



**UNITED NATIONS INDUSTRIAL
DEVELOPMENT ORGANIZATION**

Distr.
Restricted

ADM/EVA/R.1
13 January 2003

ORIGINAL: ENGLISH



**INTEGRATED INDUSTRIAL DEVELOPMENT SUPPORT PROGRAMME
SRI LANKA (1999-2003)**

*Report of the evaluation mission**

United Nations Industrial Development Organization
Vienna, Austria

* The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers and boundaries.

Mention of company names and commercial products does not imply the endorsement of UNIDO.

The views and opinions of the team do not necessarily reflect the views of the Government of Sri Lanka and of UNIDO.

This document has not been formally edited.

Table of Contents

| | |
|--|-----|
| Map of Sri Lanka | 1 |
| Acronyms and Abbreviations | 2 |
| Executive Summary | 4 |
| <i>I. Background</i> | 4 |
| <i>II. Overall Conclusion</i> | 5 |
| <i>III. Main Findings</i> | 6 |
| <i>IV. Main Recommendations</i> | 8 |
| <i>To: General Recommendations (IP Strategy)</i> | 8 |
| <i>To: Government</i> | 9 |
| <i>To: IP Steering Committee</i> | 10 |
| <i>To: IP Management</i> | 11 |
| <i>To: UNIDO Management</i> | 11 |
| 1. INTRODUCTION | 13 |
| 2. PROGRAMME WIDE EVALUATION | 15 |
| 2.1 Programme Development and Design | 15 |
| 2.2 Programme Relevance | 19 |
| 2.3 Funds Mobilization | 24 |
| 2.4 Programme Implementation, Coordination, and Management | 28 |
| 2.5 Programme Integration | 35 |
| 3. PROGRAMME RESULTS | 42 |
| 3.1 Programme Results | 42 |
| 3.2 Results at Policy Level | 43 |
| 3.3 Results at Institutional Level | 44 |
| 3.4 Results in Human Resource Development | 46 |
| 3.5 Results at Enterprise and Community Levels | 47 |
| 4. EVALUATION BY COMPONENTS | 50 |
| 4.1 Component 1 – “ <i>Support to Industrial Development Master Plan Implementation</i> ” | 50 |
| 4.2 Component 2 – “ <i>Improving Global Competitiveness of the Sri Lankan Apparel Sector</i> ” | 65 |
| 4.3 Component 3.A – “ <i>Assistance in Pollution Control and Treatment of Tannery Wastes for the Leather Complex at Bata-Atha</i> ” | 71 |
| 4.4 Component 4.A – “ <i>Sri Lanka National Cleaner Production Centre (NCPC)</i> ” | 79 |
| 4.5 Component 5 – “ <i>Capacity building and support services for the promotion and growth of micro and small and medium scale enterprises (MSMEs)</i> ” | 84 |
| 4.6 Component 7 – “ <i>Industrial Subcontracting and Partnership Exchange (SPX)</i> ” | 93 |
| 4.7 Component 6 – “ <i>Quality, Standardisation and Metrology Support</i> ” Special Report by I. Foss with contributions by J. Navratil | 99 |
| 5. LESSONS LEARNED | 112 |
| Annex I : Terms of Reference | 114 |
| Annex II: List of Person’s Met | 124 |
| Annex III: Programme Funding | 131 |

Acronyms and Abbreviations

| | |
|--------|--|
| ADB | Asian Development Bank |
| BDS | Business Development Services |
| BOI | Board of Investment |
| CBSL | Central Bank Sri Lanka |
| CEA | Central Environment Authority |
| CETP | Central Effluent Treatment Plan |
| CITI | Clothing Industry Training Institute |
| CLIND | Clean Industry Development Project |
| CNCI | Ceylon National Chamber of Industries |
| CP | Cleaner Production |
| DCS | Department for Central Statistics |
| EBD | Export Development Board |
| EMS | Environmental management System |
| ERD | External Resource Development |
| FCCISL | Federation of Chamber of Commerce and Industry in Sri Lanka |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GTZ | German Development Cooperation Agency |
| ILO | International Labor Organization |
| IMPAS | Industrial Monitoring and Performance Appraisal System |
| IP | Integrated Programme |
| IRDP | Integrated Rural Development Programme |
| ISO | International Standards Organization |
| ITI | Industrial Technology Institute |
| JICA | Japan International Cooperation Agency |
| MD | Managing Director |
| MDCCI | Matara District Chamber of Commerce and Industry |
| MEDIP | Ministry of Enterprise Development, Industrial Policy and Investment Promotion (new name after restructuring in December 2001) |
| MFA | Multi-Fiber Agreement |
| MOID | Ministry of Industrial Development |
| MOU | Memorandum of Understanding |
| MSME | Micro and Small and Medium Enterprises |
| MUSSD | Measurement Unit Standards and Service Department |
| NAB | National Accreditation Board |
| NCPC | National Cleaner Production Centre |
| NGO | Non-Governmental Organization |
| NORAD | Norwegian Agency for Development Cooperation |
| PAD | Project Allotment Document |
| QRC | Quick Response Centre |
| QSM | Quality Standardization and Metrology |
| RBI | Rohuna Business Incubator |
| REAP | Southern Province Regional Economic Advancement Programme |
| SC | Steering Committee |

| | |
|---------|---|
| SIDA | Swedish International Development Agency |
| SLAT | Sri Lanka Tannery Association |
| SLSI | Sri Lanka Standardization Institute |
| SMED | Small and Medium Industries Developer |
| SPX | Subcontracting and Partnership Exchange |
| SWEDAC | Swedish Accreditation Council |
| TBL | Triple Bottom line |
| TT & SC | Textile Training and Service Centre (TT&SC) |
| UNDAF | United Nations Development Assistance Framework |
| UNDP | United Nations Development Programme |
| UB | Regular Budget |
| XP | Regular Programme for Technical Cooperation |

Executive Summary

I. Background

The IP in Sri Lanka was one of the first launched by UNIDO at the beginning of the Organization's transformation process that led to a new way of providing technical cooperation services. The new system was based on a multidisciplinary approach combining relevant UNIDO expertise in support to the industrial constraints, plans and policies of the country. Assistance was to be delivered based on an integrated programme approach as opposed to single and/or scattered projects, as had been the case in the past.

The programme document was prepared upon formal request by the Government and after a field level mission of five UNIDO professionals during 19-28 April 1999. The programme was subsequently amended and scaled down based on actual funding mobilized and on additional formulation activities.

The IP budget amounted originally to US\$ 14.5 million (excluding support costs) and was revised downward to US \$ 12.9, which is the current planning figure. Out of this amount, US\$ 6.1 million were mobilized which represent 50% of the original programme budget. Total programme delivery is at present US\$ 4 million.

The programme addressed two main areas, as follows:

Competitiveness improvement and development of a quality infrastructure with Component 6 (Quality, Standardization and Metrology) as the backbone and supported also by Component 2 (Quick Response Centre), Component 7 (Industrial Subcontracting and Partnership Exchange) and part of Component 1 (Pilot Restructuring).

Environment, based on Components 4.A (National Cleaner Production Centre) and 3.A (assistance in pollution control and treatment of tannery wastes for the leather complex at Batha Atha).

Some support, albeit much less than planned, was provided for restructuring and strengthening the Ministry of Enterprise Development, Industrial Policy and Investment

Promotion and upgrading of industrial statistics (Component 1). Component 5, SME development in the Southern region, addressed regional development.

II. Overall Conclusion

The Integrated Programme in Sri Lanka to support sustainable industrial development, employment generation and competitiveness has so far proven to be a successful programme with good prospects for impact and sustainability.

The overall approach and priorities of the IP were of clear relevance to the country and demand oriented. The implementation modalities selected have often been innovative and some results, particularly under the activities for quality, standardization and metrology, represent a landmark. The main reason for the good results of the programme was the selection of counterparts, which had a strong sense of ownership and direction. UNIDO technical support has been effective, of good quality and perseverant. The expertise provided under the programme, both national and international, was on the whole of high to very high quality and was instrumental in assisting the counterparts to progress on those issues where outside support was required.

IP interventions at policy and institutional levels can contribute to actual changes of economic and social indicators only in the long term. The time frame for this programme (3 years) is too short to show results in terms of developmental impact. However, in qualitative terms the contribution of the programme to higher level long term objectives can be established already at this stage. The evaluation concluded that the envisaged changes at counterpart level are being achieved and that they are expected to be long lasting and leading to impact.

The results achieved by the IP so far are described in detail in the Evaluation by Components (Chapter 4.) and are summarized in Chapter 3., Programme Results. The most important results have been achieved at the level of institutional support.

III. Main Findings

1. The overall approach and priorities identified at programme formulation stage were of clear relevance to the country and demand oriented. The programme was, however, designed in a too ambitious manner and did not award sufficient attention to funding. It should be noted that inadequate attention to funding possibilities was a generic feature of most programming missions when starting this new IP modality of technical cooperation.
2. The programme was developed prior to issuance of the guidelines for the formulation of integrated programmes and thus did not benefit from any written guidance on how to develop such programmes. This, together with the broad range of requests received by UNIDO at that point in time, led to the programme being a wide-ranging collection of projects rather than an integrated response to a limited number of critical issues. This design weakness reduced from the outset the opportunities for integration and, together with other factors, such as the limited interchange at the level of UNIDO Headquarters during implementation, reduced the opportunities for synergy and deriving benefits.
3. The Steering Committees have proven an indispensable coordination tool. The programme team at country level (National Programme Director and Coordinator) plays a vital promotional and coordinating role.
4. 50 % of the original programme budget were mobilized, which can be considered a success, particularly as compared to other UNIDO integrated programmes. Funding sources are Norway, Japan, the UK, and UNDP. A relatively high amount of UNIDO own resources as well as programmable funds have been allocated to the programme. From the outset the Government was to take a lead role in funds mobilization. This role was plaid during the launching phase of the programme but was not sustained in time.

5. Effectiveness was weakened by the fact that, due to lack of funding, the programme did not address the key issues of improving competitiveness of the apparel and leather sectors.
6. The selection of good counterparts has been one of the key reasons for the progress and achievements under the programme. The international experts provided under the programme were of good quality and some of them provided outstanding contributions. For capacity building and continuity purposes, UNIDO followed with only some exceptions a commendable approach of “*shadowing*” international experts with nationals. The integrated programme has successfully managed to put together public and private sector partners.
7. The programme has produced a significant amount of results mainly at the output level and, in those cases where outputs are already being used, as outcomes. Most of the results so far have been achieved at institutional level. Actual impact at industry or community level can be traced only in case of direct interventions at industry level (such as improved operations and marketing position of the companies certified ISO 14000) or in case that an institution developed by the project already started serving industry, such as the subcontracting and partnership exchange (impact: increased turnover and profitability of subcontractors who managed to conclude and implement business contracts). In most cases, impact at industry or community level as a result of institution building or policy changes is subject to longer gestation period.
8. In economic terms, the synergy benefits of the Integrated Programme are not very significant. Some of the cooperation is yet to be implemented, some benefits may evolve only over a longer period of time. However, there are intangible benefits such as: better awareness of the respective components’ services and activities, mutual promotion and, thus, increased visibility of the Programme in the country. It can be concluded that the transaction costs of the IP (management and coordination of many stakeholders, complexity in funds mobilization, etc.) are more than compensated by the benefits of integration.

9. The IP programme document relates resources to components but not to outputs. Subsequent progress reports established no linkages between resources and related outputs. Lack of continuity and consistency of reporting led to difficulties to reconstruct the life of the programme. The major drawback of the existing reporting modalities has been a weakened monitoring system.
10. The challenges facing Sri Lanka today are invariably similar to those addressed in 1999 when the programme document was formulated and warrant a continuation of selected programme activities. They mainly relate to achieving market access, participation in international trade, improvement of productive capacities and competitiveness with focus on the apparel and leather sectors.

IV. Main Recommendations

To: General Recommendations (IP Strategy)

1. The core of the programme should continue supporting Sri Lanka in accessing foreign markets and developing international partnerships. Activities to build up and strengthen supporting national infrastructure (such as quality management, testing and metrology infrastructure, SPX, BOI, etc.) should be coupled with a renewed effort to support sector-specific programmes aiming at increasing competitiveness in the apparel and leather sectors.
2. As regards institutional infrastructure, the focus on trade facilitation implies among others that the accreditation process should be further extended (ISO 14000, HACCP, etc.) and that the successful subcontracting exchange (SPX) activities be continued and expanded at the international level. NCPC should support its clients in preparation for ISO 14000 certification. BOI should be supported in coordination with the UNDP programme.
3. Renewed efforts to support sector-specific programmes aiming at competitiveness in the apparel and leather sectors imply that the relevant Components in the IP document (2 and 3.B) should be revisited and reformulated, if required in light of the Strategy Action Plans prepared by the Sectoral Task Forces. Such

- reformulated programmes should be coordinated with and complement other programmes in the country supporting access to foreign markets and capital.
4. Environmental objectives as the other pillar of the IP should be maintained and relevant Components under implementation (3.A and 4.A) completed. In this context it is particularly important to complete as soon as possible the Bata-Atha complex with relocation of tanneries from the Colombo area.
 5. In view of the major SME related programmes carried out by ADB and ILO as well as bilateral donors, SME support should consolidate results achieved so far in supporting district chambers of industry and the development of businesses incubators. Consideration should be given to extending substantive and financial support to MDCCI and to the Ruhuna incubator to verify whether they can reach the stage of self-sufficiency and sustainability.
 6. SPX has good prospects to reach financial sustainability within a couple of years. It, therefore, deserves to be further supported in financial terms during that period.
 7. The UNIDO Programme should in future be more strongly anchored to UN wide initiatives and UNDAF. Linkage with UNDAF should be established in the programme areas for the reduction of regional disparities, the promotion of “cohesive” economic development and post conflict initiatives, particularly in the field of investment promotion where UNDP has been given by the Prime Minister’s office a key coordinating role.

To: Government

1. The Government regulations relevant for organizations (co-)funded by the Government budget, particularly those on recruitment and procurement of equipment, should introduce a distinction between the market-oriented segments and public service segments of such organizations and allow the former ones to operate on commercial principles.

2. The Government should consider playing a more forceful leadership role in funds mobilization, particularly with a view to ensuring funding for strategic components, mobilizing local funds and establishing bridges with other multilateral organizations and institutions.
3. Soft loans for tanneries to finance their relocation need to be secured as soon as possible. By the time this report is issued the loans will hopefully be a reality.
4. The National Accreditation Body should be established without further delay.
5. There is no need to establish a (new) National Physical Laboratory. However, SLSI, ITI and MUSSD should develop a joint proposal for further development of the national metrology system.
6. CITI should be transferred under the responsibility of the Ministry of Enterprise Development, Industrial Policy and Investment Promotion and merged with TT&SC.
7. The ERD should consider nominating a high level representative who will take part on regular basis in the Steering Committee Meetings and advice/follow up on issues relating to funding.

To: IP Steering Committee

1. Review the main recommendations and the recommendations targeted at the Government, select those to be accepted and consider ways and means on how to arrange for their implementation.
2. The SC should focus on action plans with allocation of responsibilities, funds mobilization and the establishment of programmatic linkages with the private sector, bilateral and multilateral actual and potential programmatic partners, particularly UNDP, ADB and JICA.

3. To achieve the above objective, the Steering Committee should meet more regularly and more often (e.g. on a half yearly basis).

To: IP Management

1. The Team Leader and the National Programme Director should renew attempts to strengthen the relationships with the multilateral system, especially the ADB and UNDP. This should be done in particular within the context of the UN wide initiatives in support to the peace process.
2. Review Component-specific recommendations (see Chapter 4.), decide with the counterparts on those to be implemented, prepare a follow up plan and inform the Evaluation Services Branch accordingly.

To: UNIDO Management

1. Maintain the existing field level programme coordination mechanism in Sri Lanka and ensure necessary funding.
2. Review field level coordination and representation of countries covered by an IP since there seems to be a lack of consistency in the approach followed by IPs in different countries. It is recommended that, as a rule, large IPs should be backed by a UNIDO office in the country.
3. Reconsider the responsibilities given to Team Leaders regarding financial management, taking into account that their main responsibility should be of a technical, coordination, programmatic and promotional nature. The MDs should take up this issue within the context of DG Bulletin UNIDO DG/DGB.91 of 14 November 2002 entitled “Enhancing Organizational Capacity”.
4. Ensure that in future all funded activities, irrespective of sources of funds, are covered by a planning document.

5. Revise the guidelines for programme formulation in order to increase their strategic and flexibility features and scale down the „work planning“ details. In particular, introduce explicit relation between outputs and resources required for their production, but reduce considerably the details describing activities.

6. Future IP documents should include a monitoring and evaluation plan referring to the principles of results based management, following UNIDO and UN wide policy and present practice. Stipulations regarding monitoring and evaluation plans should be specified and reviewed prior and within the context of the approval procedures.

7. Review also the current guidelines for implementation and monitoring and update them in order to ensure consistency of reporting and regular financial and substantive monitoring of progress of implementation.

1. INTRODUCTION

The mid-term in-depth evaluation of the Integrated Programme in Sri Lanka was proposed by UNIDO within the context of a series of in-depth evaluations of the first generation of Integrated Programmes launched by UNIDO in 1999. The Government approved the evaluation and the Terms of Reference on 10 October 2002 by letter of Ranjit Fernando, Secretary, Ministry of Enterprise Development, Industrial Policy and Investment Promotion.

According to the Terms of Reference (attached in Annex I), the purpose of the in-depth evaluation was to enable the Government, UNIDO and donors:

- to assess the efficiency of implementation: quantity, quality, cost and timeliness of UNIDO and counterpart inputs and activities,
- to assess the effects of outputs produced and outcomes achieved as compared to those planned and to verify prospects for developmental impact,
- to provide an analytical basis and recommendations for the focus and (re)design for the continuation of the programme,
- to learn lessons on the integrated approach and for improving the synergy effects on UNIDO's integrated programmes.

The evaluation was to be conducted at two levels: evaluation of funded programme components and evaluation of the programme as a whole. Components that were included in the original programme document but that did not obtain funding would only be considered within the context of programme-wide evaluation issues.

The evaluation team was composed of:

Donatella Magliani, Senior Evaluation Officer, UNIDO Evaluation Services

Branch, Team Leader,

Jaroslav Navratil, Consultant,

Ivar Foss, Consultant representing the donor (NORAD),

Bandula S. Fernando, National Consultant.

For several days the evaluation team was accompanied by Ms. Vibeke Pedersen, an observer from NORAD.

Component 6 (Quality Standardization and Metrology) was the backbone of the whole programme, obtained the largest proportion of funding and was very advanced in terms of implementation. A focused analysis was therefore carried out for this major programme component. The evaluation of this component was carried out by the expert representing the donor (NORAD), the participation of the NORAD observer and UNIDO evaluators. The evaluation report of Component 6 prepared by Ivar Foss with contributions by Jaroslav Navratil is included in this overall IP Evaluation Report but can also be utilized in a self-contained manner.

The evaluation team carried out an extensive analysis of various sources of information, including all the available programme reports and the self-evaluation reports prepared by the team members and the team leader in consultation with the counterparts. All members of the UNIDO IP Team were consulted prior to the mission and informed of the preliminary outcome after the field mission. The field mission (30 October to 16 November 2002) consisted of an extensive plan of visits and interviews of all stakeholders, counterparts and selected beneficiaries in Colombo and in Matara (see Annex II). A presentation of the findings of Component 6 was made to the counterparts and a presentation of the overall preliminary findings of the evaluation was made at the end of the field mission to the Steering Committee. The views and comments made at those meetings were taken into account in the final version of this report.

The evaluation mission was funded by the UNIDO Regular Budget; NORAD covered part of the costs of the NORAD consultant and the participation of the NORAD representative.

The evaluation team would like to express its appreciation to the IP management and the IP team for the excellent and flawless organization of the evaluation and for the generous support that was provided, throughout the field mission.

2. PROGRAMME WIDE EVALUATION

2.1 Programme Development and Design

2.1.1 Background

The programme document was prepared upon formal request by the Government and after a visit of five UNIDO professionals to Sri Lanka during 19-28 April 1999. The programme built upon prior UNIDO assistance, in particular project entitled "Promoting Growth and employment through enhanced industrial competitiveness" (DG/SRL/97/002) that had identified a number of technical assistance requirements. In addition, a number of institutions presented further 16 assistance requests. A team of 14 professionals from UNIDO analyzed the country situation and the broad range of assistance requests in order to map out the strategy for the programme.

At that time it was envisaged that the ongoing JICA Master Plan study would constitute the key pivot around which the UNIDO programme was to be built upon.

The ensuing programme had a strong policy and institutional capacity building focus, in particular in support to the Ministry of Industrial Development (MoID). In line with Government industrialization strategies, the UNIDO programme covered competitiveness, SME, investment and environment related issues. Sub-sectoral priority was awarded to apparel/textile and leather/footwear. The programme incorporated an ongoing tannery project in Batha-Atha.

The overall objective of the Integrated Programme was "*to support sustainable industrial development, employment generation and competitiveness*".

The document included 9 components as follows:

1. support to industrial development plan implementation (JICA),
2. improving the Global competitiveness of the Sri Lankan apparel sector,

- 3.A assistance in Pollution Control and Treatment of Tannery Wastes for the leather complex at Batha-Atha,
- 3.B preparation and implementation of a national leather industry development programme,
- 4.A Sri Lanka National Cleaner Production Centre,
- 4.B environmentally sound technologies,
5. capacity building and support services for the promotion and growth of micro and small scale enterprises (MSMEs),
6. quality, standardization and metrology,
7. industrial subcontracting and partnership exchange,
8. governance support network,
9. investment and technology promotion support.

The above main components were further structured under a total of 14 components and sub-components and envisaged the production of 60 outputs for a budget in the amount of US\$ 14.5 million, excluding agency support costs.

The programme was subsequently amended based on the actual funding situation and/or additional project formulation activities and its implementation was scaled down to reflect the actual funding situation.

Out of the originally planned 9 components:

- four sub-components were implemented to a large extent or are still under implementation (3.A; 4.A; 6 and 7),
- one component was implemented partially (1),
- two components were implemented to a limited extent (2) and with major changes (5),
- four sub-components were not implemented at all or only preparatory assistance activities have taken place (3.B; 4.B; 8 and 9).

Separate project documents were prepared for components 1, 3, 4, 5, 6 and 7. Project documents for components 3.A, 4.A and 7 are identical or almost identical with the

components as defined in the IP document; project documents for Components 1 and 6 differ slightly, project document for component five differs considerably.

Further details in this respect are provided in Chapter 4. of this report that covers the individual components under implementation.

2.1.2 Findings

The programme was well anchored in Government plans and priorities, particularly the national export development plan 1998-2002 and the industrialization strategy for Sri Lanka. It furthermore benefited from relevant studies such as a study by USAID entitled “Technology initiative for the private sector” and the draft reports of the then ongoing JICA master plan on industrialization and investment promotion. The experience acquired by UNIDO under previous technical assistance projects in Sri Lanka was also instrumental for developing the programme.

While the overall approach and priorities identified were of clear relevance to the country and demand oriented, the programme was designed in a too ambitious and far-reaching manner. The document itself recognizes under the chapter on “Risks” that “the issues addressed are quite broad and require significant external funds to implement”. It furthermore stresses that the success of the programme would depend on “securing the totality of funds and implementing the entire programme in an integrated manner”. This chapter finally refers to political and economic volatility in a period in which the country was facing major internal and external changes. Considering the importance of such risk factors, the programme should have been designed with greater attention to funding possibilities. However, it should also be noted that inadequate attention to funding possibilities was a generic feature of most programming missions when starting this new IP modality of technical cooperation. In fact at that time the policy instructions were to outline country constraints in full without giving too much importance to funding.

The programme was developed prior to issuance of the guidelines for the formulation of integrated programmes and thus did not benefit from any written guidance on how to develop such programmes. This, together with the broad range of requests received by UNIDO at that point in time, led to the programme being a wide-ranging collection of

projects rather than an integrated response to a limited number of critical issues. This design weakness reduced from the outset the opportunities for integration and, together with other factors, such the relatively limited interchange at the level of UNIDO Headquarters during implementation, reduced the benefits thereof.

The programme does not refer under the chapter “Context” to other ongoing bilateral and multilateral assistance activities in the country. Only Component 5 made detailed reference to other UN, NGO and bilateral programmes. This constitutes a design weakness that reflected in weak interagency linkages during implementation.

As outlined above, the programme was heavily amended to reflect the actual funding situation and/or new programmatic aspects. The guidelines for the implementation and monitoring of integrated programmes (December 2000) envisage the need for preparing and regularly updating a programme implementation framework in order to reflect the funds available or likely to be raised as well as considering criteria such as Government priorities, counterpart capacity and readiness, short-term impact requirements, internal and external synergies, etc. The fact that this requirement was not complied with led to weakened monitoring and control possibilities. Tracking of developments was possible only based on the self-evaluation reports prepared by the team leader and the team members. More details in this respect are provided in Chapter 2.5 below.

One of the reasons for the design weaknesses and the deriving programme modification requirements was the short duration of the field level programming mission (5-10 days), a period that was definitely too short for the formulation of such an ambitious and far reaching undertaking. A more thorough field level preparatory work, including funds mobilization activities, would have been advantageous for the subsequent developments of the programme.

The success indicators by output are included in the programme document are of very varied nature and do not follow a consistent logic. While certain components, such as the one relating to the Cleaner Production Centre, include detailed and realistic quantitative and qualitative indicators, other are extremely vague and of no use for monitoring and

evaluation purposes (e.g. “capacity developed, cost, quality, work plan prepared, increased exports”, etc).

2.1.3 Recommendations

The formulation of new programme activities and/or extension of ongoing ones should be based on the application of the relevant parts of the guidelines for the formulation of Integrated Programmes.

The project design should improve the linkage between resources and outputs.

Result indicators should be included, based on the information provided in the guidelines for the evaluation of integrated programmes dated August 2002.

Future programme documents should include a monitoring and evaluation plan referring to the principles of results based management, following UNIDO and UN wide policy and present practice.

The document(s) should be integrated with and form part of the coordinated response by the UN system within UNDAF.

2.2 Programme Relevance¹

2.2.1 Relevance of the original programme document and its implemented parts

The original Programme document was drafted on the basis of the following macro economic and sectoral strategies:

- Six-year development plan 1999-2004
- National export development plan 1998-2002
- New industrial development strategy for Sri Lanka

The priorities included in these plans and of relevance to the UNIDO proposed interventions were:

- enhancing export quality and international competitiveness,

¹ Reference documents: UNDAF 2002-2006; Second Country Cooperation Framework for Sri Lanka 2002-2006; Connecting to growth, Sri Lanka’s poverty reduction strategy, June 2002; Creating the dividends of peace, report by the Inter-Agency Needs Assessment Mission to Sri Lanka 21 April-3 May 2002; EIU Sri Lanka Country Report ,) October 2002; EIU Sri Lanka country profile 2002; ADB Country Strategy and update 2003-2005.

- diversifying markets,
- diversifying the export structure,
- increasing the value addition of all exports,
- diversifying, expanding and upgrading of the industrial base,
- generating employment and income in rural and urban sectors,
- promoting regional development.

The programme was to build upon the importance of the manufacturing sector as the main driving force for economic growth in the country since 1977 and the private sector driven and export oriented mode of development. The programme was based on a number of challenges that the country was expected to face in forthcoming years. The main challenge was the need to sustain exports particularly in view of phasing out of the Multi Fiber Agreement in 2005 that was expected to strongly affect the apparel wear sector. Another challenge was the need for a diversification of the industrial base toward higher value added and deepening of the country's technological capacities. The programme also addressed the geographical and structural concentration of industrial activity and the socio-economic discrepancies across regions. Governance and policy issues as well as environmental concerns were also addressed.

Based on the approved and funded programme components the programme was actually able to address two main areas:

- competitiveness improvement and development of a quality infrastructure with Component 6 (quality, standardization and metrology) as the backbone and supported also by Component 2 (Quick Response Centre), Component 7 (Industrial Subcontracting and Partnership Exchange) and part of Component 1 (Pilot Restructuring),
- environment, based on components 4, (National Cleaner Production Centre) and 3.A, (assistance in pollution control and treatment of tannery wastes for the leather complex at Batha Atha).

Some support, albeit much less than planned, was provided for restructuring and strengthening the Ministry of Industrial Development and upgrading of industrial statistics. Regional development was addressed by Component 5 (SME development in the Southern region).

While several components and sub-components did not materialize because of lack of funding, the major weakness in terms of relevance is the fact that the programme did not address the key issue of improving competitiveness of the apparel and leather sectors, as originally envisaged. If implemented hand in hand with the development of the quality infrastructure, as planned in the original programme document, improved competitiveness in the two afore mentioned sectors would have led to wider-ranging results.

2.2.2 Relevance as of 2002/2003

The challenges facing Sri Lanka today are invariably similar to those addressed in 1999 when the programme document was formulated.

Industry, historically the main driver of GDP expansion contracted, primarily owing to the depressed performance of industrial exports, in particular by the apparel wear and leather products sectors. Particularly the apparel sector was confronted with intense international competition, even before the phasing out of the multi-fiber agreement. The declining performance of the apparel wear sector is a major challenge also in light of its impact on smaller factories which are likely to be adversely affected if they do not manage to adjust manufacturing capabilities and product quality to the international market demand. Some analysts indicate that about 50% of SME factories may have to shut down once the multi fiber quota system is abolished. In general, the narrow industrial base, dependence on a few export markets, escalating factor costs and international political instabilities make the country extremely vulnerable to fluctuations in the global market place.

The declining trend in foreign aid inflows has increased Sri Lanka's reliance on Foreign Direct Investments (FDI) as a means for bridging the external financing gap. Although

the country has one of the most liberal and foreign investors friendly regimes in Asia, FDI inflows have remained well below potential, primarily owing to the volatile security situation. The progress in the peace process and the budget 2002 (envisaging fiscal consolidation, extended deregulation, liberalization and privatization) have helped to raise investors' confidence. However, major investment commitments are likely to be postponed until 2003, when there is tangible evidence of the Government's implementation of its reform plans and progress in the peace process.

Uneven regional development and the concentration of poverty in the Southern and North East provinces as well as in other rural areas, where 90% of the poor live, continue to be a crucial problem for Sri Lanka. Only a narrow segment of society has been positively affected so far by the far-reaching trade liberalization, privatization, and tax reform, fiscal incentives to private sector initiative introduced by the Government in the 1990s.

Sri Lanka is considered a model case as a welfare state that has promoted social development. However, the rate of economic growth has failed to keep pace with the social development of the country. Limited progress has been made so far to reduce the extent and intensity of income poverty. Unemployment is a serious problem, particularly among educated young people and has been a major cause of youth unrest and social backlash.

The Government is continuing the process of devolution of political authority and to promote decentralization. Strengthening of institutional capacity of relevant national and provincial institutions linked to decentralized development, such as Chambers of Industry and Commerce, financial institutions etc. constitutes a challenge. The Government plans to establish five Regional Economic Zones, repealing the existing BOI law in order to attract local and foreign investments throughout the country.

Another Governance challenge is the need to improve performance of the public sector. In the past years the Government has tried to improve public sector performance by limiting the scope for public initiative and creating better opportunities for the private sector. Emphasis is placed on private sector growth and scaling down of Government

intervention and the role of Government is changing from being a leading provider of goods and services to being a facilitator of private sector economic activity.

The above challenges and policy priorities constitute a solid justification for the relevance of continued operations by UNIDO in Sri Lanka.

2.2.3 Recommendations

1. The UNIDO Programme should in future be more strongly anchored to UN wide initiatives and UNDAF. Linkage with UNDAF should be established in the programme areas for the reduction of regional disparities, the promotion of “cohesive” economic development and post conflict initiatives, particularly in the field of investment promotion since UNDP is given a key-coordinating role by the UN Secretary General and the Prime Minister’s office.
2. The programme should also aim at assisting the Government in the implementation of Sri Lanka’s poverty reduction strategy, as outlined in the policy document of June 2002 entitled “Connecting to growth”. The latter document is a detailed set of policy and programmatic interventions designed to connect the poor to economic growth and is based on the government’s objective to ensure a very high rate of economic growth (10%) in order to bring about the required improvements in opportunity and living standards.
3. The programme should obviously also build upon the achievements and experience acquired so far in the implementation of the Integrated Programme and address the industry related challenges as outlined above.
4. The core of the programme should continue to be to support Sri Lanka to achieve market access and participation in international trade. Activities to build up and strengthen the standards, quality and metrology infrastructure should continue coupled with a renewed effort to develop productive capacities and competitiveness with focus on the apparel and leather sectors. Support to BOI should be provided, particularly in the context of its decentralization process. The successful subcontracting exchange activities should continue and expand at

international level. In view of the major SME related programmes carried out by ADB and ILO as well as bilateral donors, SME support should be provided in the niche areas where UNIDO has already acquired experience, i.e. in supporting regional chambers of industry and the development of business incubators.

5. Environmental objective as the other pillar of the IP should be maintained and relevant activities under implementation should be completed.

2.3 Funds Mobilization

2.3.1 Background

The IP budget amounted originally to US\$ 14.5 million (excluding support costs) and was revised downward to US \$ 12.9 million, which is the current planning figure. Out of this amount, US\$ 6.1 million were mobilized which represent 50% of the original programme budget. The main role in funds mobilization was played by the Team Leader.

(NB. the actual PAD amounts to US\$ 5.1 million; however this does not include already approved future installments for one project in the amount of US\$ 1 million).

Funding sources are:

- UNIDO funds under the Regular Programme for Technical Cooperation (XP) and from unutilized balances of the Regular Budget (UB) for an amount of US\$ 352,740 and US\$ 205,105 respectively,
- programmable contribution to the Industrial Development Fund from the United Kingdom: US\$ 538,110,
- Trust Fund from Japan: US\$ 958,500,
- Trust Fund from Norway: US\$ 1,791,651,
- UNDP (from a contribution of Norway channeled through UNDP): US\$ 1,064,614.

According to the approach followed for integrated programmes and initial agreement with the Government as well as considering the decentralized nature of decision-making regarding funding, the Government was to take a lead role in funds mobilization. At the

outset UNIDO team met with the officials of the External Resource Department, which is the Government's focal point for foreign assistance in Sri Lanka. A mini donor conference took place in Sri Lanka in 1999 and active funds mobilization was carried out in Vienna with the support of Sri Lanka's Ambassador. Results in terms of funding have been positive, particularly as compared with other Integrated Programme. A high amount of UNIDO own resources as well as programmable funds have been allocated to the programme in recognition of its potential and its good management. This has allowed covering of a number of components that proved to be very successful, such as the Subcontracting Exchange.

2.3.2 Findings

Better results could have been achieved if the Government's leadership role in funds mobilization would have continued beyond the first active period.

The Government had initially committed in writing to co-fund the IP with LKR 4 million to be allocated from the Samurdhi programme, in line with the priority given to poverty alleviation, employment generation and regional development. These funds were eventually not allocated to the IP, apparently because the Government would have favored implementation through national execution. In recognition of UNIDO services, the Government cleared the channeling of bilateral funds in the amount of US\$ 2.4 million for the tannery effluent project at Batha Atha and for the National Cleaner Production Centre.

There could have been potential for utilizing domestic funds for local cost sharing, particularly those devoted to economic and social development and considering that large portions of such funds have been and still are underutilized (now 34% utilization rate is recorded; previously it was only 18%).

Despite some attempts, the IP was not able to establish programmatic and funding linkages with the Asian Development Bank, particularly in the context of ADB's support to SME development (US\$ 60 million credit assistance and US\$ 6 million business support service facility). According to information provided to the evaluators both by the

Government (External Resources Department) and ADB officials, no financial and administrative rules prevent the two organizations to work together also in terms of funding arrangements.

Another weak link relates to the relatively limited field level cooperation with the UN system, particularly UNDP. While UNIDO's programme is by far larger than UNDP's, some useful programmatic and funding synergies could have been established, particularly in fields such as SME development and investment promotion.

Some members of the Sri Lanka UNIDO Team are of the opinion that the system for funds mobilization should be revisited and allocation of responsibilities better defined and coordinated. The evaluators find that this issue is more a matter of compliance with and implementation of existing guidelines, including those for funds mobilization.

Some key components that constitute an integral part of the integrated programme and which are of high relevance for the country, specifically the apparel and leather competitiveness improvement components, remained un-funded. This weakened the overall programmatic approach and its impact on strategic sectors for the country.

2.3.3 Recommendations

2.3.3.1 To: Counterparts

1. The Government should consider playing a more dynamic leadership role in funds mobilization, particularly with a view to ensuring funding for strategic components, mobilizing local funds and establishing bridges with other multilateral organizations and institutions.
2. The Steering Committee should regularly review the IP's funding situation and act as the key body for identifying and ensuring that action is taken with respect to funds mobilization.
3. The ERD should consider nominating a high level representative who will take part on regular basis in the Steering Committee Meetings and advice/follow up on issues relating to funding.

4. A renewed funds mobilization effort should be done to revitalize the leather and apparel sector competitiveness components in cooperation and coordination with the sectoral task forces that have been established by MoID for these sectors.

2.3.3.2 To: UNIDO Management

5. The Team Leader and the National Programme Director should renew attempts to strengthen the relationships with the multilateral system, especially the ADB and UNDP. This should be done in particular within the context of the UN wide initiatives in support to the peace process.
6. The individual staff members should take the opportunity of their visits to Sri Lanka to deal also with funds mobilization matters relating to their components.
7. The existing guidelines for programme formulation and funds mobilization should be used as a tool in support to UNIDO's efforts in funds mobilization, in particular concerning the allocation of specific funds mobilization responsibilities within UNIDO.

2.4 Programme Implementation, Coordination, and Management

2.4.1 Implementation

2.4.1.1 Background

Total programme delivery is at present US\$ 4 million, which equals 77% of the approved programme budget. Refer to table below.

| IP Components | | Original IP document | Current planning figure | Funded (total allotment) | % funded | Expenditures as of August 2002 | % of implementation |
|---------------|---|----------------------|-------------------------|--------------------------|----------|--------------------------------|---------------------|
| 1 | <i>Support to Industrial Development Master plan Implementation (JICA)</i> | 958,500 | 958,500 | 958,500 | 100% | 850,628 | 89 |
| 2 | Improving the global competitiveness of the Sri Lankan Apparel sector | 1,689,000 | 1,689,000 | 80,000 | 4.7% | 34,500 | 43 |
| 3.A | Assistance in Pollution control and treatment of tannery wastes for the leather complex at Bata-Atha | 883,700 | 979,814 | 979,814 | 100% | 944,846 | 96 |
| 3.B | Preparation and implementation of a National Leather Industry Development Programme | 4,300,000 | 3,394,900 | 0 | 0 | - | - |
| 4.A | Sri Lanka National Cleaner Production Centre | 1,264,400 | 1,264,000 | 289,000* | 22% | 91,000 | 31 |
| 4.B | Environmentally Sound Technologies | 780,500 | 364,400 | 0 | 0 | - | - |
| 5 | <i>Capacity building and support services for the promotion and growth of micro- and small - and medium - scale enterprises (MSMEs)</i> | 2,278,000 | 2,179,000 | 459,241 | 21% | 441,944 | 96 |
| 6 | <i>Quality, Standardization and Metrology Support</i> | 1,404,000 | 1,123,200 | 2,085,650 | 182% | 1,414,504 | 68 |
| 7 | Industrial Sub-contracting and Partnership Exchange | 212,000 | 200,000 | 200,000 | 100% | 187,075 | 93 |
| 8 | Governance Support Network | 332,000 | 330,000 | 0 | 0 | - | - |
| 9 | Investment and Technology Promotion Support | 438,600 | 438,600 | 100,000 | 23% | 5,826 | 6 |
| Total | | 14,540,700 | 12,921,414 | 5,152,205 | 40% | 3,970,323 | 77 |

* Annual payment; funding for the whole component promised by the donor.

Some components of the programme faced delays in approval and thus starting of activities mainly because of the time required to ensure funding and/or for concluding funding arrangements with the donors.

Implementation delays, sometimes of major nature, occurred such as in the case of the Batha Atha Tannery complex, mainly due to the late delivery of counterpart inputs and identification of local funding. In other instances, some delays in local decision-making occurred because of a number of changes at Government level during the life of the programme (four Ministers and four Secretaries of MoID).

Once activities started, most components were implemented in a smooth and efficient manner, as outlined in Chapter 4. of this report.

2.4.1.2 Findings

On the whole implementation has been efficient because of the reasons outlined below.

The programme team in the field as well as in Vienna was successful in identifying capable and motivated counterparts with a strong sense of ownership and direction. “Picking of winners” has been one of the key reasons for the progress and achievements under the programme. This positive selection process was possible despite the short duration of preparatory activities because of the excellent knowledge of the country, mainly by the Team Leader and the National Programme Director, their networking skills and the technical knowledge and expertise by all programme managers.

Counterparts evaluate the UNIDO programme management effective, knowledgeable and perseverant. The evaluators verified the existence of good and trust based relationships between counterparts and UNIDO staff.

With one exception at the early stage of Component 1, the international experts provided under the programme are also considered of good quality. Some of them provided

outstanding contributions, such as the expert on garments or the experts who worked for the subcontracting exchange. Most national experts were of good quality as well.

For capacity building and continuity purposes UNIDO followed with only some exceptions a commendable approach of “shadowing” international experts with nationals. This led to very good results in local capacity building, for example in the case of the Ruhuna Incubator project.

As a matter of policy, the Government awards priority to the use of national expertise. In the case of the specialized services provided under the IP, counterparts such as chambers and associations as well as the private sector beneficiaries consider the use of international expertise as beneficial. In many instances international experts have served as “eye openers” and paved the way for technical as well as cultural changes. Almost all of the programme activities, for instance, demonstrated ways and means for the commercialization of services and supported the gradual “emancipation” from Government, meeting with Government policies and strategies.

The integrated programme has successfully managed to put together public and private sector partners, for instance within the context of the programme and project level Steering Committees. This feature is very much in support to the Government emphasis on private sector development and private sector close involvement in government reform measures (such as the private-sector led task forces within MEDIP).

2.4.2 National Coordination and Management

2.4.2.1 Background

Due to its complexity and the many actors involved in the programme, a prerequisite for efficient implementation is the existence of a strong coordination and steering mechanism. This was recognized from the very beginning in the IP document, which envisaged coordination at following levels:

1. Programme Steering Committee at apex Government, counterpart and donor level to monitor progress and provide strategic guidance,
2. Progress Review Committees at programme component level comprising direct national stakeholders and national programme manager.

In addition, a National Programme Director and a Programme Coordinator have been planned from the outset and actually designated to promote and coordinate the programme on a continuous basis.

The costs for national coordination are reasonable (US\$ 30,000 for three years). The Programme Director serves this function on a voluntary basis.

In terms of field coverage, UNIDO is at present represented in Sri Lanka by a “national focal point” and is also covered from the Regional Office for South Asia.

2.4.2.2 Findings

The Steering Committee has proven an indispensable coordination tool, although it did not meet as often as originally envisaged mainly due to several changes at Government level. The Progress Review Committees (steering committees at project level) have also been instrumental in furthering progress of the respective components.

Programme wide synergies and coordination among components have been achieved at the country level (rather than based on a planned top down approach by UNIDO team members) through the coordinating and steering mechanisms.

The national coordination mechanism piloted in Sri Lanka can be considered as a good practice for other IPs. Additional benefits could be derived by the Steering Committee being more oriented towards progress review and action plans as well as focusing more on funds mobilization issues.

The programme team at country level (National Programme Director and Coordinator) plays a vital promotional and coordinating role. Without the support of the local team, the programme could not have achieved the results obtained so far. In fact, effective coordination, promotion and overall management at the country level would simply not have been possible without relying on the skills, knowledge and contacts of the National Director and the National Coordinator.

There is common agreement in the country, including by the focal point, and within UNIDO team that the focal point approach is not sufficiently effective for a country with a programme of the size, technical and managerial complexity as well as the potential of the Sri Lanka IP. The evaluators concur with this assessment. One of the main drawbacks of this approach is the fact that field level contacts with other UN Organizations, particularly UNDP, have been weakened.

2.4.3 UNIDO Programme Management and Coordination

2.4.3.1 Background

At UNIDO Headquarters' level, the programme is at present managed by a multi-disciplinary team of 12 professionals from seven Branches. A number of changes of team members have taken place during the programme's life. The Team Leader is responsible for overall programme coordination. Financial management is under the overall responsibility of the IP team leader who is the programme's allotment holder. The respective component managers implement the components they are responsible for.

2.4.3.2 Findings

Counterparts and beneficiaries consider that the UNIDO programme team is of good quality. The team leader's technical knowledge, country insights and promotional skills have been an asset for successful implementation of the programme.

However, a number of managerial UNIDO-wide issues need to be addressed as they had an impact on this specific programme. Furthermore, considering that Sri Lanka was one

of the first countries covered by an IP, the finding from this evaluation might be valid for other IPs as well.

2.4.3.3 Reporting

The IP programme document relates resources to components but not to outputs. Subsequent progress reports established no linkages between resources and related outputs.

Several types of reports have been prepared based on different reporting requirements and lacking consistency. Furthermore reports were on the whole brief with no specific reference to the plan documents. This led to extreme difficulties to reconstruct the life of the programme, as already mentioned under the chapter on implementation above.

The major drawback of the existing reporting modalities has been a weakened monitoring system and the substantial risk of losing management control over the programme.

On the other side, team members highlighted the fact that in the course of the programme life several reporting requirements have come up based on different and non-consistent reporting objectives. A wide range of tables, charts, reporting by service modules, by IP, yearly progress reports, etc. have been requested, adding on the already heavy workload of team members and the team leader.

2.4.3.4 Financial Management

The Team Leader as allotment holder of the IP is responsible for signing all financial matters relating to the Project Allotment Documents (PADs) and is thus accountable for activities and expenditures he is de-facto not implementing. This system led to additional workload but did not bring any value added to the programme.

Delays and additional workload have been caused by the introduction of the Agresso system in 2002.

Considering that there is no UNIDO Representative Office in Sri Lanka, UNDP has charged UNIDO for its services for processing administrative and financial matters. Costs in the range of US\$ 10,000 were charged so far to the IP, with a likelihood to grow more.

2.4.3.5 Coordination

Interchange and coordination between members of the team have not been sufficiently strong to ensure synergies in implementation. The relatively weak interaction among team members was due to the extremely heavy workload of all members who were involved in a large number of other Technical Cooperation activities. However, the team leader has had very good overview of progress and problems under individual components through frequent bilateral contacts – both formal and informal – with the component managers.

Coordination within the vertical structure of the Organization has been virtually non-existent. The interactive learning process, quality assurance as well as monitoring by the respective Branch Directors, the Managing Directors and the Regional Bureaus has been minimal.

2.4.4 Recommendations

2.4.4.1 To: Steering Committee

1. The Steering Committee should meet more regularly and more often (e.g. on a half yearly basis).
2. The SC should focus on action plans with allocation of responsibilities, funds mobilization and the establishment of programmatic linkages with the private sector, bilateral and multilateral actual and potential programmatic partners, particularly UNDP, ADB and JICA.

2.4.4.2 To: UNIDO Management

1. Maintain the existing field level programme coordination mechanism and ensure necessary funding.
2. Review field level coordination and representation of countries covered by an IP within the context of a UNIDO wide programme and management strategy and funding policy. Specifically there is a lack of consistency in the approach followed by IPs in different countries.
3. Revise the guidelines for programme formulation and monitoring to relate resources to outputs.
4. Review the current guidelines for implementation and monitoring and update them in order to ensure consistency of reporting and regular financial and substantive control of progress of implementation.
5. Stipulations regarding monitoring and evaluation plans should be specified and reviewed prior and within the context of the approval procedures.
6. Reconsider the responsibilities given to Team Leaders regarding financial management, taking into account that their main responsibility should be of a technical, coordination, programmatic and promotional nature. The MDs should take up this issue within the context of DG Bulletin UNIDO DG/DGB.91 of 14 November 2002 entitled “Enhancing Organizational Capacity”.

2.5 Programme Integration

The concept of integration relates to the following levels:

- integration with national development priorities (this aspect is addressed in this evaluation report under Relevance),
- coordination with UNDAF and other multilateral and bilateral programmes,
- integration within the Programme itself, through
 - coordination of UNIDO services and multidisciplinary expertise,
 - inter-actions among counterparts supported by UNIDO services.

2.5.1 Coordination with UNDAF and other Multilateral and Bilateral Programmes

- ***JICA (Component 1):*** The most prominent cooperation with other programmes was implemented with JICA through a joint and coordinated elaboration of the Industry Development Master Plan. While the cooperation was accompanied by some operational problems (explained in the report on Component 1), it contributed to timely production of a report of good quality and, as by-product, to better mutual understanding of the organizations involved (JICA and UNIDO). The experience highlighted a lesson that a joint and coordinated implementation of a project requires cooperation already in early planning stages in order to achieve synergy benefits through sharing experience and selecting the best approaches already in designing the project and formulating the strategies, methodologies to be applied, etc.
- ***ADB (Component 1):*** ADB has apparently used some inputs of the JICA Master Plan for preparing a recent US\$ 60 million SME loan.
- ***The Commonwealth Secretariat (Component 1):*** The IMPAS software and the concept of competitiveness were presented to the Ministry staff at a two-day residential workshop organized jointly by UNIDO and the Commonwealth Secretariat.
- ***ADB (Component 4.A):*** NCPC participated in the ADB CLIND project under Ministry of Enterprise Development, Industrial Policy & Investment Promotion to develop Policy, Strategy and Action Plans for Incorporating CP Policy into Industrial development. This type of cooperation is particularly effective as it joins forces to strengthen the role of policy as the decisive factor in industry-wide CP application.

- *ILO (Component 4.A)*: ILO assistance was obtained to get relevant trade unions information and NCPC will be working with ILO to disseminate information on CP & TBL during the seminar for Trade Unions Officials.
- *ILO (Component 5)*: Some cooperation took place with the ILO project “improve your business” through joint organization of some training workshops and some target beneficiaries of UNIDO project also attending ILO training.
- *GTZ (Component 7)*: SPX has been cooperating with the GTZ project Enterprise Service System Promotion.
- *Triple-bottom-line (TBL) project of SMED/UNIDO (Component 4.A)*: The project was not part of the IP because it was part of a regional project. NCPC participated in elaboration of its environmental dimension using Cleaner Production and in preparation of the video film.
- *UNDP*: While Component 3.A was formally a nationally executed UNDP project, there was no cooperation by other Components with UNDP programmes. Most UNDP funded projects related to the North-East conflict and other areas not related to industry. Only in very recent months a cooperation of the newly starting Component 9 (Investment and Technology Promotion Support) with the UNDP coordinated “Invest in Peace” programme is under discussion. After several occurrences of misunderstandings and communication gaps the working level partners seem to have established normal working relations.

Only in some cases synergy effects resulting from cooperation are immediately apparent (cooperation with JICA, with the TBL project). In other cases they are potential and long-term rather than immediate/actual. The effects of such cooperation may be significant (ADB policy project, UNDP “Invest in peace” programme).

With the exception of cooperation with JICA, which was envisaged in the IP document, the other cooperation cases evolved in the course of IP implementation. This implies that they were built on actual needs and opportunities as they became apparent in real life. However, this may also suggest that little consideration was given to the other programmes in the programming stage.

2.5.2 Integration within the Programme

As mentioned earlier, the programme was a wide-ranging collection of projects rather than an integrated response to a limited number of critical issues. This fact reduced from the outset the opportunities for integration and, together with other factors, such as the limited interchange among team members at UNIDO Headquarters during implementation, limited the benefits thereof. However cooperation among components and among counterparts supported by these components did occur in certain instances, primarily thanks to the coordinating and steering mechanisms at country level, often prompted by the Team Leader and the National Programme Director.

There are various mechanisms how to achieve cooperation/integration, each of them resulting in different synergy benefits. The overview below categorizes those recorded within this Integrated Programme:

2.5.2.1 Coordination of UNIDO Services and Multidisciplinary Expertise

a) Coordination of UNIDO inputs and activities resulting in cost saving on input side:

- Component 1 and 2: Use of the expert from Component 1 working on the Pilot Restructuring project to deliver lectures and advise CITI (Component 2) implied some cost saving (international travel costs, etc.).
- Component 5 and 7: Cooperation of SPX (Component 7) with the Matara DCCI (Component 5) saved some costs of identification of local companies (using information on DCCI members).

- Component 1 and 7: SPX (Component 7) plans to cooperate with the Department of Statistics (Component 1) in conducting a survey of industry in the Western Province; this will save some costs for both organizations.
- b) Services provided under two or more components to the same counterpart or target group, resulting in increased effectiveness and impact of the services:
- Component 4.A and 6: The Director of NCPC trained under Component 4.A participated at training (as trainee) of ISO 14000 auditors carried out by Component 6.
 - Component 4.A and 7 (and 6): NCPC and SPX, when visiting companies, promote each other's services. This creates the opportunity that some companies may be serviced by both organizations. Similarly, ITI and SLSI services are also promoted jointly. However, actual cases of serving the same company(ies) by two or more organizations have not been identified so far.
 - Component 1 and 2: The expert on Pilot Restructuring, when working with the apparel companies, promoted use of CITI (Component 2) by them. Similarly to the above case, there is a potential that some companies may benefit from both Components but no actual case was reported.
- c) Services provided simultaneously at the level of strategies/policies, institutions and enterprises resulting in higher effectiveness and impact of the services:
- Component 1, sub-components Policy and Pilot Restructuring: Based on the experience of the Pilot Restructuring from working with companies, a paper was prepared on "Some Issues Relating to Policy". The paper includes a number of recommendations deserving a thorough consideration by stakeholders and policy makers. If reviewed and adopted by the Task force on strategy for the apparel

sector and the Ministry, the changes introduced in the institutional and policy framework could have long-lasting impact on the whole apparel sector.

2.5.3 Inter-actions among Counterparts Supported by UNIDO Services

a) Improved inter-institutional cooperation resulting in increased efficiency and effectiveness of their operations/services:

- Component 3.A and 4.A: The NCPC Director is a member of the Technical Advisory Committee of SLAT (Component 3.A). However, no coordination of activities or NCPC input to the SLAT activities has been implemented so far. Technical requirements of SLAT are very specialized so that NCPC may not be the appropriate source for provision of technical information and advice.
- Component 4.A and 7: NCPC and SPX plan to cooperate on establishing a waste data base (Waste Recycling Exchange).
- Component 4.A and 6: The Director of NCPC delivers lectures on CP in the context of training courses on EMS and ISO 14000 organized by SLSI (supported by Component 6).

In economic terms the actual synergy benefits from the above cooperation are not very significant. Some of the cooperation is yet to be implemented, some benefits may evolve only over a longer period of time. However, there are intangible benefits resulting from such a cooperation such as: better awareness of the other's services and activities, mutual promotion and, thus, increased visibility of the Programme in the country. Increased visibility of the Programme, resulting also from the sheer scope of the Programme as compared to stand-alone projects, proved to be a value in its own right. Increased visibility of the Programme makes it easier to attract attention by both the Government authorities and donors which helps not only in funds mobilization but also in bringing up issues requiring a policy decision to higher policy levels.

It can be concluded that the transaction costs of the IP (management and coordination of many stakeholders, complexity in funds mobilization, etc.) are more than compensated by the benefits of integration.

3. PROGRAMME RESULTS

3.1 Programme Results

In evaluation terminology “*result*” is a generic term relating to three levels in the means-end hierarchy of the logical framework:

- output** (=production of the planned output),
- outcome** (=achievement of purpose),
- impact** (=achievement of development objective).

However, as the design of the IP with project interventions supporting diverse purposes does not strictly follow the logical framework, the above breakdown of results cannot be applied fully. This refers in particular to “*impact*”: the development objective (sustainable industrial development) is too high and too remote from the operational level to enable attribution and quantification of the contribution of the IP to this development objective. It is only in the long term that IP interventions at policy and institutional levels can contribute to actual changes of economic and social indicators qualifying “sustainable industrial development”.

In practical terms, “*impact*” is also used to describe changes at the target beneficiary (industry, community) levels resulting from direct project interventions. Given the modest resources of the IP, these changes at micro or sectoral levels alone can hardly be significant enough to have a bearing on statistically discernible economic or social development indicators. However, in qualitative terms the contribution to higher level objectives can be well established.

Thus, to facilitate a meaningful overview of the IP results, they are structured as follows:

- results at policy level,*
- results at institutional level,*
- results in human resource development,*
- results at enterprise and community levels.*

3.2 Results at Policy Level

- Two sectoral studies (apparel and leather) were prepared by UNIDO and used in the formulation of the JICA Industry Development Master Plan. The Master Plan finalized by JICA was initially shelved and UNIDO did not prepare an industrial policy document reflecting the major findings of the Master Plan, as originally envisaged. Later the work on policy formulation was resumed with extensive participation of the private sector in 16 sector-specific task forces. Task Forces on Apparel and Leather have utilized the UNIDO reports as an input for the SWOT analysis and action plans.
- Based on the experience from working with the Pilot Restructuring companies, a paper was prepared on “Some Issues Relating to Policy”. If reviewed and adopted, the changes introduced in the institutional and policy framework could have long-lasting impact on the whole apparel sector.
- Awareness for national measurement system was created, a committee set up but an agreement on implementation of the system has not been reached yet.
- A new National Accreditation Body (NAB) is at the stage of legal finalization; major support was provided by SIDA/SWEDAC, UNIDO project was continuously raising awareness on the need to establish the body and provided technical comments on the draft law.
- A study on Legal and Economic Constraints in Subcontracting was concluded and will be submitted to the Government (once approved by the Steering Committee).

3.3 Results at Institutional Level

- Five laboratories were internationally accredited in the period June to September 2002 (two chemical labs at SLSI and ITI, two microbiology labs at SLSI and ITI, and a textile testing lab at TT&SC). These were the first laboratories accredited in Sri Lanka. Accreditation will be highly significant for creating market access for Sri Lanka products in export markets. Scope of testing can be further increased subject to recruitment of additional staff or procurement of equipment.
- Industrial Metrology laboratory at ITI to carry out calibration and measurement services to industry installed and operational. Accreditation is at advanced stage. The developed capacity represents a significant contribution to the national institutional framework. It facilitates industry, trade and export of products and services; delivery of services commenced.
- National ISO 14000 EMS capacity with certification scheme was developed at SLSI, with lead auditors and consultants trained by a reputed ISO 14000 consulting firm and exposed to practical experience demonstrated by an internationally accredited certification body (RW-TUV); SLSI has commenced the certification scheme. A national capacity to disseminate, introduce, support and certify ISO 14000 schemes firmly established.
- ITI was involved in the ISO 14000 programme. Four consultants and four auditors were trained during the project to give support to the SLSI when the National System is in place.
- SLSI was strengthened through upgrading of the Management Information System (particularly to improve test record keeping) and advisory support to corporate planning; recommendations on commercialization of services have been partly implemented or are under implementation.

- ITI was advised on corporate governance, particularly on costing of services and budget decentralization; implementation of recommendations at early stage.
- A Quick Response Centre to demonstrate modular technology in the apparel sector was established at CITI and is fully operational, with adequate equipment, trained staff and methodological tools (manuals); use of the Centre by the apparel industry has been limited.
- A National Cleaner Production Centre was established and is fully operational, with highly competent personnel and established methodologies; extensive activities are being carried out.
- A Subcontracting Exchange (SPX) was established and is fully operational, with highly competent personnel and established methodologies and standard UNIDO software for database management. More than 250 companies are registered in the database. Extensive activities are being carried out.
- Daily operations of the Ministry of Enterprise Development, Industrial Policy and Investment Promotion were improved through provision of computers and training of staff in their use and in business English.
- A study on the Ministry's role towards becoming more private sector oriented was carried out and a residential seminar was conducted for Ministry staff to discuss issues and guidelines for restructuring of the Ministry. Restructuring was implemented later, with some ideas taken over from the previous seminar.
- A software on benchmarking was developed. The training of the Ministry staff will be done once the Ministry obtains data.

- Department of Census and Statistics was strengthened through software and consultancy support. An improved and standardized industry survey questionnaire was agreed upon and is applied by three agencies (DCS, BOI, MoID).
- The Matara Chamber of Commerce and Industry was strengthened and is now in a position to organize a range of demand based training courses, to provide a place for encounter and information exchange, as well as advisory and information services.
- As a by-product of projects carried out with the Matara DCCI, a small unit was established within FCCSIL to look after cooperation with and development of provincial and district chambers.
- The Ruhuna Incubator was established, the physical infrastructure is in place, buildings were refurbished and equipment provided. Activity, promotional, marketing and managerial plans have been prepared. However, use of the Incubator is limited. So far only three tenants have been selected and three other applicants are under consideration.

3.4 Results in Human Resource Development

- 16 lead auditors and 20 consultants were trained in ISO 14000. The auditors also obtained practical training so that they can register as lead auditors.
- National awareness on laboratory accreditation was raised through residential seminars.
- Ten laboratory staff were given hands on training and overseas study tours on laboratory development and accreditation.

- 30 staff from the Ministry given a training seminar on Enhancing Industrial competitiveness based on joint UNIDO Commonwealth Secretariat seminar.
- Training of groups of 8-12 operators from six apparel companies in modular technology (usually 2-4 days) was carried out at the Quick Response Centre.
- Continuous short-term training (awareness raising) of other trainees of CITI in modular technology was carried out (but such a training does not translate into immediate application at the plant level).
- Awareness of Cleaner Production was increased for more than 200 professionals from industry, universities, banks and media.
- Awareness of best practices of subcontracting was increased in more than 400 companies visited by the SPX team as well as for participants of several seminars and trade fairs. First ever exposure of industry in the country to the experience of a reverse fair in subcontracting (6 large potential contractors, 44 visiting potential subcontractors).
- 315 participants at 10 training or awareness raising seminars (usually one day) organized by the Matara DCCI on technical or managerial issues (plumbing, painting, manufacture of fiberglass products, marketing techniques, financial management, etc.) in the second half of 2001 alone (data on 2002 not compiled yet).

3.5 Results at Enterprise and Community Levels

- Out of ten companies supported by the project three were certified ISO 14000 in August 2002 by the German certification body, two additional ones are to follow. Companies visited by the evaluation team have realized the principles of environmental management. Two more companies, which were within the ten

companies assisted by the project, obtained ISO 14000 form another certification body.

- 16 companies in the apparel sector and four companies in the leather sector were advised on their technical, managerial and financial status and on how to improve it. Some of them report implementing some of the recommendations. Non-investment measures alone could often yield 20-25% increase in efficiency (=impact).
- One apparel company is reported to have started introducing the modular production (36 new machines were purchased) but it is too early to measure direct impact of the technology change in the company.
- Several tanneries in the Colombo area were advised on possibilities to reduce water consumption by 10-15%.
- Infrastructure for the leather complex at Bata-Atha is completed. Central effluent treatment plant and relocation of tanneries could be completed within six months if soft loans are made available to tanners. If implemented, the environment in the neighborhood of the current tanneries sites in Colombo will improve and more advanced and cleaner technologies will be applied by tanneries in the new Bata-Atha complex.
- Three projects for conversion of solid waste from the CETP at the Bata-Atha complex were prepared (for glue, leather board and composting). Implementation can proceed only after relocation of tanneries.
- In-depth assessment of material and energy flows was initiated at two companies which should result in identification of CP measures.

- 12 business contacts for subcontracting were established and seven contracts between business partners were concluded. The impact of these contracts on operations of the partners is not fully monitored but from an interview with one of the subcontractors such impact includes increase of production (by 15%) and improvement of the final product (reverse transfer of technology).
- 560 items of interest for subcontracting were identified by 44 visiting companies at the reverse fair in November 2002 are likely to yield additional outcome and impact in the near future.

As apparent from the above overview, results consists mainly of produced outputs and – when used – of outcomes. Actual impact at industry or community level can be traced only in case of direct interventions at industry level (such as improved operations and marketing position of the companies certified ISO 14000) or in case that an institution developed by the project already started serving industry, such as the SPX (impact: increased turnover and profitability of subcontractors who managed to conclude and implement business contracts). In most cases impact at industry or community level as a result of institution building or policy changes is subject to longer gestation period.

4. EVALUATION BY COMPONENTS

4.1 Component 1 – “Support to Industrial Development Master Plan Implementation”

Budget and expenditures (US\$)

| Original IP doc | Funded | % | <i>Expenditures August 2002</i> | % |
|-----------------|---------|-----|-------------------------------------|----|
| 958,500 | 958,500 | 100 | 850.628 | 89 |

Funding

Japan (JICA) funded the whole component.

Design

Component 1 was conceived as support to the preparation and implementation of the Industrial Development Master Plan, which was under preparation with extensive support of JICA.

The component consists of 9 outputs, which were clustered in the implementation project document TF/SRL/99/002 as follows:

- *additional sectoral studies for industrial policy formulation (outputs 1 ,2),*
- *capacity building at Ministry of Industrial Development (outputs 3, 4, 5, 6, 7),*
- *pilot restructuring (outputs 8, 9).*

The above outputs reflected a strategy of comprehensive support to formulation and implementation of new policies. The politically unstable situation in the country and several changes at the senior positions of the Ministry (in the course of implementation the IP management cooperated with four Ministers and four Secretaries) affected implementation of such a comprehensive strategy. Furthermore, a thorough analysis in some cases led to amending the original concept.

Taking into account the changes from the original design, the following sub-components are reviewed:

- i) industrial policy formulation (Outputs 1,2,4),*
- ii) capacity building at MoID (Outputs 3,5,7),*
- iii) industrial Statistics (Output 6),*
- iv) pilot restructuring (Outputs 8, 9).*

4.1.1 Industrial Policy Formulation (Outputs 1, 2, 4)

Relevance

Ensuring apparel and leather sectors' competitiveness were vital in view of global challenges.

The JICA Master Plan aimed at supporting the Government to face emerging global challenges and enhancing through suitable strategies the competitiveness of the private sector. UNIDO having participated in the initial JICA background study phase (October 1998) was requested by MoID and JICA to take part in the study by covering the Apparel and Leather sectors. The involvement by UNIDO was relevant and justified by the challenges that the JICA study was to address, the strategic importance of the sectors covered by UNIDO and the multi-bilateral effort through the joint study.

Implementation

Studies of good quality but limited use. Cost-effectiveness questionable.

UNIDO faced certain difficulties at the beginning of project implementation due to the fact that it joined JICA as a partner at a fairly advanced stage of implementation, finding already established rules and methodologies and hardly any room for influencing the methodological approach. The UNIDO reports that were finally produced were of good quality. The draft Master Plan was presented at a joint UNIDO/JICA seminar for stakeholders and the plan was finalized based on the stakeholders' comments.

The report on the apparel sector was not elaborated further into a consistent work plan how to ease the post MFA situation, as originally planned. The Master Plan finalized by JICA was initially shelved and UNIDO did not prepare an industrial policy document reflecting the major findings of the Master Plan, as originally envisaged. To some extent this situation was caused by the several changes within the Ministry (four Ministers and four Secretaries) so that national ownership of the policy outputs and the interest in their completion dwindled.

With the nomination of the current Minister, the work on policy formulation was resumed with extensive participation of the private sector in 16 sector-specific task forces led by the private sector and assisted by staff from support institutions and the Ministry. However, the Minister initiated the Programme independently of the Master Plan. Considering the high costs of the Master Plan and subsequent delays and policy reorientations, the cost effectiveness of the project in general and of UNIDO part in particular might be questionable.

Results

Sectoral reports to some extent used by the Apparel and Leather Task Forces.

Based on information provided to the evaluators by the respective chairmen, the Task Forces on Apparel and Leather have utilized to some extent the UNIDO reports as an input for the SWOT analysis and action plans prepared by the Task Forces. In terms of results, the UNIDO/JICA study constitutes one of the contributions to the emerging policy documents.

Sustainability

N. A. since this is not a capacity building project.

Synergy

Links with component 6, QSM and some coordination with JICA and ADB.

Within the programme the linkages to other components were rather limited. This was mainly due to the fact that the two components most directly related to the JICA Master Plan, i.e. the competitiveness improvement of the apparel and leather sectors did not materialize because of lack of funding. The sectoral studies influenced the scope of laboratory upgrading under Component 6 (on the basis of the sectoral studies TT&SC laboratory was additionally selected for upgrading and ITI rubber/plastics lab development was to support testing in the leather sector.) Some synergies might have materialized through the fact that JICA is at present working with the sectoral Task Forces referred to above and with ADB that has apparently used some inputs of the JICA Master Plan for preparing a recent US\$ 60 million SME loan.

Recommendations

To: MoID

UNIDO's direct advice might be sought whenever required in support to the implementation of the Action Plans by the Sector Task Forces. Relevant components of the IP, particularly those dealing with competitiveness improvement and partnerships, could be of interest.

4.1.2 Capacity Building at MoID (Outputs 3, 5, 7)

Relevance

Support to MoID in its role as facilitator to private sector led development.

This sub-component was well justified by the urgent need to strengthen the MoID capabilities to align its work to the new requirements relating to globalization and its role as facilitator to private sector led development.

The challenge was to transform MoID, which was set up to support import substitution driven State enterprise led industrialization, to become supportive of private sector led export driven open economy.

Implementation

Daily operations improved, restructuring facilitated, software on benchmarking developed but not used.

Strengthening of the Ministry was carried out successfully although in a modified manner as compared to the original programme document. Instead of upgrading skills for carrying out analytical policy studies, focus was awarded to enhancing efficiency of the Ministry's daily operations. Specifically the project defined the computer network for the Ministry and purchased and installed the computer server and a network comprising 50 computers. The project also carried out a study in the Ministry on computer skills upgrading needs and based on the study provided computer training to all of the Ministry staff. The MIS division staff was trained on programming and upgrading of the Ministry web. A programme for upgrading business English capability of the Ministry was also developed.

In transforming the Ministry the main issue was to strengthen its capacities to provide effective support to private sector development. Hence this capacity in MIS/business English was necessary. No other Ministry in the country has this MIS and business

English base. However, it should also be noted the support provided by UNIDO was more of a budgetary than a technical nature.

These activities were highly appreciated by the Ministry and are having an impact on improved daily operations.

The project carried out a study on the Ministry's capacity and role towards facilitating the restructuring of the Ministry to become more private sector oriented. A residential seminar was conducted for Ministry staff to discuss functions, support roles and guidelines for restructuring of the Ministry in order to come to a joint and shared understanding on change requirements.

Based on a US-Aid study on benchmarking, the Government requested UNIDO assistance in strengthening capabilities in benchmarking. The IP developed a software to monitor industry performance and generate benchmarks (Industry Monitoring and Performance Appraisal System - IMPAS). The IMPAS software and the concept of competitiveness were presented to the Ministry staff at a two-day residential workshop organized jointly by UNIDO and the Commonwealth Secretariat. While the software is functional it cannot be utilized at present because of lack of data from industry and low capacity to use it at the Ministry.

Results

Outputs produced partially and with major changes.

The Ministry has been restructured and is now working closely with the private sector. While this achievement can in no way be attributed solely to UNIDO, the activities carried out under the project did provide a contribution in awareness building and capacity development.

The information technology output and the training in business English enabled the Ministry to modernize and improve daily operations.

The benchmarking software is not being applied because of the above -mentione d reasons. However, the benchmarking software and UNIDO/COMSEC seminar on competitiveness development created a greater awareness within the Ministry on the need to benchmark. Ministry staff worked with the new 16 sector study task forces and did SWOT analyses, including the benchmarking concepts.

Sustainability

Private sector orientation of MoID is ongoing.

The strengthened information technology capabilities seem to be sustainable and the Ministry's overall restructuring to change towards a catalytic and facilitating role with respect to private sector development is moving also based on the continuous support being provided by other actors such as JICA and the ADB. The Ministry should mobilize resources for further training in order to ensure that the benchmarking software is utilized.

Synergy

Some cooperation with ADB and JICA.

Some degree of external synergy was achieved in cooperating with the Commonwealth Secretariat on competitiveness issues.

UNIDO provided a detailed response to the proposed ADB/SME initiative. The NPD attended the ADB mission presentation and commented on draft recommendations. The Master plan was presented to MoID jointly by UNIDO and JICA. JICA attends the Steering committee meetings.

Recommendations

To: MoID

- Mobilize resources for training and application of benchmarking methodology.

- Considering that the Ministry is being supported by major actors such as ADB and JICA, a higher degree of synergy and cooperation should in future be attempted through the intermediary and coordinating role of the Government counterpart. Should UNIDO provide future direct support or capacity building, this should be closely coordinated and aligned with the assistance provided to the Ministry by other bilateral and multilateral agencies. However, a major draw back in terms of present and future cooperation is that both ADB and JICA have strong field presence, whereas UNIDO is weak in the field.

4.1.3 Industrial Statistics (Output 6)

Relevance

Standardization and avoiding duplications are of high relevance for improved statistical operations.

Prior to the project, three Government Agencies (CBSL, MoID and DCS) had their own substantial and highly duplicative statistics operations. In addition, BOI had a very ambitious and parallel operation covering its member firms representing approximately 70% of domestic industrial output. The production of statistics was exacerbated by international organizations that fund industrial statistics projects, particularly in the context of project and programme development. There was also uneasiness from the business community, even pressure, not to be overloaded with requests for statistical information by different actors, at different points in time and for different purposes. The need to streamline and thus improve the quality of industrial statistics and to consolidate activities by four bodies was timely and well justified.

Implementation

Approach for collecting industrial statistics now standardized and coordinated. Implementation still to take place in order to see actual improvements.

The goal of the project was to build up a computerized update of the Industrial Registry by pooling lists of firms from DCS, MoID, and BOI together with lists provided by the

Ceylon Electricity Board and Employees' Provident fund. This was to lead to an updated Registry for the Western Province, which accounts an estimated 90% of Sri Lankan industry. The same techniques and procedures, along with the software developed for this purpose, were planned to be used for updating on an annual basis beginning in 2004.

The project focused much of its initial effort on correcting the most important weaknesses in the production of official industrial statistics. It improved coordination among producers of statistics, standardized in consultation with all partners the questionnaire and brought it more closely in line with the standard professional recommendations of the UN International Statistical Commission. Improved techniques and procedures for updating the Industrial Registry were also established.

An interagency working group initiated by UNIDO and consisting of BOI, DCS, MoID and CBSL agreed on a common format annual questionnaire that will facilitate data sharing among agencies and ease the burden of respondents.

Hands on and conceptual training have been provided to counterpart staff (limited for CBSL) and industrial statistics users have attended a workshop to assist them understanding industrial statistics from a user perspective and to ensure that the producers were aware of their concerns. An assessment of industrial statistics operations was carried out and a plan of action developed to upgrade techniques and procedures and improve cooperation among producers. The plan is now under implementation and is scheduled to end by March 2003. Implementation was delayed by the fact that DCS were diverted from the project to work on the Census of Population. DCS will be in a position to apply the new questionnaire and system only in 2004.

Based on the overall revised format, BOI introduced substantial improvements in a new questionnaire for quarterly surveys. BOI is using the quarterly questionnaire as of July 2002 and plans to use the annual questionnaire by 2003.

Results

Good results in terms of coordination and improved methodologies.

The main result so far has been the improved and standardized industry survey questionnaire that has been agreed upon by three agencies (DCS, BOI, MoID).

The capabilities of counterpart staff in the use of appropriate procedures and techniques in the production of statistics have been improved. Applications are taking place at MoID, BOI. DCS will implement application in 2004.

Sustainability

Ensuring sustainability is a requirement in order to optimize action so far.

The measures under the project have laid the foundation for improving the production of industrial statistics in Sri Lanka. For the system to be fully in place and operational, further assistance will be required. Specifically, additional training and technical support should be provided to the counterparts, particularly DCS, in the actual carrying out of the survey and in the analysis and processing of the information. DCS seems to have a major manpower problem for the actual carrying out of the survey that needs to be addressed to ensure sustainability of the new system. Very few people in DCS are able to use the newly developed software and additional training would be a prerequisite for enabling DCS to carry out and complete the survey in 2004. Cooperation and coordination among the different bodies must also be sustained.

Synergy

Potential for future synergies.

Synergy effects have been limited, since the main improvements in data quality will occur only after the registry updating and new questionnaire implementation will be completed. There was early in the project some attempt to link with the activities relating to surveys for benchmarking. While there is obvious potential for very fruitful synergy here, benefits will derive based on the actual application of the new benchmarking software and the utilization of the statistics format and the carrying out of the survey.

Potential for cooperation lies with other actors, particularly the ADB and JICA as well as with UNDP that, within UNDAF, is awarding high importance to strengthening national statistical capabilities and data collection.

SPX (Component 7) intends to cooperate with DCS by participating in the survey of industry in order to make use of one visit to an enterprise for two data collection purposes. This may result in some cost saving.

Recommendations

To: Government/MoID

To ensure sustainability of the achievements so far, it will be necessary that additional assistance be provided to support DCS carry out the survey.

An information and coordination effort by all counterparts, particularly the MoID is required to inform and link other actors dealing with industrial statistics to this project. Specifically, ADB should coordinate with the Ministry within the context of an SME survey that is planned for early next year. JICA, which is working directly with the Ministry, should also closely coordinate to avoid duplications.

4.1.4 Pilot restructuring (Outputs 8, 9)

Relevance

Usefulness of direct support to industry confirmed, policy feedback important, no on-the-job consultancy training.

The sub-component was included in the IP to complement macro studies of the apparel and leather sectors by pilot restructuring of a sample of enterprises in order to identify enterprise performance factors and constraints. Conceptually such a strategy is well taken and justified in spite of the fact that a similar enterprise restructuring project was carried out by UNIDO in Sri Lanka in the past covering different sectors (the present apparel sector deserves more intense analysis because the sector is facing a unique threat i.e. MFA abolition). Activities envisaged in the project design focus exclusively on advisory

and training support to the target companies and do not specify activities aiming at learning and policy feedback, such as preparation of sector -wide reports, workshops, etc. In reality, however, such studies were prepared but organization of workshops and group training proved difficult due to resistance of the companies to send staff to such events for fear of others finding out about salaries paid and the interaction leading to behind the scene head hunting.

Funding limitation and Sri Lankan corporate culture contributed to a more serious shortcoming of the design: no on-the-job consultancy training was built into the project.

Usefulness of the direct advisory services was confirmed by the target beneficiaries who stressed that “the revealed weaknesses in the company had not been previously noted by the owners or managers”.

Implementation

Transparent selection of companies; satisfaction of apparel companies with the international expert.

Selection of companies was done in a very professional and participatory way (selection criteria included financial commitment of companies; selection panel). From 85 applicants in the apparel sector 25 were selected, in the leather sector the corresponding numbers were 12 and 7.

UNIDO provided 15 w/m of international and 6 w/m of national expertise. The participating companies as well as the Government counterpart valued particularly the contribution of the international technical expert in the apparel sector. The selected national experts did not perform as expected, mainly due to other engagements.

Workshops to share experience and agree on sector-wide institutional and policy requirements have not been held so far. There was, however, a meeting of the participating companies with the Secretary of the Ministry, among others confirming the

relevance of such assistance and expressing wishes to extend such advisory services to other companies in the sector.

Results

Twenty companies in possession of good advice; slow implementation of recommendations; need for complementary interventions (market and capital access).

Altogether 16 companies in the apparel sector and four companies in the leather sector were advised on their technical, managerial and financial status and on how to improve it. In spite of the fact that visits by the technical experts in the companies were rather short (4-5 days) the advice provided was very detailed and practical. Recommendations included non-investment measures such as specific advice related to line balance, layout, incentive schemes, etc. as well as investment measures, with specification of equipment to be procured, etc. Non-investment measures alone could often yield 20-25% increase in efficiency.

As mentioned above, the interviewed entrepreneurs confirmed usefulness of the consultants' advice. They reported implementing some of the recommendations. However, they stressed that a more significant improvement in their status can be achieved only through investment in their companies and facilitation of access to foreign markets. While this may be true, they seem to underestimate the importance of improvements they can achieve through speedy implementation of the non-investment measures.

Sustainability

No capacity building.

There has not been any capacity building in this component, therefore the issue of sustainability of such a capacity does not occur.

The direct factory management that interacted with the consultants obtained hands on training. This will be sustained and multiplied.

Improvements at companies' level, if achieved, should be sustained easily as it is in the commercial interests of the companies.

Synergy effects resulting from cooperation within and outside the IP

Cost saving resulting from coordinated use of one expert by two components.

Component 1, sub-component Policy: Based on the experience from working with the companies a paper was prepared on "Some Issues Relating to Policy". The paper includes a number of recommendations deserving a thorough consideration by stakeholders and policy makers. If reviewed and adopted by the Task force on strategy for the apparel sector and the Ministry, the changes introduced in the institutional and policy framework could have long-lasting impact on the whole apparel sector.

Component 2: Use of the expert from Component 1 working on the Pilot Restructuring project to deliver lectures and advise CITI implied some cost saving (international travel costs, etc.) Vice versa, the expert promoted use of CITI among apparel companies assisted by him under the Restructuring project (Component 1).

Recommendations

To: IP Management

- Arrange for review of the policy paper within the group of target companies and submit the consolidated paper to the task force on apparel and to the Ministry for their consideration.
- Before the project is completed, arrange for a short report by the target companies on implementation of recommendations made by the experts.

- If the response is positive and confirms some changes at company level (impact) prepare and implement a similar project for other companies with two additional elements:
 - on-the-job consultancy training to strengthen local consulting capability,
 - Coordination/integration with other programmes in the country supporting access to markets and capital.

4.2 Component 2 – “Improving Global Competitiveness of the Sri Lankan Apparel Sector”

Budget and expenditures (US\$)

| Original IP doc | Funded | % | Expenditures August 2002 | % |
|-----------------|--------|-----|--------------------------|----|
| 1,689,000 | 80,000 | 4.7 | 34,500 | 43 |

Component 2, as designed in the IP document, consists of seven outputs out of which only Output 3 (*Demonstration plant at CITI – Clothing Industry Training Institute - displaying new production methods and technologies*) was funded and implemented. The evaluation covers primarily this output.

Funding

Funded by UNIDO only.

Budget: US\$ 80,000, funded by UNIDO (from voluntary contributions to the programmable component of the Industrial Development Fund).

In spite of importance of the apparel sector for the economy, no donor could be mobilized for funding Component 2. There are some hypotheses about lack of interest of some donors to support actual or potential competition of garment industry in their own countries. However, for example JICA provided a massive support (equipment, expertise, training) for quality improvement of the textile and clothing sectors in Sri Lanka. Furthermore, some outputs included in the original IP document are (at least partly) under implementation by some bilateral programmes. It can be, therefore, assumed that the lack of funding of the Component could be ascribed to some extent to lessening of funds mobilization efforts once the initial efforts failed to bring results.

Design

No project document.

Output 3 in the IP document was implemented through a project US/SRL/01/110 with the title *Establishment of a modern “Quick Response Cell” (QRC) for modular garment production*. Thus, at the time of project approval (May 2001), the Outputs 3 became more specific, focusing on demonstration of the modular technology.

There was no separate project document. Apparently activities outlined in the IP document represented the planning framework for project implementation, which was then reflected in the terms of reference for UNIDO subcontractor.

Relevance

Justification for UNIDO services: support to an on-going Government programme.

The idea of supporting introduction of modular manufacturing in the apparel sector was considered and studied in the late 1990's by a Government nominated commission as one of the strategies how to reduce impact of phasing out of the Multi-Fibre Agreement (MFA) in 2005. In 1998 the Government decided to establish a cell in the CITI to demonstrate the technology and support its dissemination. Funds were allocated for procurement of the equipment. UNIDO stepped in the process at a time when Government decisions were made and equipment procured (in the value of approx. US\$ 120,000). UNIDO services supported an explicitly defined Government programme the implementation of which was carried out primarily by the Government itself. This in itself can be considered as sufficient justification for UNIDO support.

The importance of the modular technology for modern apparel sector is without any doubt. (Modular technology shortens the delivery time and reduces the number of workers. Introduction of the modular system in a plant requires some initial investment to procure more expensive new machines and change the plant layout). The technology has

been already applied by some large companies in Sri Lanka. However, the views on the relevance of the modular technology for SMEs differ. While representatives of the large companies believe it may be useful not only for them but also for the SMEs, the SME managers/owners themselves do not consider the technology relevant for them. Indeed, demand for demonstration and training at the Quick Response Centre has been rather low so far. For the opening seminar only two companies showed up. In the first six months of operations the Centre has been used by six companies only. Thus the relevance of the Government programme to establish the Centre at CITI is yet to be proven.

Ownership

National ownership: strong.

Given the origin of the project as described above its ownership by the counterpart was very strong.

Implementation

Smooth and efficient.

In the course of implementation UNIDO provided experts who primarily trained 10 CITI staff as trainers of the Quick Response Centre. Training was organized in an effective way (split missions of experts over period of six months), quality of trainers was good. Two manuals were prepared so that this important aspect of institution building was not neglected. Besides, some awareness raising seminar for industry were conducted. The counterpart (CITI) is satisfied with the quality of UNIDO services.

Results

Results: Output of (the Centre) very good , its use and impact are limited so far.

The Output was produced as planned, the Quick Response Centre is fully operational, with adequate equipment, trained staff and methodological tools (manuals). The Centre offers two options for companies how to use it:

- renting it for production purposes (at 6000 LKR per day),
- training company technicians and workers how to operate the new technology.

The use of the QRC has been limited. During the first six months of operations no company has been interested in renting the Centre for production purposes, considering the costs too high. Six companies used the QRC for training. Training of a group of 8-12 operators lasts usually 2-4 days. This type of training was provided to five companies, one company used the QRC for more extensive training.

One company out of the six is reported to have started introducing the modular production (36 new machines were purchased) but it is too early to measure direct impact of the technology change in the company. The QRC is used also for short-term training (awareness raising) of other trainees of CITI but such a training does not translate into immediate application at the plant level. While, up to now, the outcome and impact of the project have been very modest, it is too early to make a definite judgment.

Sustainability

Sustainability of CITI good, sustainability of the QRC questionable.

The Centre is a part of CITI, which is continuously increasing its income for training and other services so that the level of self-financing of operating costs exceeded 80% in 2001. The prospects for 2002 are even better. It is indeed encouraging to witness classes full of trainees, with training in process. Use of CITI can be further enhanced and its position in the institutional framework of the garment sector strengthened. It is, for example, surprising that CITI did not participate in the preparation of the five year strategy for the

Sri Lankan Apparel Industry. Its position in the industry sector would be strengthened if it is transferred from the Ministry of Education to the Ministry of Enterprise Development, Industrial Policy and Investment Promotion and merged with the Textile Training and Service Centre (TT&SC).

Sustainability of the Cell itself will depend on the capability of CITI to raise demand for its services. With the present level of use there is a risk that the skills will not be sustained.

Synergy Effects Resulting from Cooperation within and outside the IP

| |
|---------------------------|
| Synergy effects: Minimal. |
|---------------------------|

Use of the expert from Component 1 working on the Pilot Restructuring project to deliver lectures and advise CITI implied some cost saving (international travel costs, etc.) Vice versa, the expert promoted use of CITI among apparel companies assisted by him under the Restructuring project (Component 1).

Recommendations

To: Government

Transfer CITI under the responsibility of the Ministry of Enterprise Development, Industrial Policy and Investment Promotion and merge it with TT&SC.

To: CITI

- Establish contact with the Task Force on Strategy for the Apparel Sector in order to review the elaborated Strategy and offer relevant CITI services for its implementation.
- Evaluate the experience from the November 2002 fair and adjust the marketing strategy to raise interest in QRC services.

To: IP Management

In view of the importance of the sector renew efforts to raise technical assistance to this sector. Use the above mentioned Strategy as the entry point for UNIDO support to the sector. Revise Component 2 of the IP in the light of the Strategy Action Plans. Consider also feedback from the Restructuring Pilot project (the draft policy paper).

4.3 Component 3.A – “Assistance in Pollution Control and Treatment of Tannery Wastes for the Leather Complex at Bata-Atha”

Budget and Expenditures, incl. Support Costs (US\$)

| Original IP doc | Funded | % | Expenditures August 2002 | % |
|-----------------|-----------|-----|--------------------------|-----|
| 998,581 | 1,039,331 | 104 | 1,056,000 | 102 |

Component 3 consists of six outputs, all of them are funded through project document DG/SRL/99/006.

Funding

More than envisaged; complex administrative arrangements.

The project is funded by NORAD from their bilateral Chapter, with funds (in Norwegian Crowns) channeled through the Sri Lankan Government to UNDP for national execution with UNIDO as implementing agency. This arrangement required some time to administer the transfer of funds and implied retaining a portion of the funds (US\$ 36,000) by UNDP as support costs. Furthermore, the US dollar value of the contribution decreased in time due to foreign exchange rate losses. This amount has been completely recovered (US\$ 130,000) from the additional NORAD fund received in August 2002 and remitted directly to UNDP.

There is little that could have been done about these arrangements except for speeding up the transfers.

Design

Risk of non-fulfillment of MOU not assumed in the project document.

This is a rather complex project with four parties involved in its implementation: the Government (back then the Ministry of Industry), company SLAT(P) Ltd. established by the tanneries, UNIDO, and 14 tanning Companies in the greater Colombo area. The project document envisaged coordinated efforts of the first three stakeholders to prepare a new leather complex at Bata-Atha with a Central Effluent Treatment Plan (CETP) to which the 14 tanneries should relocate their plants. The project document specifies responsibilities of the first three stakeholders with cost specification only for UNIDO, not for the Government or SLAT. Furthermore, “in view of the perceived urgency to relocate” supported by existence of a memorandum of understanding (MOU) between the Ministry and the tanneries signed in 1998 the project document underestimated the risk of non-fulfillment of the MOU and, thus, delays or even waiving of relocation of the tanneries.

Relevance

The project addresses needs of all key stakeholders.

The intention to relocate tanneries from the Colombo region goes back to 1989 when the Ministry of Environment warned all tanneries that their operations would not be licensed unless action was taken by them to abide by the regulations within one and a half years. Since that time the account of activities undertaken by the tanneries, the Ministry of Industry, Central Environment Authority (CEA), Export Development Board (EDB) and others would make a long story that need not be pursued in the context of this evaluation. What is essential is the fact that the plan has never been abandoned and that the tanneries are still ready to relocate if the conditions stipulated in the MOU are met, i.e. that soft loans are made available to finance the relocation of plants. In view of the fact that the tanneries are currently located in urbanized areas without possibility for extension of the plant area, the tanneries themselves are interested in locating in a site with long-term development perspectives. They declare to be ready to cope with the added costs of transporting the finished products to Colombo. Apart from the soft finance to be made

available for all re-locating tanneries as the key prerequisite for relocation the other concern of the tanneries is that:

- 1) all 14 tanneries relocate so that no one is allowed to benefit from waiving the relocation costs and thus disturbing fair competition,
- 2) problem of solid waste is solved.

Ownership

National ownership is very strong.

National ownership of the project is very strong. Tanners paid in equity in SLAT(P) Ltd. Responsibility of the Ministry for sorting out current funding problems is fully recognized and reflected in its strong commitment to act and not to let the project become a white elephant.

Implementation

Implementation was delayed due to technical complexities, currently it is discontinued due to absence of loans for tanners.

The current status of implementation of major physical elements in the Bata-Atha complex is as follows:

Status of implementation of physical elements in the Bata-Atha complex (November 2002):

| Stakeholder | Tasks | Budget (Million LKR) | Expenditure | % of compl. | Months required |
|----------------|---|-------------------------|--------------|----------------|--------------------|
| Gov | Land allocation (105 + 45 acres) Infrastructure up to the complex (roads, power, water supply, effluent water discharge line), temporary landfill for solid waste | 243 (approx.) | 200 | 85 | 4 |
| SLAT | Civil and electrical works for CETP and lab | 64 (NDB loan) | 6 | 10 | 5 |
| UNIDO | Design, expertise, training, equipment for CETP and lab | US\$ 979,814 | US\$ 944,846 | 90 | (5) + 1 |
| Tanners | Relocation | Loan 500 | | < 5 | 5 |

The project should have been completed in 2001. Apart from the delays in handling the transfer of funds other delays occurred due to technical and organizational complexities (for example, it was necessary to re-do the layout plan of the Park prepared by SLAT). In February 2002, Government allocations for infrastructure were exhausted and new provision was made through intervention by the Ministry with the Government Treasury. Government funding was resumed in August 2002. At that stage pressure was brought to bear on the tanning companies to commence re-location. At that time the banks administering the E-Friends fund obtained from a Japanese bank and envisaged for this purpose informed the tanners that the funds had been exhausted on other projects, probably also due to delays in the implementation of this project. Since NDB made availability of loans to the tanneries one of the conditions for granting SLAT a loan to carry out civil works for the CETP, these civil works could not be continued either. This in turn blocks UNIDO to deliver and install equipment in the CETP (in fact, 40 % of equipment has already been delivered and is kept in boxes, stored on site and guarded, the remaining part was paid for but upon request of the project management is held by the Indian supplier pending instruction to deliver it once the civil works are completed). Thus, non-availability of soft loans for the tanneries blocks not only their relocation but also completion of the CETP and other project outputs linked to its operations.

Originally the project document budgeted three months of international and 58 months of national expertise plus some subcontracts. It was assumed that technical support to the project would be further supported through a regional project planned by UNIDO in South-East Asia (with core technical expertise in Madras). As this project did not materialize, the counterpart in Sri Lanka felt for some time that technical backstopping by UNIDO was not sufficient. In 2001, an international expert was stationed in Sri Lanka for nine months and in 2002 for additional six months. Thus, the problem of technical support was alleviated but at the cost of increased inputs. This was further compounded by the extended duration of implementation which increased also inputs of national experts and entailed some recurrent cost, such as guarding of the equipment on site. To avoid further increase of costs it is therefore imperative to complete the project as soon as possible. The stakeholders estimate that the project (CETP plus relocation of tanneries) can be completed within 5-6 months from the time the funding is secured.

Results

One output completed, completion of the other ones depends on relocation of tanneries.

The project consists of six outputs for which UNIDO is co-responsible, the critical one being the CETP (Output 2). Their production status is as follows

Status of Production of Outputs

| <i>Plan 1999</i> | Status November 2002 | Percentage | |
|---|---|-------------------|---|
| | | UNIDO | Total (UNIDO, Gov, private sector) |
| Recommendations of process technology to reduce pollution/ improve quality of leather. Operational CETP, with staff trained. | Advice on reduction of water consumption provided; advice after relocation planned. | 30 | 30 |
| | Equipment purchased, CETP staff trained. | 90 | 10 |
| Lab for CETP, with staff trained. | Equipment purchased, two chemists trained. | 90 | 10 |
| Temporary landfill site for sludge. | Under implementation by Government. | n.a* | 50 |
| Projects: conversion of solid waste. | 3 projects prepared (glue, leather board, composting). | 100 | 100 |
| Demonstration of using treated effluent for irrigation. | 50 plants planted, agreement with NGO on future maintenance. | 10 | 10 |

**) UNIDO supplied the design and technical know how. Construction was taken over by the Government from SLAT*

Except for Output 5, which represents feasibility studies (conversion projects), no other outputs have been completed so far primarily because all of them depend on completion of the CETP and its operation. Building of temporary landfill site for the first two years was taken over by the Government. The work is in progress.

The complex is still far from completion but, at the same time, the considerable investment in infrastructure by the Government is visible and makes it possible to complete it and make it operational within a relatively short time horizon. Should this actually happen, the project has good chances to become a success with positive economic and environmental impact.

Sustainability

| |
|---|
| <i>Mechanisms to support sustainability of the complex created.</i> |
|---|

SLAT(P) Ltd. will be in charge of operating and maintaining common facilities of the complex (primarily the CETP, laboratory, landfill site, etc.). This will be a task demanding professional and managerial competence. In order to support these functions, SLAT(P) Ltd. signed a MOU with local university about training and provision of technical expertise. Discharge of these functions will be influenced also by the Technical Advisory Committee comprising both technical organizations (UNI, NCPC, etc.) and parties actually or potentially concerned with operations of the complex (District CCI, BOI, Women Development Federation, Small Fisheries, etc.). In order to facilitate housing for technical staff the Government earmarked a plot of land in the adjoining property for down stream development, a part of which could be allotted for housing. It may be, however, difficult to recruit and keep trained people in the initial phase of operations on the new site unless they are from the locality.

In the long term the sustainability of the complex will depend primarily on competitiveness of the tanneries and of the leather sector as a whole. In this context the Component 3.B of the IP (not funded so far) becomes very relevant.

Synergy effects resulting from cooperation within and outside the IP

Coordination with other IP components marginal.

The NCPC Director is a member of the Technical Advisory Committee but no coordination of activities or NCPC input to the SLAT activities has been implemented so far. Technical requirements of SLAT are very specialized so that NCPC may not be the appropriate source for provision of technical information and advice.

Recommendations

To: Government, SLAT

Soft loans for tanneries need to be secured as soon as possible. It is envisaged that by the time this report is issued the loans will hopefully be a reality.

Prepare a plan coordinating activities of the key stakeholders in the forthcoming period. In this context timing of international expert(s) should be carefully planned to ensure full utilization and avoid cost overruns.

To: Government, IP Management

Review and, if required, reformulate Component 3.B of the Integrated Programme taking into account the sectoral strategy prepared by the Task Force on the Leather Sector and mobilize funds for its implementation.

4.4 Component 4.A – “Sri Lanka National Cleaner Production Centre (NCPC)”

Budget and expenditures (US\$)

| Original IP doc | Funded | % | Expenditures August 2002 | % |
|-----------------|-------------|-------|-----------------------------|-------|
| 1,264,400 | (1,264,400) | (100) | | (7.2) |
| | 289,000 | 22 | 91,000 | 31 |

Funding

The component is funded by NORAD.

Funding is committed for the whole component with actual transfer of payments on annual basis.

Design

Excellent project document.

Project document exceeds by far UNIDO standard practices (very detailed analysis of problems and potential stakeholders, exceptionally well elaborated indicators). Main components of the planning matrix were taken over by the IP and entered in the IP document without any significant change.

In the project document, when evaluating past experience, one conclusion is doubtful: lack of success of the previous project is explained by its focus on provision of hardware. True, procurement of hardware was a complex task, sometimes lacking professional expertise to implement it, but such problems were problems of the implementing agency. On the recipient side the provision of equipment represented a strong support for implementing CP measures.

Relevance

Relevance of NCPC is derived from the need to promote environmental policy objectives.

Sri Lanka has experience from implementation of a number of CP related programmes. Most of them proved that the CP concept is technically sound and politically desirable but not readily embraced by industry and broadly adopted. To promote the concept further a project for a NCPC had been under preparation for some time before the IP was formulated. It was included in the IP not so much because it was demanded by industry associations but rather through promotion by UNIDO and anticipated interest of donors to support environment-oriented projects. It is apparent that in spite of aiming at highly commendable environmental objectives (CP), the effective demand for services of NCPC needs to be created through awareness raising and other promotional efforts.

Ownership

National ownership is very strong.

It took some time to identify a dedicated counterpart and to consolidate the ownership of the project. These uncertainties have been overcome; the project is hosted by a recognized organization and well integrated in the institutional framework through a Steering Committee consisting of representatives of potential users as well as partners.

Implementation

Once counterpart was selected, implementation was efficient.

Time was lost in looking for a dedicated counterpart and a donor. Once the project started and the NCPC director was nominated the process of establishing the NCPC and unfolding its activities was very fast. In less than a year the NCPC was made operational (five staff recruited, office furnished, laboratory equipment in the tune of US\$ 15,000 procured, etc.), awareness raising workshops for specific target groups organized – universities (52 participants), entrepreneurs (39), media (40), banks (28), rubber sector (36), coconut sector (24). Training of company staff as the first step of in-depth assessment in two companies started.

Given the low number of staff the activities are to some extent carried out by external staff, which is a standard modality of NCPC operations in other countries. Quantitative

dimension of NCPC activities is highly satisfactory, selection of the target groups is very appropriate (working with banks is particularly commendable). Networking with numerous organizations and programmes contributes to effectiveness of the operations and increases visibility of the NCPC. A web page is under preparation, with respect for efficiency (planning to take over the databases of CleaNet established some time ago by the World Bank but turned idle for some time).

The National Programme Director and member of the NCPC Steering Committee expressed a wish to have the UNIDO Project Manager more often in the field to advise the NCPC.

Results

Production of outputs in progress, as planned.

One output (establishment of the Centre) is completed, the other ones are under implementation, the most advanced being the awareness raising. Given the short implementation period the progress in producing the outputs is very good. It is, however, too early to expect impact at this stage.

Some universities declared interest to introduce the CP concept in their curricula but such intentions have not been implemented so far. The NCPC Director himself delivers lectures at the universities and at training courses of SLSI on EMS.

Spreading activities over many target groups may support dissemination of the CP concept in the country but it needs to be complemented by a narrow focus on working with several companies to achieve and demonstrate immediate impact.

Sustainability

Good chances to recover a great part of recurrent costs.

The Centre is well aware of the essentials of sustainability: qualified and motivated staff, services for which demand exists or can be created, and charging for services. Plans are

under way to carry out consultancy services for 32 companies in the Dankotuwa industrial estate to get them ready for ISO 14000 certification. Expected income from these services (LKR 120,000 per company on average, much lower than the current market price LKR 300,000-500,000, certification fees excluded) would cover significant portion of the operating cost. In addition, to income from industry other income is expected to be earned through implementation of project for the Government or external donors. Some subsidy (such as currently available free office space) will have to be provided for longer time.

The Centre is identified very much with the current director. Should he leave, the Centre would face serious problems of sustaining operations at the current level.

Synergy effects resulting from cooperation within and outside the IP

Extensive cooperation, actual synergy effects too early to occur.

- Component 6: The director participated at the training (as trainee) of ISO 14000 auditors carried out by Component 6. He himself delivers lectures on CP in the context of training courses on EMS and ISO 14000 organized by SLSI (supported by Component 6).
- Component 3.A: The Director is a member of the Advisory Group for the Relocation of Tanneries. However, no actual technical advice has been provided to tanneries so far.
- Component 7: plans to cooperate with SPX on establishing a waste data base (Waste Recycling Exchange); promoting SPX when visiting companies.

Cooperation outside the IP

- Triple-bottom-line (TBL) project of SMED/UNIDO: Triple Bottom Line project of SMED/UNIDO: NCPC participated in elaboration of the environmental dimension using Cleaner Production and preparation of the video film.

- ADB: NCPC participated in the ADB CLIND project under Ministry of Enterprise Development, Industrial Policy & Investment Promotion to develop Policy, Strategy and Action Plans for Incorporating CP Policy into Industrial development.
- ILO: ILO assistance was obtained to get relevant trade union information and NCPC will be working with ILO to disseminate information on CP & TBL during the seminar for Trade Unions Officials.

Recommendations

To: NCPC

In fact the NCPC is on the right track and there is little to be changed. Perhaps a general recommendation: Avoid spreading over too many activities, focus in the near future on achieving results at industry level and in the universities.

To: UNIDO Project Manager

Discuss with the NPD the possibility of more frequent visits of the NCPC.

4.5 Component 5 – “Capacity building and support services for the promotion and growth of micro and small and medium scale enterprises (MSMEs)”

Budget and expenditures (US\$)

| Original IP doc | Funded | % | Expenditures August 2002 | % |
|-----------------|---------|----|-----------------------------|----|
| 2,278,000 | 459,241 | 21 | 441,944 | 96 |

Funding

UNIDO, the United Kingdom (UK) and UNDP.

Regular Programme for Technical Cooperation (US\$ 193,266), programmable contribution from the UK (US\$ 181,175) and UNDP (US\$ 84,800).

Design

Activities actually implemented differ from plan documents.

The component was designed during the IP programming mission and covered a very broad range of MSME support activities in the Southern region as well as in the North East. However, it soon became apparent that the limited duration of the programming mission had not allowed for properly covering such a complex field and involving all the many players and stakeholders as required. Some of the potential cooperation with other programmes, such as UNDP and SIDA, did not materialize due to changed priorities of those programmes and lack of financing as a result. Activities in the North East were put on hold due to the resumed conflict in the region at that time. In fact all sub-components, except for the one on business incubators, turned unrealistic and a new mission had to be sent to formulate the component anew.

Two project documents were prepared by the new formulation mission for strengthening the FCCISL and the Ceylon National Chamber of Industries (CNCI) with their district

chambers in the Southern Province (US\$ 1.5 million) and for strengthening the Chambers of the Southern Province: Galle, Matara, Hambantota districts (US\$ 300,000).

De-facto the SME component did not follow the above documents either and was implemented based on the following two sub-components which were selected in consultation with the Government and the respective counterparts:

1. strengthening the institutional framework for SME development: Federation of Chamber of Commerce and Industry in Sri Lanka (FCCISL) and its network in the South and strengthening the capacity of the Matara District Chamber of Commerce and Industry (MDCCI),
2. assistance to develop a business incubator in the Southern Province.

The above activities were not covered by a revised project document and were funded by the Regular Programme for Technical Cooperation and by a programmable contribution of the UK to the Industrial Development Fund. A “fishbone exercise” was the basis for this allocation. The lack of a document is not in line with standard legal and administrative requirements. Furthermore, the absence of a plan document does not allow for the evaluation to compare actual versus planned results. The modality of implementation based on a completely changed approach, outputs and activities and without any reference document should be strongly discouraged.

Relevance

Employment generation in rural areas.

Support to SME development in rural areas and in the poorer regions of the country, such as the south, as well the development of the support infrastructure required is of relevance for poverty alleviation and employment creation.

Implementation

Chamber related activities implemented according to plan and appreciated by counterparts; innovative concept of business incubator transferred.

Support to MDCCI

The Matara Chamber (MDCCI) was equipped through the project with appropriate office space and trained staff, an information unit, and various manuals and tools for SME development and private sector promotion. Furthermore a comprehensive survey of MSME in the Matara district and a comprehensive skills development needs profile of SME entrepreneurs was carried out. In the period July 2001 to November 2001 MDCCI organized and conducted 10 specialized training courses for 315 MSME entrepreneurs from Matara, Galle and Hambantota.

Support to FCCISL

The capacity of the FCCISL was strengthened through the following activities:
continuous consultations and direct advice on strategies and modalities for SME development and business advisory services,
information giving and awareness building on specific methodologies and tools for MSME development and private sector development, including experience and practices in other parts of the world,
a registry of Business Development Service Organizations (BDS) in the Southern Province compiled,

demonstration on how cooperation between the FCCISL and a district chamber can work and creation of a regional development unit within the Chamber that will in future be in a position to provide services to other districts as well.

The activities with FCCISL were implemented according to plans and benefited both the Chamber as well as the Matara District Chamber. The support and advice provided by UNIDO are highly appreciated by the Chamber.

Ruhuna Business Incubator

The idea of business incubators is rather new in Sri Lanka and UNIDO prepared a high quality report on business incubators for Sri Lanka in the context of a UNDP funded project started before the IP programming mission. The report was followed up by assistance in preparing a business plan for the Nawabima incubator in the Moratuwa area. The establishment of the Nawabima incubator has not succeeded mainly due to lack of resources. The national expert working on this report and business plan was instrumental in proposing the idea of a business incubator at the Ruhuna Agricultural University in the South and became the national expert supporting the establishment of the incubator.

The Ruhuna business incubator (RBI) has been established in close collaboration with the Ruhuna Agricultural University; various feasibility studies have been conducted; a blueprint of the business incubator was prepared by the international expert, a committee was formed and is working on the monitoring of the Incubator's activities; premises have been refurbished and renovated; a study tour was organized for two representatives of the RBI stakeholders and UNIDO national expert in Italy. The national expert has taken over from the international one and is carrying out his activities based on top standards. Transfer of international to local expertise is a success in this specific case.

Results

| |
|---|
| <i>Strengthened decentralization of Chambers' activities; Ruhuna incubator established but not yet operational.</i> |
|---|

MDCCI

The Matara Chamber has organized and carried out ten specialized training courses with a total of 315 participants. The Chamber has now acquired the experience to organize further demand based training courses and advisory/information services and to provide a place for encounter and information exchange. MCCI needs further capacity building, however, in planning and organization of their activities to improve its advisory functions. An ambitious activity plan for 2003 has been developed expanding the range of the Chamber's activities and covering trade fairs, subcontracting partnerships, credit facilitation, provision of information and of business advisory services. Income generating plans have been established and the Chambers plans to reach financial self-sufficiency by 2005.

FCCSIL

The only result that can be directly attributed to UNIDO is the establishment of the regional development unit within FCCSIL and the strengthened capacities in providing SME services at the district level through the "pilot" Matara Chamber.

In broader terms, FCCISL is to date in a position to provide a wide range of services to SMEs (training, information, direct advice e.g. in marketing and investment promotion, etc), has increased its fee paying membership, is successfully liaising with other Institutions, including Finance Institutions and Development Banks, and is actively involved in the public-private sector dialogue (e.g. Southern Province Regional Economic advancement Programme (REAP), the Integrated Rural Development Programme (IRDP), etc.). The Chamber's strengthened capacity is having effects on the SME sector at the district level as proved by an increase in the demand for services and membership. However, this achievement can in no way be solely attributed to UNIDO considering that other actors and donors (e.g. SIDA) are helping FCCISL to build its capacity in a much larger scale.

Ruhuna Incubator

The Incubator has been established, the physical infrastructure is in place, buildings have been refurbished, equipment provided and activity, promotional, marketing and managerial plans have been prepared. Due to the low level of selected incubates the Incubator is not yet operational.

The main problem being presently faced is the incubate selection. The response to the initial invitations for applications in March 2002 has been poor and, based on further publicity efforts in June 2002, 140 applications were received out of which only three applicants were selected for admission to the incubator and another three are under consideration. The incubator management has developed a good and realistic concept on how to address this problem based on initiating activities on small-scale basis (6 incubates) and subsequently demonstrating the concept to potential sponsors. Linkages with universities and technical colleges as well as with relevant NGOs and with ILO are being strengthened in order for these institutions to become clients and partners. Activity plans; promotional and networking activities, marketing and organizational/managerial structures have been well devised.

Sustainability

Sustainability of MDCCI and Ruhuna Incubator are still critical issues.

In terms of capacity building for the Chambers, sustainability is an issue mainly for MDCCI. The Chamber moved from an infant stage to a full functioning operation and has acquired a substantial level of knowledge and skills as business development service provider in the Southern province. However, it still needs a strong guidance in planning and organizing the advisory services and its capacity needs to be further strengthened in terms of outreach to potential clients, particularly those at the micro and small level.

The Ruhuna incubator has reached a critical point in so far as operations could start subject to availability of local sponsoring and support by other donors and subject to a larger number of properly qualified incubates being available. While action is being taken to meet these challenges, it is clear that additional support and subsidies (expert support, services to tenants) are required and that a longer gestation period is needed since there is little chance for sustainability in the near future. The suitability of the location needs also still to be proven.

Synergy

More cooperation with other multilateral and bilateral partners working in MSME field is called for.

Matara DCCI supported SPX in the identification and selection of industrial companies in the district that could be visited by the SPX team and assessed as candidates for subcontracting.

Some cooperation took place with the ILO project “improve your business” through joint organization of some training workshops and some target beneficiaries of UNIDO project also attending ILO training.

SIDA and UNIDO inputs strengthening the FCCISL were coordinated by FCCISL itself. UNIDO IP management is not aware of the details of the complementary efforts made by SIDA.

In general, this component should be more strongly linked with activities by other multilateral and bilateral partners in the field of MSME support.

Recommendations

To: FCCSLI and MDCCI

- Strengthen collaboration with the other two districts in the Southern Province.
- Ensure more involvement of NGOs and Community Organizations to improve outreach to the micro and small enterprises and to women entrepreneurs.
- Review action plans in order to ensure that they can be realistically implemented. In order to comply with the concept of Business Development Services elaborated with the support of ILO, keep in mind that the district chambers should act as organizers/brokers of services, not as direct providers of services.

To: Government and UNIDO Management regarding the Ruhuna Incubator

- Consider extending substantive and financial support to MDCCI and to the Ruhuna incubator to verify whether they can reach the stage of self-sufficiency and sustainability.
- Use the Ruhuna incubator experience to support the national incubator programme.

To: MoID and IP Management

- Consider extending substantive and financial support to MDCCI to ensure that it reaches the stage of self-sufficiency and sustainability.
- Prepare a detailed project document for the continuation of activities indicating baselines and results expected in order to facilitate future monitoring, evaluation as well as funds mobilization.
- The SME component in the South, if continued, should focus on, and strengthen, already started activities as niche areas for UNIDO. Close programmatic and possibly financial links should be established with the many actors in the SME field, including ILO, UNDP, ADB as well as NGOs and bilateral donors.

To: UNIDO Management

- Ensure that in future all funded activities, irrespective of sources of funds, are covered by a planning document.

4.6 Component 7 – “Industrial Subcontracting and Partnership Exchange (SPX)”

Budget and expenditures (US\$)

| Original IP doc | Funded | % | Expenditures August 2002 | % |
|-----------------|---------|----|-----------------------------|----|
| 212,000 | 200,000 | 94 | 187,075 | 93 |

Funding

Not sufficient, UNIDO only.

Budget: US\$ 200,000 (original budget in the IP document: US\$ 212,000), funded by UNIDO (from voluntary contributions of the UK to the programmable component of the Industrial Development Fund). The budget and available funding is not sufficient to support the SPX during its whole gestation and running in period (up to three years) but it should be sufficient to have a fully operational and autonomous SPX. Additional US\$ 200,000 are requested for Phase 2 to engage in international promotion and achieve financial sustainability.

Design

Standard SPX design.

The component is based on a draft project document consisting of seven outputs representing key milestones on the way to having a fully operational SPX. It is a standard design applied previously in other countries. However, only one indicator was set for quantifiable activities.

Relevance

Relevance: project well substantiated.

Project idea dates back several years before the IP programming mission. Sri Lanka has experience from a Subcontracting Exchange operated by the IDB acting mainly as clearing house for public tenders. A ministerial committee recommended in April 2000 that a UNIDO-type SPX be established as a separate unit of FCCISL. A thorough needs analysis was carried out at the initial preparatory phase confirming the possibility of subcontracting in selected sectors and, thus, the relevance of SPX promoting its application in those sectors.

Ownership

Excellent host organization.

The SPX is hosted by Small and Medium Enterprise Developers (SMED), a joint collaboration project started in 1989 between FCCISL and Friedrich Neumann Stiftung. SMED exercises model ownership functions: provides office space free of charge, allows to draw on its professional expertise whenever required and intends to support SPX once the UNIDO project is completed. National ownership is further strengthened through a well composed Steering Committee comprising a number of chambers and industry associations, IDB, BOI, EDB, and some other organizations.

Implementation

Inputs of good quality, activities carried out as planned.

Implementation proceeded swiftly and without problems, UNIDO inputs consisting mainly in provision of expertise, study tours and established methodologies and software packages (outsourcing 2002). Both national and international experts have been of high professional quality. The quantitative and qualitative dimensions of activities are

commendable (over 400 company visits, more than 250 companies registered in the database with detailed specifications of their subcontracting potential, several seminars and a number of promotional events, sectoral studies with policy recommendations, etc.). Particularly outstanding is the way how company visits are organized and carried out, with trouble shooting and other shop-floor advice provided by the SPX staff. In addition, to immediate impact for the company this approach creates trust in the competence of the SPX and increases willingness to cooperate with it.

Importance has been also placed on trade fairs. The first reverse fair (November 2002) was particularly significant, with a number of large companies (potential contractors) participating.

Results

Almost all outputs produced, good capacities in place, outcome adequate, impact still modest.

Except for Output 7, all other outputs have been produced. The SPX is well established, with highly competent professional staff (4), methodologies and databases in place, and a very appropriate Steering Committee. Technical problems of adjusting the software to specific features of some sectors are being addressed. As foreseen in the project document, Output 7 (links with SPXs and main contractors abroad) is only starting (links with SPXs in India established). Focusing on national subcontracting in the initial stage of operations has been a good approach.

Use of the developed capabilities (outcome) is good and can be manifested by more than 150 inquiries received, 12 business contacts established and seven contracts between business partners concluded. The impact of these contracts on operations of the partners is not fully monitored but from an interview with one of the subcontractors such impact includes increase of production (by 15%) and improvement of the final product (reverse transfer of technology).

A study on Legal and Economic Constraints in Subcontracting was concluded and will be submitted to the Government (once approved by the Steering Committee).

The reverse fair with six large companies and 59 visiting companies who identified approximately 560 items of interest for subcontracting is likely to yield additional outcome and impact.

Sustainability

Financial sustainability not realistic soon.

Both management and technical/professional capabilities of SPX are well developed and have the potential to further upgrade without external support. The capability of the SPX to react promptly to new challenges is demonstrated by activities already undertaken in the North.

However, in financial terms the prospects for sustainability are less optimistic. So far the SPX has not started charging fees but there are plans to start in the next two years. It is expected that fund generating activities such as training, seminars, fairs, supplier upgrading and technical consultancies would bring in funds to the SPX. In spite of that it is unlikely that – given the number of staff - it would be possible to recover fully the costs. Thus, for quite a few years to come it will be necessary to ensure some subsidy to the SPX. Only once the matchmaking expands considerably (including international matchmaking) will it be possible to convert the SPX into a self-sustained operation.

Synergy effects resulting from cooperation within and outside the IP

Good cooperation within IP.

Through the host organization and the Steering Committee the SPX is well anchored in the Integrated Programme. Well informed about NCPC, on the occasion of company visits the SPX promotes NCPC services and plans to cooperate with NCPC on establishing a waste data base (Waste Recycling Exchange). Similarly, SPX promotes ITI and SLSI services. Cooperation with the Matara DCCI (Component 5) saves some costs of identification of local companies (using information on DCCI members). SPX also plans to cooperate with the Department of Statistics (Component 1) in conducting survey of industry in the Western Province; this will save some costs for both organizations. In economic terms, the synergy effects are not significant, but awareness and promotion of other IP components contributes to enhancing visibility of the IP as a whole.

SPX has been cooperating also with organizations outside IP (such as the GTZ project Enterprise Service System Promotion).

Recommendations

To: SMED, IP Management

- SPX deserves to be supported in financial terms for a couple of years. Search for ways and means how to sustain financially the operations.

To: SPX

- Proceed with charging services to enterprises, starting with larger companies.
- When made available by the business partners, collect information on commercial values of concluded contracts.

- Once established and experienced in international subcontracting operations in the sectors currently serviced by the SPX examine and evaluate also possibility of supporting international matchmaking through joint ventures in the apparel sector using UNIDO ITPO and Other SPX Associate member networks.

4.7 Component 6 EVALUATION REPORT SRI LANKA INTEGRATED PROGRAMME BY UNIDO

By Ivar Foss,
Ivar Foss Quality Management, Oslo
with contributions by Jaroslav Navratil, UNIDO Consultant

4.7 Component 6 – “Quality, Standardisation and Metrology Support” Special Report by I. Foss with contributions by J. Navratil

1. Introduction

The IP consists of nine components which address several stakeholder groups; Private sector industry and trade, public authorities and a supporting infrastructure which is needed for the two others to function well.

Component 6 addresses one aspect of the infrastructure: Quality, Standardisation and Metrology. In order to realize the concept of an IP, it is important that the various components are balanced. This is not the case so far. In particular, the two industry sector development components, 2 and 3.B, have hardly received any support. Also Component 5 for MSME development has only 21 % of the planned funding.

In spite of the imbalances pointed out, the support services of Component 6 will be useful for existing Sri Lankan industry.

A number of important development efforts were in place at the time when the UNIDO IP started. First of all, a National Quality Policy had been developed under SIDA sponsorship. The document was worked out by a wide committee and was endorsed by the President and the Minister of Science and Technology. In parallel, a plan for implementation was devised. The plan has partly been implemented by the institutions concerned, but unfortunately no government action has been taken.

The national standards body SLSI had also undergone substantial developments prior to the start of the UNIDO IP. Today it stands as a good national standards body with a range of services:

- *Standardisation.* 1600 standards have been adopted, many based on ISO/IEC international standards. An extensive committee structure has been established.
- *Product certification.* More than 500 products have been certified.
- *Regulatory services.* A limited import inspection scheme and a HACCP scheme for inspection and certification of fish processing plants in its operations.
- *Laboratory services.* SLSI operates a range of laboratories. The chemical and the microbiology laboratory received support under the UNIDO IP.
- *Management system certification.* SLSI have issued about 180 ISO 9000 certificates and has about 50 % market share, in stiff international competition. It

- is accredited by the Dutch accreditation body RvA. SLSI has also started HACCP system certification of companies and is starting ISO 14000 certification of environmental management systems.
- *Training*. A program of about 80 courses per year makes SLSI a market leader in Sri Lanka.
 - *Awareness, information and marketing*. SLSI operates the WTO/TBT enquiry point, the national quality award (since 1995) and consumer education.

At the outset, we also want to mention the strong foothold of ISO 9000 certification of quality management systems in Sri Lanka. About 350 certificates have been issued and a score of international certification bodies are active.

Accreditation is an important function for obtaining international recognition of test results, certificates etc. A National Accreditation Body is planned, and SIDA sponsored the developments, including drafting of an Act on Accreditation. The Act has been delayed for a couple of years, but is now said to be ready for Parliament (December 2002). The need for a national, independent accreditation body is urgent.

2. *Design of Component 6*

The IP document describes seven outputs of Component 6:

1. national strategy for standardisation, quality assurance, and metrology developed,
2. ISO 9000 quality systems certification scheme and shipment inspection operations of SLSI and related institutions strengthened,
3. ISO 14000 Environmental Management System Certification Scheme Developed,
4. metrology operations of SLSI strengthened,
5. SLSI corporate planning, management and commercialisation capacities strengthened and a modern Management Information System put in place,
6. Establish chemical testing laboratories covering the sub-sectoral requirements related to textiles, leather, rubber, paints, paper and plastics,
7. Accredited microbiology laboratories in the country, capable of serving the needs of the agro-processing and fisheries related industries in the country.

The programme document does not link these widely different outputs to inputs or costs.

There have been substantial changes in the plan during implementation. Output 2 lost relevance and was abandoned. Number 4 and 5 were amended. Number 4, 6 and 7 were extended. The changes were discussed in steering committee meetings, but have not been documented in revised plans.

3. *Funding*

The financial situation for Component 6 is as follows:

| Original IP doc | Funded | % funded | Expenditures August 2002 | % completed |
|-----------------|-----------|----------|--------------------------|-------------|
| 1,404,000 | 2,085,650 | 182 | 1,414,504 | 67 |

The actual funding exceeds by far the original target.

The Component was partly funded by UNIDO in the initial phase, but the majority of funding was provided by NORAD through projects TF/SRL99/003 and TF/SRL/01/001. Very successful funds mobilization reflects both the perseverant efforts of the Project Manager and compliance with policy objectives of the donor.

The excess funding is an overrun on the items of the project plan, or if additional items that have been included after programme formulation. The importance of laboratory accreditation for global trade become a critical issue after the IP was formulated.

4. *National Strategy for Standardisation, Quality Assurance and Metrology*

4.1 **Scope**

Output 1 is called National strategy for QSM but specific activities are less ambitious and consist of analysis of needs for QSM, of products and services of QSM institutions and of recommendations how to restructure the key institution (SLSI).

Given the fact that overall national policy for quality was already prepared there was no need to duplicate efforts undertaken with the assistance of SIDA. Focus was in stead set on restructuring of SLSI as the key institution in the QSM area. This change was definitely justified. However, the title of Output 1 is misleading.

Support concentrated on SLSI, but a certain support was also given to ITI.

4.2 **Ownership**

The output was intended to obtain policy level impact. Attempts were made, based on the newly completed National Quality Policy, but with little or no response.

At SLSI, the principal co-operation partner for this output, top management accepted limited interventions, but generally preferred to develop the organization independently of UNIDO.

4.3 **Implementation**

Several surveys were carried out by national experts to assess demand for testing services, quality of testing facilities, national metrology capacities, functioning of ISO 9000, demand for ISO 14000, operational performance of SLSI. UNIDO also provided technical comments on the draft law for the National Accreditation Body (NAB).

Strengthening of SLSI management was supported through advisory services (consultant on commercialization) in preparation of a business plan and some training of middle management. A national expert advised ITI on costing of laboratory services and budget decentralization.

4.4 Relevance

The original plan for this component had little relevance, since a National Quality Policy was already under development.

The mapping of the present situation in Sri Lanka as a basis for planning of other outputs was essential for establishing the right direction for the component in general.

The planned co-operation with SLSI might have been relevant, but never got the opportunity to prove this.

4.5 Synergy

No cooperation with other components within the IP was identified, although attempts were made in the metrology area.

4.6 Results

Reports resulting from the surveys and assessments were used in designing in more detail the other Outputs. For example, as the survey showed that ISO 9000 is well established by SLSI, it was agreed to drop Output 2.

The reports accentuated the need to set up urgently the National Accreditation Body and relevant Ministries were urged to do so on several occasions. Currently the draft law is at the stage of legal finalization.

As regards strengthening of SLSI and ITI management capabilities the results are mixed. A number of management-related recommendations were implemented or are under implementation both at SLSI and ITI, but the changes proceed slowly. At ITI commercialization of services is still slow. Both SLSI and ITI consider the current government regulations regarding rigid financial management of the Government budget, in particular recruitment of staff and procurement of equipment, as the key constraint for unfolding commercial operations. While the need for budgetary austerity is recognized, there exist organizational and management solutions separating commercial operations from public service functions and applying different level of regulatory control over each of them.

Results achieved at SLSI are expected to sustain because the institute is already well established and the intervention makes SLSI operations more efficient. Results achieved in cultivating a new corporate culture will sustain only if external conditions are conducive for its application. Continuing rigidity of government control may stiffen further effort which are needed to expand commercial operations.

5. Laboratory Development

5.1 Scope

The IP supported development of chemical and microbiological testing laboratories at SLSI and ITI. A textile laboratory at TT&SC was also supported.

The chemical laboratory at SLSI specialises in testing of fertilizers, food and water. ITI specialises in environmental and water testing. The overlap is small.

The ITI microbiology laboratory specialises in fish and water testing.

5.2 Ownership

Visits to all the laboratories indicated strong ownership and enthusiastic employees.

5.3 Implementation

Apart from demand analysis the lab upgrading was based on gap analysis. It was implemented through procurement of equipment, training of staff (including study tours) and advisory services on establishing a quality system, including operational procedures, according to the international standard ISO 17025.

SWEDAC was subcontracted by UNIDO to accredit the laboratories. The accreditation process incited significant changes in the established practices. Though these changes implied the need for staff behavior, the staff recognized the need for changes and appreciated the process.

After successful completion of the accreditation process national seminars were conducted to disseminate the experience acquired in the process and stimulate replication in other laboratories.

5.4 Relevance

The relevant outputs in the IP document comprised:

- Establishing chemical testing laboratories covering textiles, leather, rubber, paints, paper and plastics
- Accreditation of microbiology laboratories capable of serving the needs of agro-processing and fisheries related industries

The demand for chemical, microbiology and textile testing was verified and established in more detail in Output 1. Food industry is important in Sri Lanka, and testing is important for improving food safety. There is also a substantial export of food, e.g. shrimps from fish farms. The emerging tourist industry is highly dependent on hygiene and clean water. The textile industry is the most important export earner for Sri Lanka.

This gives sufficient justification for providing support in the above service fields in general. Selection of the laboratories to be strengthened is also well justified and relevant.

5.5 Synergy

The Component management and the three organizations (SLSI, ITI and TT&SC) coordinated fields of upgrading in order to maximize the coverage of accredited testing. No coordination or cooperation with other components or with programmes outside IP was recorded. If the industry-related components of the IP are financed, further synergy should be sought.

5.6 Results

Altogether five laboratories were accredited by SWEDAC in the period June-September 2002. These were the first laboratories to be accredited in Sri Lanka. Accreditation will be highly significant for creating market access for Sri Lankan products in export markets. The laboratories were:

| <i>Laboratory</i> | <i>Specialization</i> | <i>Number of accredited tests</i> |
|---------------------|------------------------------|-----------------------------------|
| Chemical lab - SLSI | Fertilizers, food, water | 8 |
| - ITI | Water, environmental testing | |
| Microbiology - SLSI | | 15 |
| - ITI | Fish, water | 4 |
| Textile - TT&SC | | 11 (+3)* |

*once non-conformities are cleared

All accredited laboratories have competent staff to sustain the operations at the level established through the accreditation process. In financial terms the laboratory of TT&SC has the best chances to reach recovery of recurrent costs. The laboratory recorded a steady increase of demand for its services. But also the micro-biological laboratories face promising markets. Marketing is however required.

So far, accreditation has not reflected itself in the increase of demand for the services of the accredited laboratories, since the time since accreditation has been too short. Most of the laboratories operate below the demand level. They claim they cannot cope with the demand due to bottlenecks either in staffing or equipment. Recruitment of additional staff or procurement of a piece of equipment could increase the turnover. The laboratories maintain that current government regulations do not – with some exceptions - allow recruitment of additional staff or investments in equipment.

The evaluation team visited some users of laboratory services and confirms that demand for testing by ITI microbiology laboratory exceed by far the actual delivery by the laboratory. There definitely seems to be scope for increasing the turnover and improving sustainability in financial terms.

Sustaining accreditation will require regular verification by an accreditation body and this implies fees. Establishing the National Accreditation Body will limit the fees. Hence it is important also from this point of view to establish the NAB as soon as possible.

6. Industrial metrology

6.1 Scope

The IP described support to development of the metrology laboratory at SLSI. However, the support was transferred to ITI. The stated reasons were union problems, but this appears not to be the main cause. Lack of follow-up in the planning phase, combined with poor communication, appear as equally important reasons.

There are today three metrological laboratories in Colombo. They are partly overlapping, as seen from the table below, but each laboratory has a different profile:

| <i>Parameter</i> | <i>SLSI</i> | <i>ITI</i> | <i>MUSSD</i> |
|-------------------|-------------|------------|--------------|
| Mass | X | X | X |
| Length | X | X | X |
| Temperature | X | X | X |
| Pressure | X | X | |
| Force | X | | |
| Electrical param. | | X | X |
| Photometry | | | X |
| Legal metrology | | | X |

ITI received support for all the parameters shown in the table.

The metrology output concentrates on physical parameters. On the other hand, laboratory developments concentrate on chemical and microbiological laboratories. Such laboratories have different needs regarding calibration: Certified reference materials, access to reference laboratories and participation in proficiency testing. These needs have not been addressed.

6.2 Ownership

There is no doubt that ITI have taken strong ownership in their new metrology laboratory. The lab now appears to be the best in the country, in competition with SLSI.

There was disappointment at SLSI over the change of partner. Lack of internal information and communication appear to have been important reasons for this. Nevertheless, SLSI is an important calibration laboratory on the national scene.

Measurement Unit Standards and Service Department (MUSSD) is the formally appointed authority for scientific and legal metrology in Sri Lanka. However, their premises and equipment is not up to modern standards. Under Output 1, UNIDO made an attempt to involve MUSSD in the planning of a national metrology system, but the effort did not produce results.

There is an unresolved competence problem between MUSSD, ITI and SLSI in the area of national standards and high-level industrial calibration. We recommend that the three institutions jointly work out a division of task. The basis for the discussion should be the

actual situation regarding metrology laboratories today. The task is to make optimum use of these resources for the benefit of Sri Lanka.

6.3 Implementation

The planning of the metrology lab at ITI was according to international practice for such labs. The lab is seen as a secondary calibration lab, but may take on national responsibility for certain parameters. Internationally recognised experts were used for the planning, including an evaluation of ITI versus SLSI, and later for supervising installation of equipment.

The metrology lab at ITI involves major investments in the premises, including air conditioning, and equipment. The investments have been successfully completed according to current plans, but certain pieces of equipment did not find room in the budget.

SWEDAC was subcontracted by UNIDO to carry out accreditation. At the time of the visit, accreditation was still ongoing. **Note:** To be updated according to present status!

6.4 Relevance

The status of industry and exports in itself demonstrates the needs for metrology services in Sri Lanka. The demand for services is no doubt sufficient to justify the existing metrology laboratory structure.

ITI is a metrology laboratory at the secondary level, and there is no primary laboratory in Sri Lanka. This means that ITI (and SLSI) have to go abroad for calibration of their standards. There is an unsatisfied need for primary standards in Sri Lanka.

Our perception is that this need can be met by upgrading certain existing standards, ref. the discussion of competence in 5.2. We do not see a need for a new National Metrology Laboratory at this stage.

The parameters developed at ITI are the conventional physical parameters, and as such fully relevant. However, parameters for calibration of chemical and micro-biological laboratories are missing, see 5.1.

6.5 Synergy

There are clear synergy effects between Output 5 and Outputs 6 and 7 (laboratory testing). There will also be synergies with other laboratories in Sri Lanka. Metrology and calibration is a condition for laboratory accreditation, and calibration is a condition for ISO 9000 certification. Metrology is a definite condition for industrial development and exports.

6.6 Results

Once the decision to develop metrology at ITI rather than SLSI was made, planning and implementation has progressed well. At the time of the evaluation, premises, installations and equipment was installed and operational. Accreditation was at an advanced stage.

The developed capacity represents a significant contribution to the national institutional framework. It facilitates industry, trade and export of products and services (e.g. tourism).

The competence at ITI and the demand for services underpins the sustainability of the intervention. However, determined efforts in marketing, including realistic price setting, is important for the financial sustainability.

7. *Development of environmental management system certification*

7.1 Scope

Following an initial mapping of the situation in the country, it was decided to limit the scope of this output as compared to the IP document, and to provide direct capacity building and company support. The proposed eco-labelling system was abandoned and efforts concentrated on implementation of the international standard for environmental management, ISO 14000, including certification. The principal element of the output are:

- training of 20 consultants in ISO 14000 system development and implementation,
- training of 16 lead auditors,
- consultancy support to 10 companies,
- certification support to five companies, including subcontracting of RW-TÜV (i.e. the German accredited system certification body).

7.2 Ownership

Much of the training of auditors was for SLSI personnel, and SLSI early on took strong ownership of the program, already being heavily involved in ISO 9000 certification. In fact, SLSI took such strong ownership that they established their own ISO 14000 certification scheme in parallel with the UNIDO project. Over a period, communication and information was deficient and the SLSI initiative caused a controversy with UNIDO.

Industry that benefited from support to ISO 14000 system development and certification also shows strong ownership, judging from the two companies visited during the evaluation mission. The virtues of environmental management systems in the global market place are clearly seen.

7.3 Implementation

Back in 1997, SLSI organized ISO 14000 lead auditor training with the support of the British Standards Institute (BSI). However, as the trainees have not been exposed to practical audits, their training lost validity. To avoid this shortcoming in the current project the implementation combined training with actual auditing and certification of companies. This made it possible to carry out on-the-job training of national auditors.

ITI was also involved in ISO 14000 consulting and is interested in HACCP in the future.

Training and auditing of companies were carried out by a consulting company and an international certification body subcontracted by UNIDO. In professional terms, the

inputs were of good quality. The lead auditor training was based on the IRCA auditor training and registration scheme.

Ten companies were included in the pilot scheme, with trainees exercising their skills and RW-TÜV acting as certification body, all financed over the project. The companies were selected following newspaper advertisement. In the course of implementation, five of the companies dropped from the scheme for various reasons (some of them shifted to another certification body known to them from previous experience with ISO 9000 certification and with lower certification fees expected in the future). Whatever the reasons might have been, dropping out of the companies deteriorated efficiency and the effect of the pilot scheme.

The lack of information and communication regarding the development of a SLSI certification system may have caused a certain inefficiency of the use of resources over a limited period.

7.4 Relevance

Demand for ISO 14000, particularly among the export-oriented companies and the need for ISO 14000 certification scheme was established through a survey under Output 1. The same survey revealed that the ISO 9000 certification scheme as well as the Shipment Inspection Operations of SLSI were well developed and that there was no need to support SLSI in strengthening the two systems.

7.5 Synergy

Synergy effects are only marginal. However, there is some co-operation with Component 4.A: The Director of NCPC participated at training of ISO 14000 auditors. Vice versa, the NCPC Director delivers lectures in the context of EMS training courses organized by SLSI.

7.6 Results

20 consultants for setting up ISO 14000 in companies and 16 lead auditors were trained, mainly from SLSI but also from other organizations such as ITI and a couple of freelance consultants. The auditors also obtained practical training so that they can register as lead auditors. Thus the country has a core of competent professionals in this field. Together with the previous training by BSI and other programmes carried out by SLSI, a national capacity to disseminate, introduce, support and certify ISO 14000 schemes was firmly established.

Three companies were certified to ISO 14000 by the German certification body RW-TÜV in August 2002 and two others are to follow. The evaluation team can confirm that companies visited by the team have realized the principles of environmental management. The companies consider ISO 14000 as a factor of competitiveness, primarily at export markets but to some extent also at the local market. The companies demonstrate that high quality of products backed by ISO 9000 is a factor contributing to higher prices. It was also noted that some companies consider improving the management

systems and technology as a permanent task and liaise with a university (in the particular case Wayamba University) for managerial and technology consultancy and training.

Three companies were certified by SLSI in a programme outside of the UNIDO project. Through capacity building in SLSI the UNIDO project indirectly contributed to this result as well. In total the number of certified companies was lower than originally planned, but it should be noted that the pilot scheme was not a „direct support“ project in its own right but a part of a larger capacity building project with the primary objective of developing the national capacity for a ISO 14000 scheme, which was achieved.

SLSI is well established in management system certification and this is important for the sustainability of the programme. SLSI has, together with other consultants and auditors, the capacity to continue the ISO 14000 scheme on its own. SLSI also demonstrated that it is well motivated to establish itself on the market and, thus, sustain the scheme. The development of a ISO 14000 certification system at SLSI in parallel with the project has no doubt contributed to the sustainability of ISO 14000 certification in Sri Lanka.

Companies certified to ISO 14000 in the context of the pilot scheme are also motivated to sustain the certification. The chances that they will renew the certificates will improve when SLSI is available as a certification body charging lower certification fees than the international certification bodies.

8. *Development of MIS at SLSI*

8.1 Scope

The scope of this component was substantially reduced compared to the plans. The reasons are discussed in Section 4. As it were, the output concentrated on procurement of office IT equipment for SLSI:

- 22 PCs,
- server, printers, a scanner,
- high volume photocopier,
- digital duplicator.

8.2 Ownership

SLSI took satisfactory ownership of this output.

8.3 Implementation

The procurement process proceeded according to plans and had been completed at the time of the evaluation.

8.4 Relevance

There is no doubt that SLSI needed the type of equipment in question. However, this type of intervention is rather different from the IP document and the intentions of the donors.

8.5 Synergy

No synergy with other components was identified.

8.6 Results

The output was completed according to plans.

9. *Recommendations*

General Recommendations

- The Government should take an initiative to implement its part of the National Quality Policy without further delay.
- The Act on Accreditation should be adopted by Parliament and the National Accreditation Body should be established without further delay.
- ITI, SLSI and MUSSD should develop a joint proposal for further development of the national metrology system, based on the presently available resources, possibly with UNIDO support. The need for a new National Physics Laboratory has not been justified.
- Lax practices or certain ISO 9000 certification bodies should be addressed.

Recommendations to the Laboratories and Certifiers

- Work for more autonomy from Government systems. Promote customer focus and commercial attitudes.
- Seize opportunities. Establish framework contracts with public institutions and private companies to secure a steady flow of revenue.
- Merge TT&SC with CITI. Strengthen industry endorsement.
- Continue to develop laboratory accreditation.
- Develop accredited system certification further. Promote ISO 9000, ISO 14000 and HACCP certification.

Recommendations to UNIDO programme manager for the IP

- Strengthen the original concept of the Integrated Programme: To develop a competitive industry and the required quality infrastructure hand in hand. Work with donor organisations to obtain acceptance for this principle and better balanced funding.
- Prepare the IP document in order to relate *inputs* (resources in terms of people, equipment and money) to *outputs*. To be done not only at component level but also at output level.
- Revise the IP document as the programme plans change, in order to maintain an up-to-date plan for reference.
- Prepare regular progress reports where implementation and use of resources are related to the reference plan.

10. *Lessons Learned*

- The government seems to move slowly and lobbying is necessary in order to reach results.
- UNIDO's partner institutions are government bodies. They need to change culture and develop customer focus and commercial attitudes in order to become financially sustainable.
- Acceptance of change is necessary to make things happen (for example, transfer of metrology support from SLSI to ITI).
- Private initiative may overtake project progress. This is positive, but may be difficult to accept for other parties! (Example: Development of ISO 14000 certification at SLSI).
- Strong ownership by institutions. Very important for progress and results.
- The art of co-operation is difficult to practice. There is a tendency to "go it alone".
- It is very difficult to trace programme development when plans are not updated, and reports do not refer to plans.

5. LESSONS LEARNED

In view of the fact that this is one of the first evaluations of an integrated programme, the lessons learned deal with this modality of UNIDO technical cooperation and not with lessons learned from individual interventions (components/projects):

1. The programme is a wide-ranging collection of projects rather than an integrated response to a limited number of critical issues. The design weakness reduced from the outset the opportunities for integration. However, the IP approach proved to be advantageous compared to stand-alone interventions. The sheer scope of the Programme as compared to stand-alone projects proved to be a value in its own right as it increased the visibility of the Programme. Increased visibility makes it easier to attract attention by both the Government authorities and donors. This is useful not only for funds mobilization but also for bringing issues requiring a decision to higher policy level. To achieve the required leverage, it is necessary that the IP be large enough to attract attention.
2. Though there was little intentional coordination of services at UNIDO side, there was coordination and cooperation among components and counterparts resulting from coordination management and steering committee mechanisms at country level. Coordination management is effective if operated by highly competent manager(s) with well established contacts in the institutional and policy environment in the country. As regards the steering committees, they are very useful both at programme as well as component/project levels. In both cases their effectiveness depends on the composition of the committee in terms of representation of all actual and potential stakeholders and clients and competence of its members.
3. Apart from the above factors, the success of the Programme depends on the success in identifying capable and motivated counterparts. "Picking up winners" has been one of the key reasons for the progress and achievements under the programme. This is, however, not different from the situation of a stand-alone project.
4. Selection of appropriate counterparts was facilitated through the excellent knowledge of the country's institutional framework by both the National Project Director and the Team Leader, who is a Sri Lankan national. In-depth country knowledge should be one of the prerequisites for selecting a Team Leader.
5. Absence of a UNIDO office in the country with such a large programme is a drawback. The alternative Focal Point solution is less effective in developing and maintaining contacts with the UN system and bilateral agencies.
6. The IP needs to be designed with greater attention to realistic funding possibilities, otherwise a lot of detailed programming work is wasted.

Alternatively, a generic demand-based country framework should be prepared as a basis for identification of funding possibilities first and only then preparation of the IP document should follow for components with realistic chances of funding.

Annex I : Terms of Reference

INDEPENDENT IN-DEPTH EVALUATION

INTEGRATED INDUSTRIAL DEVELOPMENT SUPPORT PROGRAMME SRI LANKA (1999-2003)

TERMS OF REFERENCE

1. THE INTEGRATED PROGRAMME (IP)

Sri Lanka is nearly on the level of a middle income country but the country's economy faces numerous challenges both internal and external (such as increasing competitiveness requirement due to globalization, forthcoming end of the Multi-Fibre Agreement, etc.) In 1999, in response to the Government request, UNIDO formulated and negotiated with the Government authorities an industry development support programme consisting of a package of components or sub-components to be implemented through technical cooperation projects with active participation of numerous local organizations (counterparts) and their contributions, both financial and in kind. Seed money for some projects was provided by UNIDO, the major part of the IP was expected to be funded by other Governments, UNDP or any other external donor.

The IP document signed in September 1999 by the Minister for Industrial Development and the UNIDO Director-General marked the following elements:

The country's industrial objective: Enhance the share of industry activity in the economy, increase value added and the export potential, by becoming globally competitive.

Objective of the UNIDO Programme: To support sustainable industrial development, employment generation and competitiveness

Number of components: 9

incl. sub-components: 14

Number of Outputs: 60

***Total budget:* US\$ 15,971,961**

Estimated duration: 4 years

For the detailed structure of components/sub-components (further on referred to as “components”), outputs and the related budget please refer to the IP document.

| Components | | Original IP document | Current planning figure | Funded (total allotment) | Percent-age funded |
|-----------------|---|----------------------|-------------------------|--------------------------|--------------------|
| 1 | <i>Support to Industrial Development Master plan Implementation (JICA)</i> | 958,500 | 958,500 | 958,500 | 100% |
| 2 | Improving the global competitiveness of the Sri Lankan Apparel sector | 1,689,000 | 1,689,000 | 80,000 | 4.7% |
| 3.1 | Assistance in Pollution control and treatment of tannery wastes for the leather complex at Bata-Atha | 883,700 | 979,814 | 979,814 | 100% |
| 3.2 | Preparation and implementation of a National Leather Industry Development Programme | 4,300,000 | 3,394,900 | | |
| 4.A | Sri Lanka National Cleaner Production Centre | 1,264,400 | 1,314,000 | 289,000* | 22% |
| 4.B | Environmentally Sound Technologies | 780,500 | 364,400 | 0 | |
| 5.1 - 5.4 | <i>Capacity building and support services for the promotion and growth of micro- and small - and medium - scale enterprises (MSMEs)</i> | 2,278,000 | 2,179,000 | 374,441 + 84,800 | 21% |
| 6 | <i>Quality, Standardization and Metrology Support</i> | 1,404,000 | 1,123,200 | 2,085,650 | 182% |
| 7 | Industrial Sub-contracting and Partnership Exchange | 212,000 | 200,000 | 200,000 | 100% |
| 8 | Governance Support Network | 332,000 | 330,000 | 0 | |
| 9 | Investment and Technology Promotion Support | 438,600 | 438,600 | 100,000 | 23% |
| | Total | 14,540,700 | 12,936,446 | 5,152,205 | 40% |

*agreement in principle from Norway to fund the whole NCPC component, but they are paying the money in on a year-by-year basis.

Later the total budget was slightly reduced to US\$ 14,565,361 (including support costs) or, what is more significant for the country, to US\$ 12,936,446 (support costs excluded).

Funds have been mobilized for a part of the Programme only. As of August 2002 status of funding was as follows (in US dollars, excl. support costs):

| Sources | Total allotment | Total expenditure | Balance |
|----------------------|-----------------|-------------------|---------|
| UNIDO (RPTC/UB) | 616,380 | 559,554 | 56,826 |
| UNDP | 1,064,614 | 1,059,688 | 4,926 |
| IDF (United Kingdom) | 721,060 | 565,936 | 155,124 |
| Trust Fund (Japan) | 958,500 | 860,560 | 97,940 |
| Trust Fund (Norway) | 1,791,651 | 1,341,662 | 449,989 |
| Total | 5,152,205 | 4,387,400 | 764,805 |

Funding influenced implementation and the scope of national counterparts actually involved in the IP implementation. This is also reflected in the composition of the Steering Committee.

Currently the IP is managed as follows:

National Government authority responsible for the IP: Ministry of Industrial Development. The Ministry chairs the Steering Committee.

National Project Director: Mr. Nihal Abeysekera.

For each component under implementation there is a responsible national counterpart.

On UNIDO side the IP is managed by the Team Leader with the support of the National Project Coordinator, Mr. Sarath Abeysundara, stationed in the field.

UNIDO National Focal Point, Mr. W.D. Dheersekera provides linkage to national implementation issues.

2. THE IN-DEPTH EVALUATION

In-depth programme evaluation is an activity during or at the end of the programme cycle, which attempts to determine as systematically and objectively as possible the relevance, efficiency, effectiveness, achievements (outputs, outcomes and impact) and sustainability of the programme. The evaluation assesses the achievements of the programme against its key objectives, as set in the Programme document, including re-examination of the relevance of the objectives and of the Programme design. It also identifies factors that have facilitated or impeded the achievement of the objectives.

Purpose

The purpose of the integrated programme (IP) in-depth evaluation is to enable the Government, UNIDO and donors:

- to assess the efficiency of implementation: quantity, quality, cost and timeliness of UNIDO and counterpart inputs and activities,
- to assess the effects of outputs produced and outcomes achieved as compared to those planned and to verify prospects for development impact,
- to provide an analytical basis and recommendations for the focus and (re)design for the continuation of the programme,
- to learn lessons on the integrated approach and for improving the synergy effects of UNIDO's integrated programmes.

The evaluation is conducted in compliance with UNIDO policy regarding the evaluation of its integrated programmes.

Method

1. The evaluation will be conducted at two levels: evaluation of selected integrated programme components and evaluation of the programme as a whole. The latter programme-wide evaluation will be based on the evaluation findings of the components and will address cross-programmatic issues such as integration, synergy, programme management and overall impact, if any.
2. The component level evaluation will identify outputs, outcomes and prospects for developmental impact that can be attributed to the individual components and assess to what extent component results have contributed alone and collectively to the programme-wide objective.
3. The evaluation will be carried out through analyses of various sources of information including desk analysis, survey data, interviews with counterparts, beneficiaries, partner agencies, donor representatives, programme managers and through the cross-validation of data. While maintaining independence, the evaluation will be carried out based on a participatory approach, which seeks the views and assessments of all parties.
4. In principle the whole programme will be subject of evaluation. However, in view of the broad coverage of UNIDO assistance (as reflected in the number of programme components) and different levels of funding and stages of implementation the intensity or depth of analysis of programme activity set out in the programme document will vary. The following components will be subject to in-depth evaluation:

1, 3.A, 4.A, 5.1, 5.3, 6, 7

The remaining components will be reviewed only in the context of Programme-wide evaluation issues.

A. Programme-wide Evaluation

The programme-wide (IP) evaluation will address the following issues:

Relevance, Ownership and Participation

The extent to which:

- the IP was jointly identified and formulated with the central coordinating authority, as well as with the involvement of programme counterparts and their target beneficiary groups,
- a participatory programme identification process was instrumental in selecting problem areas, as well as during the selection of counterparts requiring technical cooperation support,

- industry representatives, where appropriate, were actively involved in the formulation of the programme,
- the central national authority has been in a position to effectively lead in the coordination of the programme stakeholders during the preparation, implementation and monitoring of the Programme,
- there is continuing agreement among the stakeholders that the objectives of the IP are still valid; the programme supports the country industrial strategy. What adjustments and focussing if any are required?

2. Programme Management

- The efficiency and effectiveness of the central national management and overall field coordination mechanisms of the Programme. Are the national capacities adequate to coordinate and monitor the results of the IP?
- The efficiency and effectiveness of the UNIDO headquarter based management (including coordination and monitoring).
- How has the UNIDO seed money been allocated and managed? To what extent were the IP teams and its stakeholders in a position to participate and influence the process?
- Have some external factors (rules and regulations, procedures, administrative mechanisms, etc.) impeded the discharge of management responsibilities?

3. Funds Mobilization

- The role and ability of the central national management and willingness of counterparts, to contribute (in kind and/or cash) to IP implementation and in their taking an active part in funds mobilization.
- Has the Government made any efforts to channel other donor resources to the implementation of this Programme?
- The adequacy and effectiveness of funds mobilization efforts. What have been the reasons for failure to mobilize funding for some components, in particular Component 2?
- Problems encountered in balancing UNIDO IP policy and programme objectives with donor priorities. Where applicable, the effect of incorporating donor priorities into the IP, such as on the programme original focus, rationale and on the maintenance of an integrated approach.

- What are the lessons learned for successful funds mobilization.

4. Integration of Components and Coordination

The extent to which:

- the IP has a clear thematically focused development objective and goals which will contribute to goals established by the country, the attainment of which can be determined by a set verifiable indicators,
- the IP components are designed to contribute to the Programme development objective,
- the IP addresses sustainable development and the 3 E's- economic, environmental and social(employment) goals, as well as objectives of UNDAF,
- the design and implementation of the Programme has promoted coordination and synergy of (at least some) components. If so, amongst which components has there been coordination of activities,
- the IP promotes improved national inter-institutional cooperation arrangements, including public-private sector cooperation and partnerships,
- the IP approach is able to promote coordination with other development cooperation programmes, both bilateral and multilateral ones (in particular with UNDAF).

5. Synergy Effects Derived from Integration and Coordination

- What are the realized benefits of coordination amongst Components and with other programmes in the country (*such as cost saving in implementing UNIDO services; increased effectiveness resulting from providing different services to the same target group; increased effectiveness resulting from interventions aiming at strengthening linkages within a system; improved effectiveness due to services provided simultaneously at the level of policies, support institutions and enterprises*)?
- What other benefits realized from packaging UNIDO support in the form of IP can be identified? For example, is the larger size and/or scope of the IP a positive factor in its own right in increasing the leverage of the Programme to get issues agreed upon, approved and implemented, including Government policy measures?
- If applicable, what other effects has the increased opportunity for dialogue and cooperation among Ministries, industrial support institutions, and other stakeholders in the public and private sector had for the country?

- Are the transaction costs of the IP (management and coordination of many stakeholders, complexity in funds mobilization, etc.) commensurate to the benefits of integration?

6. Impact at the Programme-wide Level (Contribution to Industrial Objectives of the Country)

Assessment of:

- Do the results achieved under individual components or collectively reflect themselves in a discernible progress in economic, environmental and/or social areas?
- Has the IP contributed or is it likely it will contribute to the achievement of the Millennium Development Goals?
- Do the result indicators which have been developed in the IP, if any, facilitate the assessment of progress towards national and international development targets?

B. Evaluation of selected components

In-depth evaluation of each of the selected components will address the following issues:

1. Ownership and relevance:

The extent to which:

- the component was formulated with full and active participation of the national counterpart and/or target beneficiaries, in particular the industrial stakeholders,
- the counterpart(s) has/have been appropriately involved and were participating in the identification of their critical problem areas and in the development of technical cooperation strategies, and are actively supporting the implementation of the component,
- a logically valid means-end relationship has been established between the component objective(s) and the higher-level programme-wide objective,
- the outputs as formulated in the IP document are still necessary and sufficient to achieve the component objectives. Have some outputs been amended? Should some outputs be further amended or discontinued?
- coordination envisaged with other components within the IP or with any other development cooperation programmes in the country.

2. Efficiency of Implementation

The extent to which:

- UNIDO and Government/counterpart inputs have been provided as planned and were adequate to meet requirements,
- the quality of UNIDO services (expertise, training, equipment, methodologies, etc.) were as planned and met expectations,
- they led to the production of outputs as planned.

3. Effectiveness of the Component

Assessment of:

- quality of the outputs produced and how they are being used by the target beneficiaries,
- the outcomes which have been or are likely to be realized through utilization of outputs.

6. Impact

- What developmental changes (economic, environmental, social) at the target beneficiary level (industry) have occurred or are likely to occur?

7. Composition of the Evaluation Team

The evaluation team will be composed of the following:

Senior Evaluation Officer of UNIDO (team leader),
International expert with background in Evaluation (evaluation consultant),
Government nominee, well acquainted with industry-relevant institutional framework of the country,
International expert with background in Quality, Standardization and Metrology (QSM), nominated by the donor (Norway).

The first three team members will be working during the whole evaluation, the QSM expert will join the team for one week and focus on Component 6.

These members of the evaluation team should not have been directly involved in the designing or implementation of the programme/project.

All members of the evaluation team will be contracted by UNIDO.

The evaluation team will be supported by the representative of the UNIDO National Focal Point (the modality of their participation in the work of the evaluation team will be agreed upon at a later date).

Donor representatives from the bilateral donor embassies will be consulted and be offered to participate during the evaluation of the components and/or projects they have funded.

Although the members of the evaluation team should feel free to discuss with the authorities concerned all matters relevant to their assignment, they are not authorized to make any commitment on behalf of UNIDO or a donor.

8. Work Plan

The in-depth evaluation will be preceded by self-evaluation in the course of which Self-evaluation Reports (SER) on each component will be prepared by the IP team members and made available to the evaluation team. The work of the evaluation team will consist of the following principle steps:

- studying documentation (sent by UNIDO, including SER) at home base,
- interviews of the IP Team Leader and selected team members at UNIDO by the team leader of the evaluation team and the evaluation consultant,
- meeting with Programme management in the field to fine-tune the programme of visits,
- field review meeting (with UNIDO IP staff in the field, Focal Point and the Steering Committee) to provide briefing about the evaluation exercise and key issues to be addressed,
- meetings with Programme-level counterparts and partners (including the Ministry of Industry, other central authorities, UNDP, key donors),
- meetings (including visits of selected project sites) with relevant counterparts, target beneficiaries and donors, if appropriate,
- review by the evaluation team of component-level findings, conclusions and recommendations for inputs for the Programme-level evaluation,
- debriefing of the evaluation team (wrap-up meeting with the Steering Committee, UNIDO IP field staff and Focal Point, and with UNDP),
- drafting of report (at home base),
- presentation of the report by the evaluation team leader and the international expert (QSM) at UNIDO HQs,
- finalization of the report.

As the report is the product of an independent team acting in their personal capacities, it is up to that team to make use of the comments made by the parties involved and to reflect them in the final report. However, the evaluation team is responsible for reflecting any factual corrections brought to their attention prior to the finalization of the report.

Starting date of the field mission and the dates for the presentation of evaluation results to UNIDO as well as the deadline for completion of the final report will be specified in agreement with the Programme management. Detailed plan for meetings in the field and visits of project sites will be prepared by the Programme management on the basis of requirements specified in advance by the Evaluation Team Leader.

8 October 2002

Annex II: List of Person's Met

List of Persons / Organizations met during the Evaluation Mission
(30 October through 14 November 2002)

| NAME / TITLE | ORGANIZATION |
|---|--|
| Ranjith Fernando, Secretary | Ministry of Enterprise Development, Industrial Policy and Investment Promotion (MEDIP) |
| Roy Jayasinghe, Additional Secretary | MEDIP |
| R. V. Don Piyatilake, Director (Investment Promotion) | MEDIP |
| G. Hewagama, Secretary | Ministry of Economic Reform, Science and Technology |
| Nanda Meemeduma Director General | Ministry of Economic Reform, Science and Technology. |
| Miguel Bermeo, Resident Representative | United Nations Development Programme |
| Christine Spoeral, Deputy Resident Representative, Programme | UNDP |
| Nandana Gunawardena Asst. Resident Representative, Programme Management | UNDP |
| J. Wannithambi Programme Associate | UNDP |
| Lalith Goonatileke | Team Leader (IP) UNIDO, Vienna |
| Nihal Abeysekera | National Project Director, UNIDO (IP) |
| W.C. Dheersekera Actg. Director | UNIDO Focal Point |
| Sarath Abeysondera | National Project Coordinator UNIDO (IP) |

| | |
|---|--|
| J.H.J. Jayamanne Additional Director General | External Resources Dept. |
| P.H.Sugathadasa Director | ” |
| H.N. Jayaweera Deputy Director | ” |
| Tor Kubberud, Counsellor | Royal Norwegian Embassy |
| C. Jayawardena Advisor | ” |
| Nihal Samarappuli Executive Director (Research) | BOI |
| Armyne Wirasinghe Chairman | Sri Lanka Standards Institution (SLSI) |
| Shirani G. Weragoda Deputy Director General | ” |
| Sanath P. Mendis Deputy Director General | ” |
| D.S.D. Liyanarachchi, Director | ” |
| Nimal Samarakkody, Chairman | Ceylon Leather Products Ltd. |
| A.M. Mubarak, Director/CEO | Industrial Technology Institute |
| Nirmala M. Pieris, Head, Corporate Services Division | Industrial Technology Institute |
| Nihal Gunasekera, Head, Metrology and Instrumentation Division | Textile Training & Services Centre |
| A.S. Pannila Manager/Metrology Group | Industrial Technology Institute |
| | |

| | |
|---|---|
| Subadra Jayasinghe, Manager, Services | ” |
| Joseph E. Zveglich Deputy Country Director/Economist | Asian Development Bank |
| Shenuka Chanmugam, Economist | ” |
| Kenneth Abeywickrama Chief Technical Advisor | Pilot Enterprise Restructuring Project IP/UNIDO |
| C. Batuwangala Chairman | Sri Lanka Association of Tanners |
| Valentine Post UNIDO Expert | Bata-Atha Project |
| M. Ashroff Razack Managing Director | M.A.M. Abdul Cader & Co. (Pvt.) Ltd. |
| H.N. Rashid Managing Director | Sultan Leather Co. (Pvt.) Ltd. |
| Rafe Razack Managing Director | Tradegate International (Pvt.) Ltd. |
| Ranjith Hettiarachchi, Chairman | Ceylon National Chamber of Industries |
| Ajantha Ismail Deputy Secretary General | ” |
| Cassian Fernando, CEO | Serendib Garments |
| M.I. De Silva Chairman/Managing Director | Marie De Classique Attire (Pvt.) Ltd. |
| Samantha B. Abeywickrama Secretary General | Federation of Chambers of Commerce & Industry of Sri Lanka |
| Vellingiri Technical Advisor for Metrology | UNIDO Integrated Industrial Development Support Programme (IP) |
| G.M.S. de Silva National Consultant in Metrology | ” |
| | |

| | |
|---|--|
| M.N.R. Cooray, Manager | SPX. Sri Lanka |
| S.W.B. Wijekoon Technical Co-ordinator | ” |
| D.R. Gunaratne, Consultant | Project SMED |
| V.R. Sena Peiris Director | National Cleaner Production Centre |
| G.S. Weerasinghe Technical Coordinator | ” |
| Mahesh D. Amalean Chairman | MAS Holdings (Pvt.) Ltd. |
| Kanishka Wijayasiri General Manager – Strategic Planning | ” |
| D.P. Gunawardana, Director | Textile Training & Services Centre |
| A.H.H. Saheed, Marketing Specialist | ” |
| D.P.L.P. Jayaweera, Deputy Director | ” |
| Kapila P. Jinadasa Technical Training Assistant | Clothing Industry Training Institute |
| D.M. Subadra Dissanayaka, Textile Technologist | ” |
| Shantha Kuruppumullage Senior Textile Technologist | ” |
| T. Sugihara Resident Representative | JICA |
| Chula De Silva National Consultant, Business Incubators | UNIDO Integrated Industrial Development Support Programme |
| N.R. Liyanage | Ruhuna Business Incubators (Pvt.) Ltd. |

| | |
|---|--|
| Manager | |
| A. Nihal Seneviratne Managing Director | Nilano Garments (Pvt.) Ltd. |
| H.D. Wijayanandana Chairman | Matara District Chamber of Commerce and Industry |
| S. Ranaweera Secretary | Matara District Chamber of Commerce And Industry |
| Priyantha Wewelwala Manager | ” |
| Gayathri Wickramasekara Manager - Information | ” |
| H.S.C. Perera Head, Business Administration | University of Ruhuna, Matara |
| Malik Mendis General Manager | Lanka Fastners Ltd. |
| D.P. Gunawardena Deputy Director | Dept. of Census and Statistic |
| V. Sivanandam General Manager | Sri Ramco Lanka (Pvt.) Ltd. |
| M.T. Suriyagoda Senior Asst. Director (Planning & Development) | Ceylon Tourist Board |
| D.D.L.C. Perera, Managing Partner | Perwiplast |

MEMBERS OF THE STEERING COMMITTEE

Whether present /or represented at Steering Committee meeting on 14 November 2002

| | |
|--|-----|
| Mr. Ranjith Fernando, Secretary | Yes |
| Mr. Roy Jayasinghe, Additional Secretary Ministry of Enterprise Development, Industrial Policy and Investment Promotion | Yes |
| Mr. Nihal Abeysekera National Project Director, UNIDO | Yes |
| Mr. Sarath Abey Bandara, National Project Coordinator, UNIDO | Yes |
| Mr. Lalith Goonatilake Team Leader, UNIDO | Yes |
| Director General Dept. of External Resources | No |
| Shirani G Weragoda Deputy Director General Sri Lanka Standards Institution | Yes |
| Mr. Azeez M. Mubarak, Director/CEO Industrial Technology Institute | Yes |
| D.C.Gunawardene Deputy Director Dept. of Census & Statistics | Yes |
| D.P.Gunawardene Director Textile Training & Services Centre | Yes |
| Mr. Bandula Perera Chairman Industrial Development Board of Ceylon | Yes |
| Chairman/Director General, BOI | No |

| | |
|---|-----|
| Director General Dept. of National Planning | No |
| Resident Representative UNDP | No |
| Mr. C. Batuwangala, Chairman Sri Lanka Association of Tanners | Yes |
| Mrs. Ajantha Ismail, Deputy Secretary General Ceylon National Chamber of Industries | Yes |

Annex III: Programme Funding

FRM

SRL

9/6/02

| IP Sri Lanka: Status of Funding (in US\$ excluding support cost) | | | | | | | | | | | | Allotment Holders | | |
|--|------------------|---------------------------------|-----------------------------|--------------------------------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|---------------------|---|------------------|
| Status at 31 August 2002 | | | | | | | | | | | | | | |
| UNIDO Funding (1998-2001) | | | Donor Funding | | | | | | | | | | | |
| Project Numbers | XP | UB | Project Numbers | Programmable IDF | Trust Fund | | | | UNDP | | | | | |
| | Expenditure (XP) | Expenditure (UB) | | U.K. | Japan | | Norway | | UNDP | | | | | |
| | | | | PAD | Expend. | PAD | Expend. | PAD | Expend. | PAD | Expend. | | | |
| XP/SRL/99/049 | 127,052 | | US/SRL/01/108 | 159,885 | 114,597 | | | | | | | Mr. Goonatillake | Team Leader | |
| XP/SRL/99/032 | 42,250 | | TF/SRL/99/002 | | | 958,500 | 832,491 | | | | | Mr. Goonatillake | | |
| XP/SRL/00/008 | 2,103 | | TF/SRL/99/003 | | | | | 706,496 | 699,360 | | | Mr. Goonatillake | | |
| UB/SRL/00/001 | | 205,105 | TF/SRL/01/002 | | | | | 796,155 | 264,735 | | | Mr. Goonatillake | | |
| | | | TF/SRL/01/001 * (see below) | | | | | 289,000 | 91,463 | | | Mr. Clarence-Smith | | |
| | | | US/SRL/01/109 | 100,000 | 2,635 | | | | | | | Mr. Reinhardt | | |
| | | | US/SRL/01/110 | 80,000 | 77,494 | | | | | | | Mr. Moll | | |
| XP/SRL/00/020 | 181,335 | | US/SRL/01/195 | 181,175 | 180,735 | | | | | | | Ms. Fujino | | |
| | | | US/SRL/00/060 | 200,000 | 187,075 | | | | | | | Mr. de Crombrughe | | |
| | | | NC/SRL/99/001 | | | | | | | 34,968 | 34,968 | Mr. Schmel | NC/SRL/99/001 "C" | |
| | | | DG/SRL/99/006 | | | | | | | 944,846 | 964,029 | Mr. Schmel | | |
| | | | NC/SRL/99/008 | | | | | | | 84,800 | 79,874 | Mr. Kennedy | | |
| TOTAL (PAD): | 352,740 | 205,105 | | 721,060 | | 958,500 | | 1,791,651 | | 1,064,614 | | 5,093,670 | 6,079,055 | |
| TOTAL (Expend.): | 352,740 | 205,105 | | | 562,536 | | 832,491 | | 1,055,558 | | 1,078,871 | 4,087,301 | Total funds mobilized incl. future payment | |
| | | | | | | | | | | | | 80.2% | | |
| IP Sri Lanka: Officially approved by the Executive Board on 21 June 1999. | | | | | | | | | | | | Rate of Expenditure | | |
| Total Budget of IP: | | 12,889,700 excluding 13% | | | | | | | | | | | | |
| | | | * | TF/SRL/01/001 Future instalment | | | | 985,385 | | | | | Open for Funding: | 6,810,645 |
| | | | | Total Norway TF incl. future payment | | | | 2,777,036 | | | | | | |