee Paid	6.5	6.6	6.7	6.8
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								

6.8 Have you any other comments about the services / assistance provided by ESD?

7. About Your Business Before ESD Support

7.1 What year did you first start to get services / assistance from ESD: YEAR: .

7.2 What were the main challenges / problems you faced in your business **at that time**

1. Competition from others who sell at lower prices	
2. Competition from others who have better branding, packaging, quality etc	
3. Difficulty or high cost of obtaining loans (getting credit)	
4. Effects of bad or unpredictable weather	
5. Lack of confidence about own business and technical skills or knowledge	
6. Inadequate of self confidence	
7. Rising costs of raw materials or other inputs	
8. Difficulty of obtaining or retaining skilled labour	
9. Difficulty in managing books / accounts	
10. Unreliable infrastructure (roads, electricity, water services etc)	

8. Employment That Year

8.1 Including yourself, how many people worked in or for the business at that time?

8.2 Were there forward or backward linkages in your business which directly provide employments to others (Ex: subcontracting, out growing)

Forward	Backward

8.3 How much of **your own time** in total did you put into your business?:

Estimated as Hours / Week FOR Weeks / Year .

8.4 How much **unpaid work** in total was contributed by other family members:

Estimated as Hours / Week FOR Weeks / Year .

8.5 How much **paid employment** in total was provided to other people :

Estimated as Hours / Week FOR Weeks / Year .

8.6 How much did you spend on **wages for employees** for the business (Incl linkage fees):

Estimated either as Rupees / Week OR Rupees / Year.

9. Profits / Benefits From the Business That Year

9.1 How much income did you get from your sales (gross income) that year :

Estimated as Rupees per Week Month Year.

9.2 What do you estimate is the amount of **money from the business that was spent for yourself or your household that year?**

Estimated as Rupees per Week Month Year.

9.3 What do you estimate was the value of your own business's **goods or services which were used by your household that year ?**

Estimated as Rupees per Week Month Year.

9.4 After using money from the business for yourself or your household (as above), and buying inputs, paying wages, taxes and bills for the business, how much **money did you usually have left that year?**

Estimated as Rupees per Week Month Year.

NET PROFIT TOTAL (= 4.2 + 4.3 + 4.4)

Estimated as Rupees per Week Month Year.

10. Investment At That Time

10.1 What do you estimate was the value of any **land you owned** that was used in your business?

Land value estimated as: Rupees.

10.2 What do you estimate was the value of any **buildings you owned** that were used in your business then?

Building value estimated as: Rupees.

10.3 What do you estimate was the value of any equipment you owned that was used in your business then?

Equipment value estimated as: Rupees.

10.4 What do you estimate was the value of any **cash, stocks & materials** that was used in your business then?

Equipment value estimated as: Rupees.

10.5 Did you owe any money (e.g. **outstanding loans**) for the business at that time?

Outstanding Loans estimated as Rupees.

ANNEX 2 MANAGEMENT INFORMATION SYSTEM

Purpose of Management Information System

Even a simple management information system (MIS) can be a very powerful tool for an organisation like ESD. Accurate, timely and credible information about the outputs of the EP centres, and the outcomes that result for ESD's clients, has four benefits:

- re Donors: easy production of convincing evidence-based reports for external audiences
- re Staff Management: better tracking of ESD's performance, and management of incentives
- re Learning / Improving: valuable feedback about quality & effectiveness of different services
- re International Influence: greater ability to contribute to debates, and influence ideas and practices in the wider international field of enterprise development

In order to achieve these benefits, an MI system needs three basic components:

- a. a set of procedures and tools for systematically **collecting and verifying data** from the field
- b. a **suitable customised database**, and related protocols for recording, storing and sharing data
- c. convenient mechanisms for generating **useful analysis reports**, and feeding them into the various decision-making processes of the organisation at different levels

ESD's progress toward establishing an MIS

ESD began work on creating an MIS before the mid-term review in 2004. The critical importance of the enterprise database component of the MIS was recognised and supported by the Managing Director of SEEDS at that time and was built into the ESD Business Plan 2004-2008. Responsibility for the MIS lies with the manager of Research and Information Department. The current manager Shanika Athauda started in July 2006, and is the third person in two years to hold this post. Undoubtedly this turnover has hampered the system's establishment.

In 2004, a client monitoring form was designed and a simple database (using MS Access) was set up by the manager to store and analyse the data. A cadre of 'field investigators' was gradually recruited during 2004 and trained to gather basic information about ESD's clients. Retention of field investigators was however a major problem – mainly due to employment competition from GoSL's 2005 graduate recruitment scheme. Data collection was thus very slow to begin.

In later part of 2006, Shanika launched a major initiative to complete the first 'baseline' survey of all ESD clients in 20 districts. A large number of temporary field investigators were employed to enable this to happen, at a total cost of around Rs 150,000. At the time of this evaluation, data collection was complete in 12 districts, and continuing in 8 others. In the five districts for which a summary report was already available, a total of 6524 clients had been interviewed.

Report Completed (5)	Survey Completed (7)		Survey On-Going (8)	
Gampaha	Kalutara	Galle	Nuwara Eliya	Kurunegala
Colombo	Ratnapura	Hambantota	Mahiyangana	Puttalam
Matale	Badulla	Monaragala	Ampara	Anuradhapura
Matara	Kandy		Padaviya	Polonnaruwa
Kegalle				

Independently, in preparation for this evaluation a separate more detailed survey of 300 randomly selected clients was conducted by an independent team in five districts during October / November 2006. One objective was to cross-check the accuracy of the field investigators work. The results of this survey are described in Annex 1.

Evaluation Findings

Comparison of ESD data with the independent sample survey

At the time of the evaluation, full ESD data was only available for 2 of the districts covered by the independent survey (Gampaha, Matale) and partial data for a third (Matara). We expected therefore to be able to match up to 150 survey clients from the ESD data.

Unfortunately, information about only 39 of survey clients (e.g. 26%) could be found on the ESD database. Of these, in 10 cases the data clearly referred to different enterprises (of the same client). Comparisons could therefore be based on matched data for just 29 clients.

It is not clear why so few of the clients surveyed by the independent team appear on the ESD database.

Within this small extract of ESD data, there were numerous obvious errors of data entry – for example in monetary values (missing decimal points), and also omissions of information (e.g. about category of business, type of service received) – that render the data relatively useless for producing the kind of meaningful analysis described above.

Comparison of data sets for the 29 matched clients showed that:

- **Employment figures:** The ESD database averaged 17% higher than independent survey; and there was a reasonable 67% correlation between the two sets of data.
- **Income / Benefits figures:** The ESD database averaged 24% higher than independent survey, and there was only a poor 53% correlation between the two sets of data.
- **Sales figures:** The ESD database averaged 41% higher than independent survey, and there was only a poor 57% correlation between the two sets of data.

These results, alone, are sufficiently to cast doubt on the reliability of one or both sets of data – especially the sales and income (profit) data. The data for employment stands up better. Given the relatively high level of supervision involved in the independent survey (see Annex 1), it seems probable that weaknesses lie with the ESD data.

Other Problems Observed with the existing ESD system

Data Collection: ESD client questionnaire form

- The system is not designed to cope with data from clients with more than one enterprise.
- The mechanism for categorising the type of enterprise is failing or not properly used.
- The mechanism for categorising the type of ESD service is failing or not properly used.
- Insufficient distinction is made between full-time and part-time employment, and also between paid and unpaid labour.
- The net profit question is probably inappropriate and unlikely to give reliable responses
- Limited work has yet been done on further monitoring (follow up) of clients so that changes, effects and impacts can be explored. A follow-up study was designed to sample 200 clients during 2006. At the time of the evaluation, data from 113 had been collected.

Database Management: design, data entry, security

- The DB structure and design fails to exploit the potential in Access for managing different kinds of information as a relational database
- Computer viruses are present on some of the machines in SEEDS. ESD's information manager has no system for systematically backing up the data files, or protecting them from corruption.
- The system does not have unique identification numbers for each client and enterprise, making it impossible to track changes over time
- The data entry form does not contain sufficient automatic checks to ensure accurate data entry
- Some data field formats are not set up properly, rendering data valueless in computation and thus causing even the simple totals and averages to be unreliable

Data Use: analysis and use of results from MIS

- It does not appear that the purpose and initial design of the MIS was negotiated with those who could benefit from using it most (i.e. regional managers, EP officers)
- No work has yet been done on programming the database to produce standard reports with useful analysis of issues that might influence management decisions.
- There is little appreciation yet of the potential for linking analysis of data (employment, income, ESD services) to other desirable variables (e.g. cost-recovery rates, client's perception of ESD service quality)

Evaluation Conclusions re Management Info System

The need for adequate monitoring, and the desire for better knowledge about the division's outputs and its effect on client's enterprises is manifest within ESD. The division invested substantial resources in a field investigators network, monitoring surveys and the development of an embryonic management information system over past 3 years. Unfortunately the efforts to date have not borne great fruit. A radical re-think is needed in relation to all three components of the MIS system.

For data collection: a field investigators cadre still looks like a good idea in principle, provided the right incentives can be found to retain them and supervise the quality of their work. Unfortunately, much of the data collected so far looks very unreliable. Improvements to the database design (forms) could help ensure the integrity of the data they provide. Meanwhile many data elements required for an effective MIS could be collected and inputted by existing ESD officers (see recommendations below)

For data management: the database and its associated data-entry forms (questionnaires) need completely overhauling. ESD seriously underestimated the programming skills required to design and build a robust Access application tailored to ESD's needs. This 'design and build' requires specialist technical input. Neither the existing manager nor her predecessors could have been expected to have these skills. ESD need to invest in professional technical Access-programming support to achieve this.

For data analysis and use: the full potential of Access to analyse survey data and produce useful information that is relevant to ESD's decision-making or donor-requirements, has hardly been explored. Currently, the database is effectively little better than a spreadsheet – used to extract totals and averages of isolated values. The power of a relational-database to contribute to management decision-making through analysis of relationships and trends, comparison of results over time etc is not yet appreciated or exploited. Some examples of what could be achieved are described below.

The way ESD uses its MIS outputs will inevitably change over time. The MIS manager needs to be able to maintain the database, to identify and 'clean' suspect data, to modify data entry forms, to design intelligent 'queries' and produce reports that address donor, management and staff needs. ESD will need to invest in specialist training for the MIS manager to achieve this level of Access competence.

Recommendations re Management Info System

1. If ESD is committed to monitoring effectiveness and learning to improve its services, it must step up its investment in MIS so it can produce credible and useful information about performance.
2. If it is not too late, APT and ESD should seek modifications to the new 2007 EC project budget to increase the resources available to invest in designing and building an effective MIS database
3. The structure of the MIS needs to be completely reconstructed as a simple relational database. An appropriate design is not complex (see below) but ESD should employ a professional Access-programmer to construct tables, design robust user-friendly input forms and report formats
4. Operation of the MIS needs to be treated separately from other current responsibilities of the Research and Information Department, such as public-relations and market research.
5. The MIS manager needs to be fully trained in using Access databases, so as to understand and make full use of the potential in the database application.

6. Regional managers and all EP officers also need to be trained in relevant data entry processes, as well as protocols for saving and sharing database files with the MIS manager.
7. Some of the questions used for monitoring the outcomes for ESD clients (i.e. incomes and employment effects) and other factors, need to be modified (see below)
8. Implementation of an improved MIS should be undertaken in stages – starting with the four main tables (see below) and then progressing to others over time.

The basic design of an MIS relational database for ESD is outlined in the next pages.

Potential Outputs / Benefits from the Management Info System

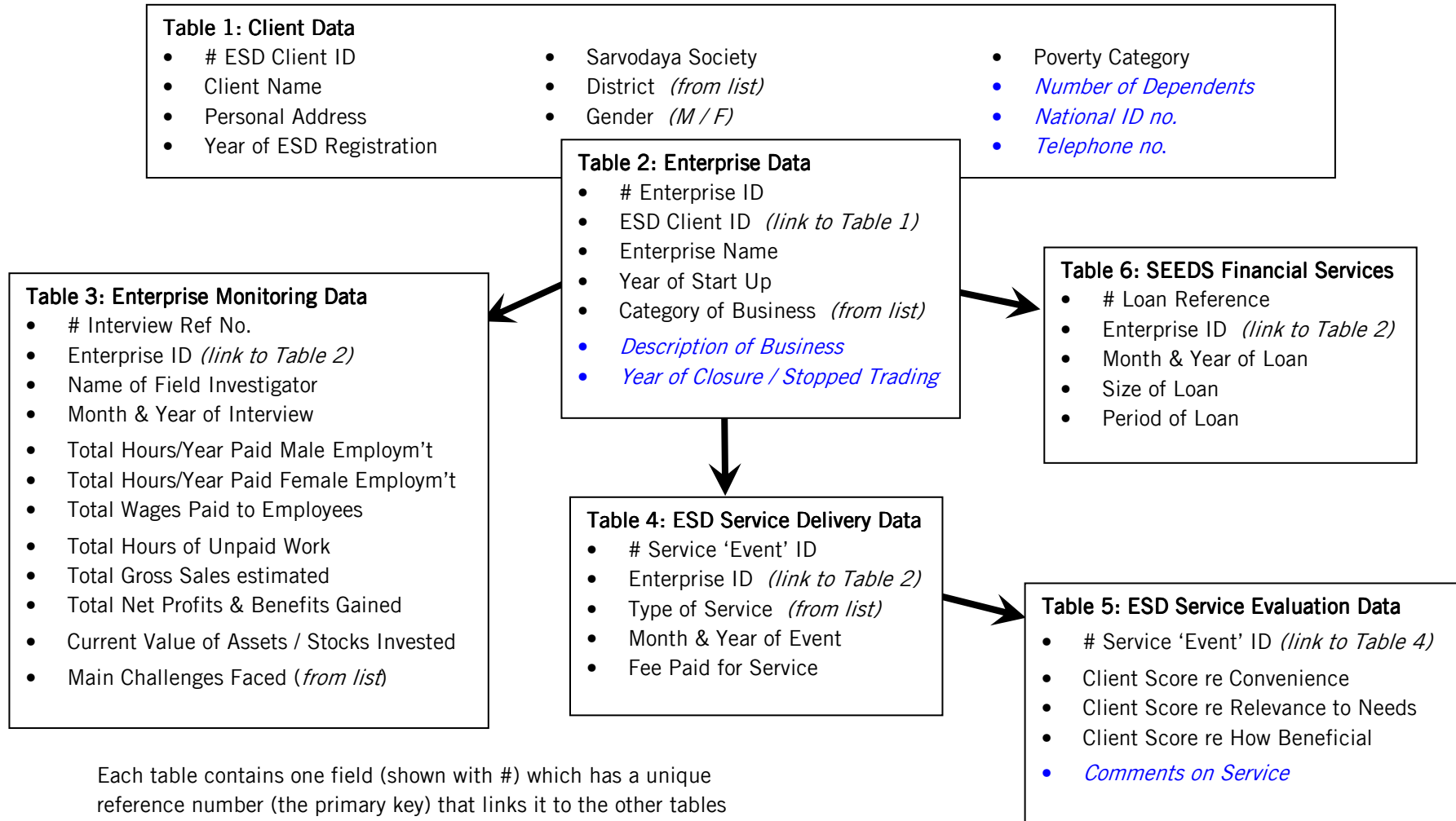
A well-designed and constructed MIS database could generate a wide range of different output “reports”, depending on how cleverly it is interrogated by the MIS manager. These are some examples of MIS outputs that would add value to ESD’s work, assist in decision-making, staff management or donor relations.

MIS Report	Description	Purpose
Employment Outcomes	Reports the total employment generated by ESD’s clients, including jobs gained and jobs lost. The data could be broken down by gender, enterprise size, location, type of business etc.	To justify ESD’s work to external donors and SEEDS To help inform ESD’s selection of sectors with greatest potential
Earnings Outcomes	Reports the total earnings of ESD’s clients, including relative growth or decline of enterprises. The data could be broken down as above.	
Client Satisfaction with Services	Reports the relative quality of different services as perceived by ESD’s clients. Data could be analysed by service type, by location, by enterprise type etc.	To help ESD improve the range of its services, identify strong services or poorly performing locations.
Effectiveness of Different Services	Analyses the strength of the link between use of ESD services and outcomes in terms of enterprise employment and earnings.	To help identify which services have the most impact on enterprises
Performance of Different Sectors	Analyses the relationship between the type of business and their performance in terms of enterprise employment and earnings.	To help ESD understand which sectors have greatest potential
Performance of Different Districts	Analyses the relative performance of different EPCs in terms of enterprise employment and earnings generated in each district.	To help ESD manage its staff and create good incentive mechanisms.

Finally, all these reports would provide evidence towards assessing the overall, and more profound, question: “does ESD’s work contribute to increasing self-reliance and reducing vulnerability to changing market conditions of poorer members of rural and urban communities in Sri Lanka?” – as part of SEEDS mission to eradicate poverty.

Measuring impact at this level requires assessment of conventional indicators of human development and poverty reduction, as well as the specific indicators such as labour force participation and resilience to external change, described in the project LogFrame. This sort of evaluation is not the output of a management information system for ESD, but reflects the need for SEEDS as a whole to assess the impact of its work

Suggested Structure for MIS Relational-Database – e.g. in MS Access



Each table contains one field (shown with #) which has a unique reference number (the primary key) that links it to the other tables
Items in blue italic are non-essential supplementary questions

Notes on Relational Database

Database Tables

This suggested database consists of six inter-linked data sets or tables, each associated with its own simple data entry form:

	Name of Table	Description of Table Content
Table 1	ESD Clients	Essential information to identify the client.
Table 2	Enterprises	Basic information to identify and describe each enterprise (One client can have more than one enterprise)
Table 3	Monitoring Surveys	Vital information about employment, income, investment, challenges facing each enterprise at the time of each survey visit. Each enterprise will accumulate many data entries in this table over time as follow up surveys are periodically conducted.
Table 4	ESD Service Delivery	A basic record of every single service provided by ESD to every enterprise or client. The information is simple, but it has to be maintained continuously up-to-date by the EP officers.
Table 5	ESD Service Feedback	Feedback information from ESD clients on the quality of specific services provided by ESD and their satisfaction with its convenience, relevance etc.
Table 6	SEEDS Loan Information	Basic information about the financial services received by SEEDS clients in association with their use of ESD services

The data in each table in the database would be collected and entered separately at district-level using a customised Access data entry “form”. The district-level databases would then be compiled regularly (e.g. every month or quarter) at head-office level to produce reports.

Data Entry Forms / Questionnaires

	Name of Form	When Administered	Completed By
Form 1	ESD Client Registration	At first meeting between ESD and any new client	EP Officer
Form 2	Enterprise Registration	At first meeting, or at the time of any new business start up	EP Officer
Form 3	Monitoring Survey	Initially before any support or services from ESD. Then periodically e.g. every year	Monitoring Officer / Field Investigator
Form 4	ESD Service Delivery	At the time of delivery of any ESD support service or training event	EP Officer
Form 5	ESD Service Evaluation	Immediately after training or service delivery – AND – during periodic monitoring surveys above	ESD Client & Field Investigator
Form 6	SEEDS Loan Information	At the time of loan disbursement	Banking Div District Officer

Implementation of Database

Implementation of an improved MIS should be undertaken in stages – starting with the four main tables (see above) and then progressing to others over time. Tables 1, 2 and 4 do not require costly field work. The data in Table 3 could accumulate as field investigators are recruited and new monitoring surveys are conducted. Only the monitoring survey for Table 3 requires an explicit field investigator role. Tables 5 and 6 could be introduced later once the MIS was more firmly established. Provided the selection process was sufficiently random, it would not be necessary to interview every single client, in order to get useful data from Table 3 and Table 5. A regular sample survey would suffice.

The experience gained from conducting the independent sample survey suggest that the following questions are most useful.

Suggested modifications to questions for Table 3 data

Employment questions

- How much of **your own time** in total do you put into your business? (hours per year)
- How much **unpaid work** in total is contributed by other family members? (hours per year)
*Note: these two together make up the **unpaid employment** total.*
- How much **paid employment** in total is provided to other people? (hours per year)
- How much do you spend on **wages** for employees / sub-contractors? (per year)

Benefits / Profits questions

- Estimate how much **money from your business** is spent for yourself or your household
- Estimate the value of any **goods that come from your own business** that are used by your household
- Estimate how much **money you usually have left** from the business after using it as above, buying inputs, paying wages, taxes and bills for the business.

Note: Information about the assets or level of investment (land, buildings, stocks etc) in enterprises proved very difficult to collect in a reliable or consistent way. This should not be a priority for the MIS.

In general, the range of questions should be kept to a minimum, with a regular review of the usefulness of the data emerging. If questions do not generate reliable and meaningful results they should be dropped.

Suggested list of main challenges / problems clients face:

- a. Competition from others who sell at lower prices
- b. Competition from others who have better branding, packaging, quality etc
- c. Difficulty or high cost of obtaining financial services (e.g. credit)
- d. Effects of bad or unpredictable weather
- e. Lack of confidence about own business skills, knowledge, contacts
- f. Inadequate technical skills or knowledge
- g. Rising costs of raw materials or other inputs
- h. Difficulty of obtaining or retaining skilled labour
- i. Difficulty in managing books / accounts
- j. Unreliable infrastructure (roads, electricity, water services etc)

Suggested additional questions for Table 5

- Using the scale below, indicate your agreement or disagreement with the following statements
 - a. “The timing and location of the service provided by ESD was very convenient for me”
 - b. “The service provided by ESD completely addressed my needs or problems”
 - c. “The service provided by ESD really helped me strengthen my business”

Mostly Disagree	Slightly Disagree	Slightly Agree	Mostly Agree	Strongly Agree
1	2	3	4	5

Note: the use of this question format needs to be pilot tested in order to work out the best way to present it to clients, and so as to ‘calibrate’ the responses (i.e. establish what a neutral response is)