

THE IMPACT OF THE KANDY REGIONAL RURAL DEVELOPMENT PROJECT (RRDP)

An Ex-Post Evaluation

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The **Centre for Poverty Analysis** was established in 2001 as an independent institute providing professional services on poverty related development issues. CEPA provides services in the areas of, applied research, advisory services, training and dialogue & exchange to development organisations and professionals. These services are concentrated within the core programme areas that currently include: Poverty Impact Monitoring, Poverty and Youth, Poverty and Conflict, and Poverty Information & Knowledge Management.

The ex-post evaluation of the RRDP is a product of the programme on Poverty Impact Monitoring (PIM), which supports organisations and professionals in monitoring and evaluating the poverty related impacts of their projects and programmes, conducts poverty assessments and builds capacities in this area through training programmes.

The **Federal Ministry for Economic Cooperation and Development (BMZ)** coordinates German Development Cooperation worldwide on behalf of the Federal Republic of Germany. BMZ contributes towards development primarily through technical and financial cooperation. BMZ has been a partner in Sri Lanka's development for the past four decades. The Regional Rural Development Programme (RRDP) that is the subject of this report, was financed by the BMZ and implemented on its behalf by German Technical Cooperation (GTZ). The ex-post evaluation has been commissioned by the BMZ as part of a four-country study. This publication is sponsored by the BMZ as part of its policy to disseminate findings of such reviews and evaluations.

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ABBREVIATIONS

ADB	Asian Development Bank
AGA	Assistant Government Agent
BMZ	German Federal Ministry for Economic Cooperation and Development
BOI	Board of Investment
CBO	Community Based Organisation
CCICP	Chamber of Commerce and Industry of the Central Province
CEFE	Competency Based Economies through the Formation of Enterprise
CEPA	Centre for Poverty Analysis
CP	Central Province
CPEPC	Central Province Enterprise Promotion Centre
DAC	Development Assistance Committee
DALEPU	Divisional Agriculture Livestock Enterprise Promotion Unit
DC	Development Cooperation
DCS	Department of Census and Statistics
DDC	District Development Councils
DI	Development Instructors
DMC	Digana Milk Cooperative
DPA	District Political Authority
DS	Divisional Secretary
EC	European Commission
EIP	Enterprise Information Project
ESSP	Enterprise Service Systems Promotion Project
FINNIDA	Finnish International Development Agency
FO	Farmer Organisation
GDP	Gross Domestic Product
GI	Gangaihala Korale D.S. Division
GIS	Geographical Information System
GM	Gramodaya Mandalaya (Village Council)
GN	Grama Niladhari (State officer of the smallest administrative unit)
GOSL	Government of Sri Lanka
GTZ	German Technical Cooperation
HIES	Household Income and Expenditure Survey
IAA	Implementing Agencies
IDA	Industrial Development Authority
IDB	Industrial Development Board

IFAD	International Fund for Agriculture
ILO/SYIB	International Labour Organisation / Start and Improve Your Business Programme
IRDP	Integrated Rural Development Programme
JICA	Japan International Cooperation Agency
JIMOD	Joint Initiative for Monitoring Development Trends in the Central Province
JVP	Janatha Vimukthi Peramuna (Peoples Liberation Front)
KFW	German Financial Cooperation
KNIRDP	Kandy Integrated Rural Development Project
LTTE	Liberation Tigers of Tamil Eelam
MD	Medadumbara D.S. Division
ME	Monitoring and Evaluation
MGA	Mushroom Growers Association
MOU	Memorandum of Understanding
MP	Member of Parliament
MPI	Ministry of Plan Implementation
MSME	Micro Small and Medium Enterprises
NGO	Non Governmental Organisation
NORAD	Norwegian Agency for Development
PAEA	Protected Agriculture Entrepreneurs Association
PC	Provincial Council
PEPC	Provincial Enterprise Promotion Centre
PH	Pathahewaheta D.S. Division
PPU	Provincial Planning Unit
RBIP	Rural Banking Innovations Project
RDD	Regional Development Division
REAP	Regional Economic Advancement Programme
REPU	Regional Enterprise Promotion Units
RIS	Regional Information System
RRD	Regional Rural Development
RRDP	Regional Rural Development Programme
SEEDS	Sarvodaya Economic Enterprise Development Services
SIDA	Swedish International Development Agency
SLBDC	Sri Lanka Business Development Centre
SLIDA	Sri Lanka Institute of Development Administration
SMAP	Small and Medium Enterprise Assistance Programme
SMI	Small and Medium Industries
SMILE	Small and Micro Industries Leader and Entrepreneur Promotion Project

TA	Technical Assistance
TOR	Terms of Reference
TULF	Tamil United Liberation Front
UD	Udadumbara D.S. Division
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Educational Fund
UNP	United National Party
USAID	United States Agency for International Development
VDP	Village Development Programme
VTW	Vocational Training for Rural Women and Youth Project
WFP	World Food Programme

Foreign Exchange Conversion Rates

DM / Euro 1DM = 1.95 Euro

LKR / DM Rates

Year	LKR / DM
89	23.7
90	26.2
91	28.0
92	28.6
93	28.7
94	32.2
95	37.8
96	36.5
97	34.2
98	40.4
99	37.1

EXECUTIVE SUMMARY

Background and objectives

In recent years there have been increasing calls for development cooperation, and in this case, German development cooperation to justify its investments in terms of impact on the ground. Following this the German Federal Ministry for Economic Cooperation and Development (BMZ) launched a series of evaluations on the long-term impact of its aid. The first series of such evaluations involved 32 completed projects and the second series, initiated in 2003, involves four completed Integrated Rural Development Projects.

The BMZ-supported Regional Rural Development Programme (RRDP), located in the Kandy district of Sri Lanka and implemented from 1987 to 2000 by the German Technical Cooperation (GTZ), was chosen as one of the case studies and the Centre for Poverty Analysis (CEPA), was contracted by the BMZ to undertake the evaluation over the period September to December 2003.

The objective of the evaluation as articulated in the BMZ terms of reference is,

*“The independent, external assessment of the **impact, relevance and sustainability** of the long-term development activities within the framework of IRDPs and the underlying conditions for success.”*

Given the ex-post nature of the evaluation, the impact is assessed in terms of ultimately “what remains on the ground” and what we can learn from it for future project planning and implementation. Hence, emphasis is laid on the policy orientation of findings and the recommendations to be derived from them.

Methodology of the study

The methodology adopted for the study varies from typical in-project evaluations. The evaluation focuses exclusively on impact, that is, what has changed owing to the RRDP's thirteen years of implementation and what lessons can be learnt for development planning and practice. Of less interest is whether the goals and objectives set out by the RRDP have been achieved. In that sense, this evaluation has a strong policy and learning orientation and the methodology adopted for the study is reflective of this.

This methodology can be broadly termed as the ‘funnel approach’, which has been applied by the BMZ in its first series of evaluations. CEPA uses this approach as its starting point, but adapts it to suit the context in which it is applied and in a way that can best bring out policy lessons.

Briefly described, the funnel approach first looks at changes in the immediate and broader project environment and then tries to establish linkages between such changes and the project interventions. The immediate environment is the Kandy district while the broader environment would include the provincial and even the national level.

The practical application of this methodology comprised a four-step process. The first step identifies the basic fields of investigation. These fields, while linked to the overall work of the RRDP, are not primarily determined by it. They are selected on the basis of their insightful

value, i.e., their ability to provide clues as to the essence of the impact, relevance and sustainability of the RRDP, the interests of the BMZ and the views of the study team. The second step elaborates these fields of investigation through a 'context review' of changes and trends in the particular field, using secondary literature and data. On the basis of this review, the third step specifies a number of key research questions or focus areas for study that guide the field research. While the first step concentrated on identifying fields within the projects spatial context, the fourth step looked at important fields of investigation at the macro level, outside the spatial context of the project. Here, overarching policy issues relevant to the context of IRDPs and issues of the time. A similar context review and elaboration of research areas takes place in step four.

The outcome of this four-step framework was the selection of three basic fields of investigation which form the basis of the evaluation and are referred to as the main study components. They are:

- 1) Policy and Institutional arrangements for decentralised development
- 2) Enterprise promotion in facilitating decentralised development
- 3) Village development as an enabling factor for decentralised development.

The first component is selected as it formed the core of the philosophy of IRDPs, that of decentralised development. Moreover, support to the administrative and institutional apparatus was a major objective of the RRDP. Component two, enterprise promotion in facilitating decentralise development, was selected since Kandy, being the 'second capital' of Sri Lanka, is logically placed to be a hub of business activity. Whether this is the case is discussed in the report, but the importance of the topic is nonetheless relevant for the Kandy district, and as will be seen, was also to become a major feature of the RRDP. The third component, that of village development as an enabling factor for decentralised development, was identified because of its direct poverty relevance on the smallest unit of analysis – that of the village and household. Hence, while component one focuses on more macro and meso level issues and component two on the meso level, component three focuses on the very micro level, down to impact on individual households.

Context review

The context review of component one provides an overview of the policy and institutional framework within which the RRDP operated. The focus is on what the BMZ terms of reference calls the "overall policy framework(s) of Sri Lanka, including frameworks for sectoral and regional development"¹.

The review shows that the RRDP existed at a time of significant reform of the structures of the Sri Lankan state. Specifically, the most important reforms that took place during this period were the establishment of provincial councils and divisional secretariats. These reforms had a far-reaching impact on the state structure. In other words the RRDP had to carry out its task of institutional development of sub-national units in the context of these reforms. The two broad areas of reforms involved reforms at the level of districts and sub-districts and the establishment of provincial councils. The reforms at the district and sub-district level involved the setting up of district and divisional development councils which were prompted by the 1971 insurgency and a reaction by the Centre as a way of re-establishing control over the regions through development. The establishment of the provincial councils was a direct outcome of the aggravation of the ethnic conflict in the early 1980s, when under pressure from India, Sri Lanka agreed to devolve power to the provinces.

¹ BMZ Terms of reference (2003)

Following from this review, the major fieldwork phase of the study places the work of the RRDP in the context of the overall policy framework, to arrive at the impact, relevance and sustainability of the institution development efforts undertaken by the project.

The context review of socio-economic trends in the Kandy district shows that despite good achievement on social indicators (access to electricity, safe sanitation, good housing quality), Kandy reports relatively sluggish rates of economic growth. According to data for the mid 1990s, Kandy ranked almost at the bottom of the list of districts in GDP growth. This is mostly attributed to lack of growth in areas outside the city of Kandy, with the growth impetus concentrated in the city. In particular, some surveys show that agriculture, which still predominates in the Kandy district, records very low levels of productivity, even in comparison to Nuwara Eliya and Matale, the other two districts of the Central Province. Given this backdrop, the focus of the village development component is to assess the impact of the RRDP interventions in boosting productivity and incomes of its targeted rural poor.

The review of trends on enterprise development shows that the Kandy district in the last decade has not experienced a significant increase in employment, despite considerable entrepreneurial activity, as revealed by the increase in the number of enterprises. The first half of the 1990s was relatively favourable for enterprises and production and sales were high, according to the findings of a number of research studies. They also indicate that this was also translated into a higher level of investment between 1996-1998. However, the end of the decade saw a downturn, attributed primarily to external economic factors.

The enterprise development component places the impact of the RRDPs approach to enterprise development and private sector promotion within this framework. It looks at the viability and sustainability of these efforts, the efficacy of promoting primarily micro and small enterprises in the Kandy district as a means of poverty reduction and the contribution of the RRDP to the impact (positive/negative) of enterprise/private sector promotion within the Kandy district.

Project overview

From the point of view of the RRDP, the project spanned four phases during its 13 year implementation period. It began halfway during the period of IRDPs, which commenced in Sri Lanka in 1975 with the Kalutara IRDP and ended with the onset of the Regional Economic Advancement Programmes in the late 1990s. The RRDP followed the concept of regional rural development developed by GTZ / BMZ, which was guided by four principles. They were poverty orientation, sustainability, target group orientation and participation. These principles were embodied during the four phases of the RRDP, namely orientation, innovation, dissemination and consolidation.

The report provides a background of the major focus and activities of the concept as designed by GTZ/BMZ. However, the evaluation focuses its findings on the three main study components, which cut across these phases. Village development activities were the focus of project attention during its first two phases, when it concentrated on the five divisions of Pathahewaheta, Udadumbara, Medadumbara and Gangaihala Korale. An estimated 290,000 persons are estimated to have received support from the village development programme, which was implemented over 1987-1997 in the 5 divisions. Subsequently, from the third phase onwards the project increasingly turned its attention towards enterprise development and private sector promotion, which took a regional character, spanning the entire Kandy district.

The institutional development component cut across the entirety of the project phase, although with a different character. Early activities at institution development were concentrated at the divisional level with a focus on imparting tools for participatory development planning. Later, the regional planning orientation of this component took over with efforts concentrated on the provincial planning unit and heavy emphasis on development geographical (regional) information systems.

Main conclusions and lessons learnt

The findings of the three study components focus on the three aspects of impact, relevance and sustainability, which are outlined in the BMZ terms of reference. The findings and lessons learnt, presented in Chapter six are summarised below.

The RRDP was implemented from 1987 to 2000, a turbulent period in Sri Lanka's political history. On the one hand, the aspirations of the Tamil ethnic minority in the North East expressed in armed conflict challenged the structure of the central government and sparked off various experimental attempts at decentralization. On the other hand, the militancy of extremist youth forces in the south galvanized the government towards efforts to achieve broad-based development and poverty reduction in the rural hinterland of the country. Kandy, the fourth populous district of the island, with low per capita GDP levels, high levels of income poverty and a declining agrarian base was deemed appropriate for the kind of intervention that an integrated development project could offer.

However, the kind of financing available could not lead to a large-scale project with a wide geographical spread, as was the case with many other IRDPs implemented elsewhere in the country. Thus, the project, stressing "regional" over "integrated", was limited to five divisional secretariat divisions for much of its lifetime with institutional development as its major concern. This already constrained the project, operating as it was, within a political system that depended on distributing benefits to as large a constituency as possible. The reservations expressed by both the political and administrative hierarchy of the district towards the RRDP has to be understood in this context.

What distinguishes the RRDP is not so much its broad objective of ameliorating the conditions of the poor but the specific means or the strategy through which the project wanted to achieve this objective. This specific strategy was to depend on institutional development as a principal means through which these development goals could be achieved. In other words, the underlying assumption of this development idea was that more than anything else, it was the lack of institutions with certain characteristics and that implement projects through certain methods, that explain the conditions of the poor people.

The institutional development component of the project comprised three analytical concepts as identified in the study, namely instituting participatory development methods at the village and divisional level, strengthening regional development through support to the provincial council and the promotion of regional economic growth through private sector development.

The efforts at instituting participatory methods at the local level left a number of tools and methods for more efficient planning and GIS based methods with a proportion of counterparts who were trained under the project. The most significant and sustainable impact of these efforts was at the level of the individual officers who use their newfound skills in varying degrees and intensities. The use of resources produced by the project such as maps and divisional profiles are still evident in the offices of some divisional secretariats.

Beyond the individual, however, in institutional terms there has been very little sustainable impact. While the tools and techniques remained with a handful of isolated enthusiasts who

continued to practice them whenever they have the opportunity to do so this did not necessarily make a dent in the way the institutions to which these individuals are attached currently carry out planning or decision-making. What goes on as planning in the divisional secretariats is still a list of activities with poor problem analysis and a vision for the division.

The strong feeling that participatory procedures were really meant only for investments brought in by the project and the difficulty of following the cumbersome planning techniques that were introduced in the context of the workload faced by the DS's, were cited as explanations. The relevance of the RRDP efforts to institutionalise participatory planning methods at the local administrative levels was found wanting and points to an insufficient appreciation of the administrative set-up and mandate of this sub-district unit. In other words, it was understood as merely an agency administering development, which it is not.

Thus, by and large, the project was not successful in institutionalising planning methods within the DS divisions in which it operated. The lack of institutionalisation of the RRDP efforts to strengthen regional development through support to the provincial council was also evident. This is clearly illustrated in the way the GIS-based regional information system is currently used. While the database is appreciated, no government institution has allocated resources to update it in a sustainable manner. More importantly, the RIS, which was envisioned to provide spatial planning data for regional economic promotion, enterprise planning and marketing, is barely used by the private sector or policy makers. In other words, the setting up of the RIS has not influenced the overall capacity for planning within the provincial planning unit.

In terms of what has been 'left behind' in the promotion of regional economy, in policy terms, the impact was more significant. The project developed close links with the RDD and substantively influenced the emergence of the regional economic advancement programme concept with a number of key players within the Ministry. It thereby provided an impetus for the acceptance of enterprise promotion and private sector participation as part of rural development. It has to be said, nonetheless, that part of the success with the RDD has to be attributed to the fact that the RRDP shift fitted in with a process of change that was already going on within the RDD.

In terms of institutionalising enterprise promotion, the Provincial Enterprise Promotion Centre (PEPC) was an institutional failure. However, it left behind an embryonic network of private sector institutions, which are currently more aware of their role in regional development, as well as a need for unity to accomplish goals over and above personal agendas. It has to be stated that other donors besides the RRDP also contributed to this development. However, this network, as yet, has tenuous links with the individual micro, small and medium enterprises that the project sought to improve. While the CICCPC, which had been courted to take over the mandate of the PEPC, has so far been unable to do so, an unintended impact is that some state institutions and NGOs have taken on some of the envisaged functions of the PEPC. The RRDP has also contributed to private-public sector cooperation within the district by involving both sectors including the Board of Directors of the PEPC in its development activities. Private sector representatives now sit on state development committees and are consulted on regional economic development issues. The public sector accepts that the private sector has a role to play, although there are doubts as to its capacity to fulfil this role, especially in the Kandy district.

What is most remarkable is that despite the collapse of the majority of those enterprises many appear to have expanded and continue to thrive today, although they are unable to sustain the same spurts of growth that they experienced soon after RRDP support. They have also, on average, at least doubled the number of employees from the period of initial support. The poverty reduction impact of this employment creation remain difficult to gauge.

In terms of village development, the RRDP appears to have mixed results. Where most resources were utilised – i.e. livelihood (income) improvement, very few projects initiated by the project have survived. This is especially true for the group livelihood / enterprise projects of the 1990-1996 period. Most livestock and fruit crop cultivation projects also failed as income generation prospects for individual households. The only exception, to some extent, is dairy farming. Around a third of beneficiaries organized around milk collection societies initiated by the project are considered as successfully engaging in dairy production and all claimed better knowledge of dairy farming because of the project.

Economic infrastructure development at the village level was identified as the most successful part of this component. On one hand, roads and irrigation structures initiated by the project are still surviving and have had a positive impact on accessibility, connectivity and decreasing transaction costs in the case of the former and agricultural productivity in the case of the latter. On the other hand, most village-level institutions envisaged to maintain this infrastructure are not existing or functioning. This is particularly true for roads, where sections are in states of disrepair with communities lacking organizational structures for raising resources for rehabilitation. In the case of irrigation infrastructure, existing farmer organizations appear to maintain these, depending on participation rates and the importance of cultivation in their means of livelihood. Nevertheless, in terms of impact on the ground, literally, village level infrastructure development is assessed by the study to have had the more sustainable impact, not least because it matched with village level priorities and concerns.

Applying the concept of instituting participatory approaches at the village level, the findings show that while the project applied the 'group approach' to its income generating activities, the resilience of group survival was highly related to the fortunes of the activity. In instances where group formation was central to the enterprise, for instance with milk collection, group processes had a higher survival rate. In one site where the dairy industry flourished, thanks to the linkages mentioned above, the dairy group expanded in to an umbrella association for the division. However, such instances were few owing to the survival rate of many activities. In the area of group maintenance of infrastructure, a classic community level activity, the findings show farmer organisations are active and take responsibility for maintenance of minor irrigation schemes, which is rather because of to an age-old tradition than project-supported processes. Similarly, the minor maintenance of roads and footpaths is done through 'shramanda' according to traditional village practice, although maintenance funds set up by the project have long disappeared. When it came to the selection of activities to support, the project went through the ritual of participatory planning and identification. Nonetheless, it has to be questioned as to whether in these instances participation becomes an orthodoxy (in spite of it being a guiding principle for GTZ in its support for regional development). The fact that well networked villages in the Kandy district are well-versed in communicating their needs through petitions and other political processes might question whether the ritual of participation can sometimes be done away with.

With its small budget and technical input orientation, the RRDP primarily aimed at instituting efficient planning processes at the administrative level. All indications are that it did not accomplish this goal. However, it did have a number of trickle-down impacts with multiplier effects, some of them unintended. The introduction of planning tools and a regional information system had a positive impact on a number of individual professionals, who continue to put into practice the knowledge they had acquired. The project also played a pivotal role in the expansion and growth of the majority of enterprises it supported in the latter "consolidation phase". In addition, it contributed to generating the embryo of a network of private sector organisations within the district and in facilitating private-public sector cooperation.

Finally, at village level the positive impact of the project includes an improved dairy industry and economic infrastructure such as roads and paths, which have made a substantial difference to the lives of beneficiaries. It is plausible that these interventions did contribute to the overall reduction of poverty witnessed within the district in the last decade. However, it is difficult to gauge how significant this contribution was or whether households would have improved more if more members had migrated, rather than stayed in the district. Perhaps the RRDP's greatest impact was at the national level, in placing the agenda of private sector participation squarely within rural development.

Lessons learnt

In conceptualising the RRDP emphasis was placed on improved planning and institutional development without a proper understanding of the history and nature of institutional structures at regional / provincial, district and divisional levels. It concentrated on instituting participatory development methods at village and divisional levels and in supporting the provincial council to strengthen regional development.

The idea to set up a GIS system was a narrow and technocratic interpretation of strengthening regional development capacities. In deciding on this approach there was very little understanding of the provincial council system as a whole. The provincial council was a very new institution. In order to improve its planning capacity it needed a wide range of inputs such as the ability to make use of its powers under the 13th Amendment, to negotiate its rights with the Centre and to innovate within the powers given to it. If the project had viewed regional planning in this wider sense, perhaps it could have identified inputs that could have had a greater impact.

In particular, change was directed at individuals within institutions rather than the institutions themselves. This might have worked if the individual professionals selected were key players with sufficient power to change the status quo. However, most capacity building of the project was at the level of middle and junior officials who had very little voice in how the institutions were run. Creating a number of competent professionals within the hierarchical and highly politicised state institutional structures is not sufficient to create change at the level of the institution. More often than not, it creates frustrated individuals who are on the lookout for better opportunities elsewhere. An unintended impact might be private / NGO sector development.

Although the project intended to be different, somehow, from other integrated projects, the result of all the participatory planning was support for the same types of activities as undertaken by all other projects, eg. infrastructure development at village level (typically roads/ footpaths and canals/ anicuts) and income generation activities, primarily within the agriculture/ livestock sector. Thus, in addition to the lack of institutional sustainability of the planning tools, the mere use of participatory planning tools did not guarantee that the projects were viable. Thus, most livelihood activities and group enterprises identified by beneficiaries did not necessarily have a higher chance of survival. It may be stated in the defence of the RRDP, this is an experience that is not limited to it but is endemic to many a development project, not least its sister IRDPs.

For most of its lifetime, the project focused on five "poorest" divisions with potential for development. However, within these divisions, the project engaged in a multitude of activities. Given the state of development of those divisions, the project might have achieved more if it focused simply on what proved most successful after the pilot phase, such as economic infrastructure, i.e. improving the enabling conditions for production and livelihood.

The project concept changed towards enterprise promotion and growth centres in the mid 1990s. However, this design change, which included another institutional component the PEPC, came far too late for its impact to be sustainable. While flexibility in the design of projects is important and projects need to be steered towards new directions if they do not realise their intended objectives, it is also necessary, as some private sector representatives pointed out, to stay with a concept and see it through. The PEPC in that sense was a baby who had to grow much too fast. Moreover, in the design of the PEPC an institutional analysis of the relations among the potential stakeholders, what type of structure and location would be viable in the long-term and what kind of gestation period would be required, i.e. the adequate groundwork necessary for a sustainable institution, was not carried out at the time of its conceptualisation.

An important lesson learned from the successful institutional collaboration with the RDD was that when project interventions fit in with something that the Sri Lankan counterpart has already begun or a process that is already taking place in the larger context there is a chance for sustainability.

As could be clearly seen from the RRDP's efforts, institutional development is a complex and difficult task. It needs the capacity to get to grips with a complex set of factors, it must try to see what type of interventions the project can provide in the overall context, the ability to negotiate with many stakeholders and a long-term commitment to a slow process of change, irrespective of whether it is a state or private sector institution.

What emerges is the crucial importance of paying greater attention to the political and economic interests that operate in the institutional context. The general lesson learnt is that if what is initiated by the project dovetails with the processes taking place in the context there is a greater chance of it being sustained, because it matches with the interests of the Sri Lankan stakeholders, which, in the case of the institutional development component, is the Sri Lankan state.

The other glaring lesson learnt is pitfalls with regard to that lie in technical assistance projects. The RRDP, being as it were a predominantly 'technical assistance project', came with limited funding in comparison with its sister IRDPs, but was designed with a large proportion of the budget allocation going towards long and short-term expatriate technical expertise. This created considerable misapprehension and laid the project open to unhelpful criticism and antagonism from its counterparts and other interested observers. A project of this size needed to ensure that there was sufficient balance between resources allocated for expertise and project activities and between expatriate and local expertise. Moreover, it is inevitable that being an IRDP, the RRDP lent itself to comparison with other 'capital intensive' IRDPs, especially the neighbouring Nuwara Eliya and Badulla IRDPs, unfair though this might be.

The critical issue, however, is not the extent of the technical assistance budget or the presence of expatriate specialists, but the ownership of the initiatives by the stakeholders in Sri Lanka. This, together with explicit strategies for internalising these skills within Sri Lankan organizations, could have gone a long way in achieving long-term sustainability of the RRDPs technical support towards institutional development.

At the implementation level, the RRDP activities were undertaken mostly at the divisional level. The RRDP interacted with divisional level administrative officers as well as representatives of relevant line ministries such as agriculture, livestock development and industrial development. While working directly at the divisional level helped to cut down on bureaucratic red tape, it appears that the project did not quite take into account how the divisional level was linked to the district and provincial levels and failed to develop a good working relationship at the district level with at least one key line ministry, namely,

agriculture. While the project informed the district level offices of its activities, the fact that the district level office was not consulted about the selection of activities within that sector created unnecessary ill will.

Insufficient monitoring, especially of impact, was done of livelihood activities, group enterprises and infrastructure development during the first two phases. If in-process impact monitoring had been conducted, the project could have narrowed its focus of intervention to viable sectors and changed direction faster. While monitoring improved during the last two phases, clients whose enterprises expanded exponentially pointed out that it was insufficient to identify the potential of their enterprises to be large employers and to provide them with the necessary guidance and support to create and cater to a larger workforce. As poverty reduction was the primary goal of the project and the means shifted from institutional development to enterprise development, more attention needed to have been paid to employment creation.

The good relations developed by members of the project team with key actors in the RDD demonstrates the level of influence the RRDP managed to have in changing the contours of rural development nationally. However, it also shows the dilemma the project faced in reconciling the differences in perspectives between the more professional national officials and the more politicised provincial officials.

Finally, the role of 'culture' in development cooperation cannot be understated. While not explicitly addressed in this evaluation, largely because it necessitates a specialised methodology to do justice to such a topic, the influence of cultural factors in facilitating or inhibiting development cooperation remains omnipresent. The issue was highlighted in the Dialogue workshop held to discuss the findings of the evaluation and a potential recommendation would be to pay more explicit attention to this 'grey' area.

1.1 Background

The international debate on development cooperation (DC) has been increasingly turning its attention towards justifying the substantial investment in DC in terms of sustained impact in the longer term. In Germany, a resolution by the German Parliament in 1998 called on the Ministry for Economic Cooperation and Development (BMZ) to review the long-term successes (or failures) of projects in the area of technical and financial cooperation.

This led to the BMZ launching a series of 32 ex-post evaluations over a period of two years from 1998-2000. The results of evaluations were published in a report titled “Long-term impacts of German development cooperation and conditions for success – An ex-post evaluation of 32 completed projects” in October 2000.

Following upon the findings of this series in 2003, the BMZ initiated a smaller and more specific series of ex-post evaluations, this time focussing exclusively on four Integrated Rural Development Programmes (IRDPs) completed in the last five to ten years in Asia, Africa and Latin America. The evaluations are drawn from four countries and it is envisaged that the results will be consolidated similarly by the BMZ over 2004.

The BMZ-supported Regional Rural Development Programme (RRDP), located in the Kandy district of Sri Lanka and implemented from 1987 to 2000 by the German Technical Cooperation (GTZ), was chosen as one of the case studies.

The Colombo-based Centre for Poverty Analysis (CEPA) was contracted by the BMZ to undertake the evaluation over the period September to December 2003. Presented herewith is the final report on the consolidated findings of the evaluation.

1.2 Objectives

The objective of the evaluation as articulated in the BMZ terms of reference is:

*“The independent, external assessment of the **impact, relevance and sustainability** of the long-term development activities within the framework of IRDPs and the underlying conditions for success.”*

Given the ex-post nature of the evaluation, the impact is assessed in terms of ultimately “what remains on the ground” and what we can learn from it for future project planning and implementation. Hence, emphasis is laid on the policy orientation of findings and recommendations to be derived from this evaluation.

The BMZ terms of reference outlines some additional issues to be addressed in the study framework, which includes:

- The overall policy framework(s) of Sri Lanka, including frameworks for sectoral and regional development,
- The BMZ experiences through the first series of 32 evaluations, such as the need to take into account framework conditions, the adequate involvement of the target group, the

careful selection of executing institutions, the early agreement on common objectives and the generation and harnessing of synergy effects and,

- The intended goals and objectives of the project subject to the evaluation.

In addition, the BMZ TOR raises some underlying questions, which are addressed in the study at various stages. They include:

- What has been the overall policy framework including that for sectoral and regional development
- What are the factors that helped or hindered the projects sustainable impact and the importance of individual factors
- Which dimensions of impact (e.g. social, economic, institutional, political) have been most prominent?
- What has been the nature of the RRDP's impact, e.g., long / short, positive / negative, intended / unintended
- Who benefited, who did not and why?

Similarly to the BMZ, CEPA undertook this evaluation with the expectation that it could hold valuable policy lessons for development planners, practitioners and development cooperation in general. All too often, the results of such evaluations are lost in the rubric of structures that are too rigid and stubborn for change. Through a process of constant interaction and dialogue these lessons can filter through and eventually can even change policy. It hoped that this report would be one small step on this long and winding road, much like the one to the hill capital, Kandy.

CHAPTER TWO METHODOLOGY

2.1 Conceptual issues

2.1.1 Key concepts of the study

Poverty reduction is one of the main goals of the Government of Sri Lanka's development policy as well as the overarching goal of German development cooperation. Hence, any evaluation of German development cooperation needs to assess the impact on the reduction of poverty of the recipients of this assistance. The recent debate on poverty looks at poverty in multidimensional terms and goes beyond the traditional yardstick of measuring poverty through economic means (material deprivation) alone. The broader view of poverty includes vulnerability and exposure to risk, voicelessness and powerlessness (political deprivations) as important deprivations that affect an individual's 'capabilities to lead the kind of life that s/he values'². Accordingly, this study defines poverty in its broader, more meaningful sense, particularly at economic (consumption and income), human (health, education) and socio-cultural (status, dignity, community participation) dimensions of poverty. The assessment of poverty impact takes place mainly at the level of the household, community and enterprise owing to the nature of the components selected for study.

The other conceptual issues central to this investigation are those of impact, relevance and sustainability, which are its underlying objectives and are appropriate to the nature of an ex-post evaluation.

Impact is defined broadly as changes - positive, negative, intended, unintended, direct, indirect, parallel or after some time - that are caused by the intervention of the project in a particular context. This context can be at various levels, that of the individual, household, community (i.e., the target group), at the level of the partner or cooperating institutions either at the local or national level, and even at the level of the individuals (i.e., project / counterpart staff). The important point about impacts is that it is seen as changes to which the project has contributed. In this sense impact is not those changes that the project directly brings about but changes that are 'set in motion' by the project's interventions.

For the purposes of this study, the analysis of impact takes place at three levels: the level of the target group or direct beneficiaries (rural households, community-based organisations, small and medium entrepreneurs), the level of the implementing partner both at the central level (Regional Development Division) and provincial level (Provincial Planning Unit, chambers and other associations) and at the personal level of those who associated with the RRDP in its 13 years, both at the counterpart and the project level.

Sustainability is defined in many ways, especially with implications regarding the environment. For the purposes of this report, a project is sustainable "if it is in the position to guarantee an appropriate level of benefit for an extended period of time following the end of the financial, organisation and technical aid of the external donor" (DAC 1988)³. Relevance refers to the significance of an intervention in view of trends taking place in the given context. Hence, the RRDP interventions are deemed relevant if they are appropriate to the context and time and make positive changes to a given situation.

² World Bank (2001)

³ Stockmann (1997)

Finally, the subject of this evaluation is an Integrated Rural Development Programme (IRDP) situated in the central highland district of Kandy. The IRDP approach to development was in vogue in the developing world in the decades of the 1970s and 1980s supported by donor agencies. In Sri Lanka the IRDPs held sway for over 20 years beginning in 1975 (Kurunegala) and ending with the launch of the Regional Economic Advancement Programme (REAP) in the late 1990s. The Kandy RRDP funded by the German Federal Government and implemented by GTZ, came in mid-way in 1987 and lived through a dynamic period both in terms of Sri Lanka's political-economic history as well developmental concepts at the decentralised level. The conceptual orientation of this ex-post evaluation, therefore, places high emphasis on capturing the dynamics of this period to draw out the essence of the 'RRDP story' as told in this postscript.

2.1.2 Conceptual framework of the ex-post evaluation

As explained above, the ex-post evaluation focuses exclusively on impact – on what has changed and what lessons can be learnt for development planning and practice. Therefore, whether the plans and targets of the project were achieved are rather of secondary importance. Indeed, it is also less relevant whether the impact the project set out to achieve was achieved. This latter point cuts directly into the main conceptual approach adapted in this evaluation, the so-called '*funnel approach*'.

The funnel approach as described by the BMZ⁴ looks at changes in the immediate and broader project environment first and only then tries to establish linkages between such changes and the project interventions. The immediate environment is the Kandy district while the broader environment would include the provincial and even the national level.

Such a conceptual orientation fits well with the CEPA's methodological experiences in evaluation, in particular that of the JIMOD methodology, which tested a 'project transcending' model of impact assessment⁵. In contrast to evaluations of ongoing projects that start with project results and objectives and evaluates changes against intended targets, ex-post evaluations are oriented towards seeking what has stayed or 'caught on' after the projects have departed from their setting. This distinction is influenced largely by the 'learning orientation' of ex-post evaluations as against the 'evaluatory orientation' of mid-term evaluations. This is not to say that mid-term evaluations do not provide learning outcomes, but these lessons are largely project relevant. End of project and ex-post evaluations have a higher policy relevance, which is nurtured by the 'distance' to the subject of the evaluated, the relative methodological freedom, and the explicit learning-oriented impetus of such exercises.

With this in mind, CEPA has used the funnel approach as its main overarching principle, with some adaptation in its actual use⁶.

4 BMZ TOR 2003

5 The study aimed to develop and test a methodology for assessing the impact of project interventions at the micro level on development trends at the regional or provincial (meso/macro) level. The project-transcending model of impact monitoring tested by the study, involved a multi-disciplinary team of professionals. The results of the study is published as a reader, titled, "Joint Initiative for Monitoring Development Trends (JIMOD), Comprehensive Study, CEPA February 2004

6 One adaptation is the time-frame to capture the changes in the project context, which is according to project start (tS), project end (tC) and time of evaluation (tE). CEPA views this as contradictory to the funnel principle, which is to remove itself from the 'project eyes'. Using the time-frames described above brings the framework of the evaluation back to the terms of the project. This is precisely what is not supposed to happen. Instead, the CEPA approach structures the time-frame according to key points and catalysts as relevant in Sri Lanka, irrespective of the project's chronology and then relates the project chronology against this context. The second major adaptation was to deviate from the highly quantitative, numeric methodology used in the first series of 32 evaluations. While a quantitative methodology might have been necessary to draw comparable results from such

The conceptual framework used in this ex-post evaluation comprises a four-step process. **Step 1** identifies the basic fields of investigation. These fields, while linked to the overall work of the RRDP, are not primarily determined by it. These fields of investigation were selected on the basis of their insightful value, i.e., their ability to provide clues as to the essence of the impact, relevance, and sustainability of the RRDP, the interests of the BMZ and the views of the study team. Hence, while the RRDP might have worked in a number of areas, only those fields or critical issues that were felt to contain an insightful value were selected for greater elaboration. In **step 2**, the basic fields of investigation selected in step 1 are elaborated through a review of the relevant changes and trends. This is done on the basis of a review of secondary literature and data. The idea is to provide a context to the basic fields of investigation. On the basis of this review, **step 3** specifies a number of key research questions or focus areas for study that would guide the field research. While step 1 concentrates on identifying fields within the projects spatial context, **step 4** focuses on identifying important fields of investigation at the macro level, outside the spatial context of the project. Here, overarching policy issues relevant to the context of IRDPs and issues of the time were considered. A similar context review and elaboration of research areas takes place in step 4.

The outcome of this four-step framework was the selection of three basic fields of investigation that were identified by the study team as being able to provide the 'clues' or 'pieces of the puzzle' to the impact of the RRDP. These fields thereby form the basis of the evaluation and are hereinafter referred to as the main study components. They are:

- 1) Policy and Institutional arrangements for decentralised development
- 2) Enterprise promotion in facilitating decentralised development
- 3) Village development as an enabling factor for decentralised development.

The first component, policy and institutional arrangements for decentralised development, was selected as a critical issue for further study as this formed the core of the philosophy of IRDPs, that of decentralised development. Moreover, support to the administrative and institutional apparatus was a major objective of the RRDP. The context review for this component covers the political economy of decentralisation and paradigm shifts in the concepts of integrated rural development – all of which were central debates during the implementation of the RRDP.

Component two, enterprise promotion in facilitating decentralise development, was selected since Kandy, being the 'second capital' of Sri Lanka, is logically placed to be a hub of business activity. Whether this is the case is discussed in the report, but the importance of the topic is nonetheless relevant for the Kandy district, and, as will be seen, was also to become a major feature of the RRDP. Finally, the third component, that of village development as an enabling factor for decentralised development, was identified because of its direct poverty relevance on the smallest unit of analysis – that of the village and household. Hence, while component one focuses on more macro and meso level issues and component two on the meso level, component three focuses on the very micro level, down to the impact on individual households.

a large sample, CEPA believes that the value of the present series of evaluations is to test context specific methodologies that are appropriate to drawing out meaningful and policy relevant lessons and not just for comparing results. Inherent to the funnel approach is cause-effect analysis that allows impact to be linked to the project. CEPA believes that cause-effect analysis can be useful to simplify complexity and establish plausible impact chains between impact observed and project interventions, especially given that the evaluation takes place some years after project closure. Nevertheless, while supporting this principle a word of caution is required. Given the highly dynamic and interwoven inter-relationships that took place in the 13 years of the RRDP it may not always be possible to establish cause-effect chains without losing their plausibility. Above all, bearing in mind that this is less an evaluation than a learning exercise, cause-effect will be used only where it helps to reduce complexity and enhance the analysis and not as an end in itself.

2.2 Organisation of the study

In a departure from the usual formats for evaluations, the study was organised in such a way as to maximise the dialogue and exchange process. It comprised three phases:

- a) Inception phase – August to September 2003
- b) Fieldwork and consolidation – October to December 2003
- c) Finalisation and Dissemination – January to March 2004

The inception phase concentrated on the preparation of the study design including the review of development trends and selection of components for study, which were outlined in an Inception report⁷. A second key feature of this phase was an 'Inception workshop' at which stakeholders and resource persons were invited to provide feedback on the research design and components selected by the study team⁸. The second phase which concentrated on the empirical phase of the study was conducted over October/November 2003 and the first draft was submitted in December 2003. The final phase involved a 'Dialogue workshop' to which those who were interviewed for the evaluation as well as key stakeholders at the district, provincial and central level were invited. The workshop played a crucial role in disseminating the results of the evaluation to even the most micro of levels (beneficiary households) and in inviting an active dialogue and exchange on the role, played by the RRDP, the role of development cooperation and approaches to decentralised development. An additional feature in the organisation of the evaluation was the appointment of an Advisory Committee by the BMZ mandated to provide support to the study team by facilitating access to information and contacts and providing overall guidance if required.

2.3 Methods

The study uses largely qualitative research methods of investigation. As explained above, the highly numerical / quantitative methodology applied in the first series of ex-post evaluations conducted by the BMZ was not used in this evaluation. During the *inception phase*, research methods were confined to a review of literature, secondary data on socio-economic trends in the Kandy district and Central province leading to the production of the inception report outlining the critical issues / components for study, the main research questions and the proposed methodology. This phase also invited discussion and feedback from stakeholders at the inception workshop. During the *fieldwork* phase a mix of open-ended, semi-structured and key informant participatory interview methods were applied, depending on the component and the nature of the interview. In general, the team avoided focus group interviews to enable more intensive discussion, although at times interviews involved small groups of three to four persons.

The sampling methods used were indicative rather than representative and intensive (going into detail) rather than extensive (covering a large sample). In this sense, the study does not claim to be representative of the complete range of impact generated by the RRDP and is rather indicative of its impact. A case-study approach with an indicative sample, rather than a survey-based approach covering a large sample, was adopted to allow deeper, in-depth analysis. Having said this, however, in all a total sample of over one hundred persons from the state, private sector, community and project levels were interviewed for this study.

⁷ See CEPA (2003) Inception report on the ex-post evaluation of the RRDP Kandy

⁸ See CEPA (2003) Documentation of Inception Workshop

The finalisation and dissemination phase invited a process of dialogue and exchange at the Dialogue workshop and comments on the draft report by key stakeholders including the advisory committee.

In addition to this general description of the methods used, each component adopted its own specific methods and sampling techniques, in particular during the fieldwork phase. These components are outlined below.

Policy and institutional component

Several methods were used in collecting the necessary data and information. A survey of project documents and relevant literature and interviews of key informants were the principal methods utilised. In addition, the team also had an opportunity to observe the preparations that had been carried out for a co-ordinating meeting of the Pathahewaheta DS division. This gave, insight although very limited, into the development activities of a DS division and how these activities are planned and carried out. In addition, six expatriate employees of the project were interviewed using an E-mail questionnaire. E-mail questionnaires were sent out to nine personnel of whom six replied.

The key informants interviewed included officials who served in the following agencies during the operation of the RRDP: the Regional Development Division of the Ministry of Plan Implementation, the RRDP, the Divisional Secretariat, the Provincial Council and the District Secretariat. In terms of state institutions, the material in this section covered institutions at central, provincial and divisional levels. The institutional development efforts of the RRDP have covered all these levels. The necessary information to assess institutional development at divisional level was obtained from two divisional secretariat divisions, viz. Pathahewaheta and Gangaihala Korale DS divisions. The objective was to cover two divisions with two different histories in relation to the institutional development efforts of the project. The Pathahewaheta DS division was a project partner right from the beginning, i.e. the orientation phase of the project. It was in this division that participatory methods were first tested and, therefore, experienced the longest effort at institutional divisional. Gangaihala Korale was one of the divisions that was included in the next or the innovation phase of the project. Therefore, it represented a division that was incorporated later into the project.

Enterprise promotion component

The review of literature and data included data from the Regional Information System (RIS) database of entrepreneurs and enterprises, the findings of the JIMOD study and other relevant data of the Department of Census and Statistics (DCS) and the Central Bank.

This component looked at two key aspects: the viability and sustainability of enterprises and partner institutions supported by the RRDP. For the first part, 24 enterprises that had received support from the RRDP were traced and surveyed using a semi-structured questionnaire. The sample selection was based on the sectoral breakdown of enterprises supported by the RRDP. The interventions supported by the RRDP in enterprise development were mostly in the micro sector (less than five employees). Of 650 business plans prepared, grants primarily for the purchase of machinery/equipment and the expansion of business premises were given to 254 enterprises of which the vast majority was in the agriculture and livestock sub-sector (33%). Other sub-sectors supported were food processing (21%), wood-based industries (11%), textiles (10%), mineral-based industries (8%), metal-based industries (5%) and others (13%), including the services sub-sector. The indicative sample of 24 enterprises comprised 29% in agriculture and livestock, 25% in food processing, 13% in wood-based, 8% in textiles, 8% in mineral-based, 4% in metal-based

and 13% other industries. The enterprises were located in the five DS divisions that the project originally worked in, as well as five other divisions that the project expanded to later, following the establishment of the four Regional Enterprise Promotion Units (REPUs). Around 54% of the enterprises were owned by men and 33% by women, while 13% were group enterprises. Of the individually-owned enterprises, 62% belonged to men and 38% to women. Almost half the male clients were in the 26-35 age group while over half the female clients were in the 36-45 age group. None were below 25 years of age.

Six enterprises that were not supported by the RRDP were interviewed as a comparative sample, from the same geographical locations and from the same six sectors. This small sample was by no means representative but indicative; its sole purpose was to understand the regional business context and the type of issues and problems facing entrepreneurs who had not received any assistance. Of these enterprises, 67% were owned by men and 33% by women. Half of the men were in the 46-55 age group while the women were between 26-45. None were below 25 years.

For the second part, the partner institutions of the project interviewed included current and former representatives from the Chamber of Commerce and Industry Central Province, the Women's Chamber of Small Industries and Commerce Central Province, the Protected Agriculture Entrepreneurs' Association (PAEA), the CEFE Association, the Mushroom Growers' Association (MGA) and the Digana Milk Cooperative (DMC). In addition, several officials of public sector institutions linked to the provincial ministries of agriculture, livestock development and industrial development with which the project cooperated were interviewed. Several former professionals of the RRDP and the CPEPC were also interviewed to gain an insider perspective of the project approach towards enterprise promotion, activities and impact.

Village development component

The methods used for assessing impact at the village development level consisted of qualitative interviews with beneficiaries of the RRDP supported projects at the village level and key informant discussions with former project staff of the RRDP and government officials at the provincial and divisional level. The investigation methods consisted entirely of individual and small group (3 to 5 persons) interviews, using an open-ended qualitative questionnaire. Owing to the diverse nature of the project activities covered, standardised questionnaires and focus group discussions were not used. The absence of focus group discussions was also due to the difficulties in locating project beneficiaries.

The selection of sites and project activities at the village level was guided by a three step criteria:

- A. Findings from the review of development trends in the Kandy district / Central Province (see chapter 3.2) indicate relatively low levels of development and productivity despite significant investment over the years. Hence, the sample selection concentrated on agriculture, livestock and rural economic infrastructure projects that were designed to enhance productivity and thereby the incomes of the rural poor. The focus of the RRDP on creating 'enabling conditions for growth', were also borne in mind.
- B. Spatial sampling to capture the least developed divisions of the Kandy district. According to the D.S. Division Development Level Ranking using data⁹ from the Regional

⁹ These include indicators such as access to electricity, housing type, school and health facilities, Janasaviya / Samurdhi recipients etc

Information System (RIS), the divisions of Udadumbara (UD), and Gangaihala Korale (GI) were the least developed of the 20 D.S. Divisions.

C. Selection of specific sites and project activities were done using 4 sub-criteria:

- *Concentration of project activities.* According to the project monitoring data, the agriculture and livestock sectors, which were concentrated on dairy farming (22% of total activities in the 3 D.S. divisions), fruit cultivation (18%) and orange cultivation (9%), were chosen for the study. Goat breeding was added to represent a newly-introduced activity. In economic infrastructure, over 40% of activities were in the rehabilitation of anicuts, 22% in road improvements and the balance in canals, footpaths and bridges. Therefore, anicuts, roads and footpaths were selected for study.
- *Concentration of activities according to division.* Dairy farming was concentrated in the Medadumbara division (65% of dairy farming activities were located in MD of the 3 divisions), and the GI and UD Divisions saw a predominance of activities to promote fruit cultivation. Similarly, the divisions of GI and UD received the bulk of economic infrastructure schemes. This was reflected accordingly in the sample selection.
- *Sites covered in the 99 PIMU/RRDP Impact Assessment¹⁰.* An attempt was made to analyse longitudinal impact by selecting some of the G.N. divisions covered in the 1999 Impact Assessment. These included Wetakeneniya in the GI division and Udawela in the UD Division.
- *Recommendations by key informants.* References to particular cases and sites by key informants either as good or bad examples were noted.

As far as possible a minimum of five beneficiaries per activity was interviewed, although in some instances this was not possible because of difficulties in locating persons. A total of 45 beneficiaries were interviewed in the three D.S. Divisions and an additional five key informants from the Divisional Secretariat offices / Vet Office, were interviewed. A further eight key informants from the provincial ministry and from among former RRDP project personnel were also included. Hence, the total sample interviewed for the village development component comprised 58 persons.

2.4 Organisation of the report

Structure of the report

The report is structured according to the organisation of the study. Following the introductory chapters outlining the background and methodology (chapters 1 and 2), chapter 3 summarises the major findings of the reviews at the inception phase. In keeping with the methodology followed, this phase identified the critical issues / components of the evaluation by considering the development patterns of the district independently from the project context. The project-specific analysis commences in Chapter 4 with an analytical summary of the project timeline and parallel changes in focus and the priorities over its 13 years of implementation. The essence of the report is contained in chapters 5 and 6. Chapter 5 provides the major findings from the three components and chapter 6 draws out the major lessons learnt and policy relevant recommendations. Given the need to keep the report concise, a number of key pieces of information are annexed, including the village profiles,

¹⁰ In 1999, the penultimate year of the RRDP, the project commissioned an impact assessment of its activities, which was jointly conducted with the support of the GTZ Poverty Impact Monitoring Unit (PIMU) and RRDP staff. This report is titled, "An Impact Assessment after 12 years of operation". The reference to the 1999 Impact Assessment is made only in the village development component of the present study.

case studies and diagrammatic illustrations. A paper containing reflections on the methodology and the process of conducting ex-post evaluations will be prepared separately.

Clarification of terms

A number of terms are used in the report, which require clarification. The terms *beneficiary* and *target group* are used interchangeably to mean the direct recipients of support from the RRDP. The term *client* is used to refer to beneficiaries of the enterprise promotion component, namely entrepreneurs and enterprises. The term *counterpart* is used to refer to the project's main implementation partner/s from the state, while *partners* encompass other implementing partners at the non-state level (e.g., chambers). The subject of the evaluation, namely, the Integrated / Regional Rural Development Project, Kandy, will be referred to throughout this study as the *RRDP*. As will be explained in chapter 4, the project began by calling itself the IRDP Kandy, but was later changed to the RRDP Kandy. The study shall therefore use the term the RRDP since this is the way in which the project was predominantly identified, even when it refers to the period prior to the name change. The terms *study* and *evaluation* are used interchangeably to describe the nature of the exercise undertaken. While in many ways the research methodology of this process makes this a study, its clear policy orientation gives it an evaluatory frame. When this issue was addressed at the inception workshop, the BMZ representative clearly stated that the BMZ regards it as an evaluation. However, in the report the terms are used interchangeably.

2.5 Limitations of the study

The main limitation of this report is one of time. By nature, ex-post evaluations are complex processes, not least because of the time lapse involved. In this sense, ex-post evaluations take the nature of tracer studies in which a substantial quantum of time is invested in the tracing process. Owing to the limited time for the completion of the fieldwork and the submission of the first draft (two months) the process of tracing stakeholders (beneficiaries, cooperating partners and even ex-project staff) was a pragmatic compromise with the study team making do with those they could easily locate¹¹.

Nevertheless, in spite of this, the richness of the information that the team did obtain did not suffer unduly because of the lack of a more comprehensive search process. While not strictly a limitation, the qualitative research method used in this study relies on a smaller sample size since it is meant to be indicative rather than representative. The team fully acknowledges that this may have resulted in a number of examples of the RRDP's 'success' – or for that matter – 'failure' stories being lost, but that is the nature of such research. In addition, the small samples might mean that the findings are not 'statistically valid'. As this study is not intended as a scientific, quantitative exercise providing comprehensive coverage of everything the RRDP did, but instead meant as a qualitative effort to capture indications of the RRDP's impact, relevance and sustainability, the methodology adopted is deemed appropriate to the task at hand.

Another practical limitation to the evaluation was the lack of access to key project documents. This was less a problem in a physical sense, thanks to the BMZ, which made available substantial amounts of information to the team. Rather, the problem lay in comprehending them, as many of the project documents, such as the 'Offer documents'

¹¹ This also meant that the idea of a 'Tracer study' of ex-project staff, discussed at the Inception Workshop, did not occur to the extent that the team and others would have liked, although a number were located and interviewed.

(Angebot) or proposals for funding, project progress reports and the end of project review document, were written in German and were thus not accessible for review by the team.

This evaluation does not analyse the experiences of the RRDP against that of the context of the IRDP experience in Sri Lanka. A substantial volume of literature exists on the latter and many parallels can be drawn with the RRDP. However, it was the deliberate intention of the study team to limit the evaluation to a detailed analysis of the RRDP and to place it within the socio-economic and political context of the time. An analysis of the IRDP approach to development and the IRDP experiences vis a vis the RRDP is not within the scope of work and time-frame of this study.

CHAPTER THREE CONTEXT OF SELECTED STUDY COMPONENTS

This chapter presents a selected summary of the context review prepared during the inception phase of the study¹². As explained in the Methodology (chapter 2) this review provides for the further elaboration of the three components chosen for the evaluation.

The context review starts with the macro level policy and institutional context and then goes on to the changes in the spatial context of the Kandy district, covering socio-economic and enterprise issues. The period covered is broadly the decade of the RRDP, 1990-2000.

3.1 Trends in policies and institutional arrangements for decentralised development

The purpose of this section is to provide an overview of the policy and institutional framework within which the RRDP operated. The focus will be on what the BMZ TOR calls the “overall policy framework(s) of Sri Lanka, including frameworks for sectoral and regional development”. The section will review the political economy of the major changes in state institutions that took place during the project period and identify some key questions to be studied in order to assess the impact, relevance and sustainability of the RRDP.

The RRDP existed at a time of the significant reform of the structures of the Sri Lankan state (see annex 1 for a summary of these institutions). Specifically, the most important reforms that took place during this period were the establishment of provincial councils and divisional secretariats. These reforms had a far-reaching impact on the state structure. In other words, the RRDP had to carry out its task of institutional development of sub-national units in the context of these reforms.

As the history of the evolution of state reforms in Sri Lanka shows, a number of factors have influenced the emergence of these institutions. Within the discourse of development, rationalisation has largely been on the basis of arguments for the participation of people in the development process, thereby making development more responsive to the needs of the population.

In Sri Lanka's efforts at establishing sub-national institutions these motivations linked with development have certainly played a role. However, the political and economic factors that influenced the establishment of these sub-national institutions have been much greater than the need for the decentralisation of development. These included the effective implementation of development ideas that emanated from the centre, the need to re-establish control of the regions by the centre which had been ruptured owing to actions of anti-systemic forces, the consolidation of the power of the political parties in power and the grudging handing over of power to the regions because of the pressure of minority demands. Hence, the factors that have had an influence are varied and this, to some extent, explains the proliferation of institutions at the regional level¹³.

¹² For more detail please refer the Inception report (2003) on the study.

¹³ There is a considerable body of literature that has analysed these changes. See, James Craig, Continuity and change in Sri Lanka's district administration: A political perspective in 'Studies in Decentralization: Papua New Guinea, Botswana, Sri Lanka, Manchester Papers on Development Issues, No.3, December 1981; Robert Oberst, Administrative conflict and decentralization: the case of Sri Lanka, Public Administration and Development, Vol.6, 163-174, 1986; Fernando N., Regional Administration in Sri Lanka, Academy of Administrative Studies, Colombo, 1981; Leitan, G.R. Tressie, Local Government and Decentralized Administration in Sri Lanka, Lake House, Colombo, 1979; Shelton Wanasinghe, Implementing Decentralization Policies and Programmes, The Sri Lankan Experience, (mimeo) for debates on decentralization. See Sunil

The reforms that took place during the lifetime of the RRDP also had a much longer historical antecedent. The political and economic factors which brought them about, had been in operation at least from the beginning of the seventies. Hence, a brief overview of the history of this political economy is essential in order to unravel the nature of the institutional landscape within which the RRDP operated and tried to carry out institutional development.

3.1.1 Reforms of districts and sub-district units

The story of these state reforms begins at the start of the seventies, when, for the first time in post-independent Sri Lanka, there was a violent challenge to state power. This was the 1971 insurgency. At the beginning the insurgents had a certain degree of success. The ruling elite was caught unaware. Much more than the actual capacity of the insurgents to capture power, the event demonstrated the extent to which, the regions were alienated from the highly centralised state located in Colombo and the extent to which the centre had lost control of the periphery. It also showed that there was widespread discontent in rural areas and that there was a social base alienated from mainstream politics. It is this social base, which has given rise now to a third political formation Janatha Vimukthi Peramuna (JVP)¹⁴ at the centre.

In the development debates that followed the 1971 insurgency, the socio-economic problems faced by the rural youth were considered to be the primary reason for the insurgency. The education reforms of 1972, the land reforms of 1972¹⁵ and the establishment of District Development Councils (DDCs) and Divisional Development Councils were some of the major responses by the state to this event. From these efforts, the formation of DDCs at district and sub-district levels had the objective of re-establishing and consolidating the control of the centre over the regions through development.

District Development Councils consisted of senior officers from government departments in the district and Members of Parliament. The Government Agent was the principal officer responsible for the implementation of development plans. Divisional Development Councils were established at sub-district level. They were headed by the Divisional Revenue Officer, and comprised representatives from both government and non-state institutions (e.g. co-operative societies, cultivation committees, etc. at divisional level. Three places were reserved for youth. These regional institutions were responsible for district and divisional plans. Through this mechanism, regional institutions were provided with some space to generate their own plans. The innovation of a provision of places for youth - a direct result of the insurgency must be noted.

The second strategy of re-establishing control over the regions was to depend on the political machinery of the governing party. This was legitimised by emphasising the importance of the participation of MPs in development activities. It was argued that MPs had the capacity to understand the needs of the people more than the bureaucracy. Being elected through the votes of the population they also had the motivation to respond to these needs and, therefore, they should be key actors in identifying development needs.

Bastian (ed), *Devolution and Development in Sri Lanka*, ICES/Konark Publishers, New Delhi, 1994; Sri Lanka: *The Devolution Debate*, ICES, Colombo, 1996 for a discussion on the Provincial Council system.

¹⁴ The JVP is a radical Marxist group that styled itself on Che Guereva but has manifested itself in recent decades as an extremist Sinhala nationalist political group.

¹⁵ See Newton Gunasinghe, *Land Reform, Class Structure and State*, in Sasanka Perera (ed) *Newton Gunasinghe, Selected Essays*, Colombo, Social Scientists Association, 1996, for a discussion of the 1972 Land Reform for a similar perspective.

The initial results of this thinking were already seen in the District Development Councils. For the first time elected MPs became members of these regional institutions. This trend was given a qualitative leap by the establishment of district political authorities and decentralised budgets. In addition to the insurgency an added impetus was given to this strategy by the food crisis faced by the country in 1973. The government needed machinery to take care of emergency measures during this period. The strategy was to depend on the political machinery of the governing party.

The result of these needs was the establishment of the District Political Authority (DPA). The DPA was always a member of the governing party. He or she was appointed by the Prime Minister and was answerable to a co-ordinating secretariat in his/her office. The DPA began to wield considerable power in the development activities of the districts.

The decentralised budget enhanced the power of the politician even more. Although called the decentralised budget, 'this was not a decentralisation of the national budget, but earmarking of a specific quantum of money annually for discretionary use at the district level'¹⁶. The amount was decided by allocating a fixed amount for each electorate. These funds were used for specific projects in the district and were administered under the supervision of the DPA. Right from the beginning, politicians had their way in deciding how this money was spent.

The use of the political machinery of the governing party to re-establish control over the periphery had a pernicious effect owing to the introduction of partisan political interests into development activities. In addition to MPs of the governing party playing a key role in taking decisions on development, most of the appointees of non-state institutions at divisional level too were supporters of the governing party. This partisan political interest began to pervade all sub-national development institutions. Therefore, a step that was meant to strengthen a centralised state turned out to be step that strengthened the governing party. In the long run this led to the undermining of many institutions and their de-legitimising them in the eyes of the public.

The post 1977 developments showed that this politicisation of sub-national institutions was systemic. The United National Party that came to power in 1977 not only continued with the practice of maintaining a party member as the key figure for co-ordinating development in the district but also legalised it. The UNP transferred the district political authority to a district minister with a non-cabinet rank. District ministers were appointed for each district and they were expected co-ordinate development work in collaboration with the district level administrative structures led by the government agent. The decentralized budget was continued. The quantum of resources provided through this was increased from time to time, but the manner in which it was used remained the same. It was a part of the state resources that MPs could use at their own discretion. As a result, it became institutionalised as a major means of distributing political patronage.

Although the word 'decentralisation' is frequently used to describe the establishment of these institutions at sub-national level, it did not amount to the establishment of institutions that enjoyed a certain degree of autonomous power from the centre. These institutions did not have any powers to raise their own resources. They did some sort of planning that amounted to generating a wish list at district level, but the possibility of implementing them depended on the goodwill of the centre. Mostly, these were attempts at co-ordinating the implementation of ideas that originated at the centre. Given the context in which these were implemented and the need for the centre to re-establish its control over the periphery what went on as decentralisation is not surprising.

¹⁶ Shelton Wanasinghe, op.cit.

This history of state reforms at district level was given a qualitative shift by the demands of the Sri Lankan Tamil minority and the ensuing deterioration of the conditions in the country that led to a civil war. The demand of the Sri Lankan Tamil minority for a federal system of government, in which the combined North East Province would have a substantial degree of autonomy from the centre, goes back to the early fifties. By the time the UNP came to power in 1977 this demand had escalated to that of a separate state. The TULF, the major Tamil political party at that time, fought the 1977 election on this platform. The TULF won all the seats in the Northern Province and some in the Eastern Province. It became the major party in the Opposition.

The UNP has a history of looking towards decentralisation as an answer to the question of ethnic relations. The origin of these ideas goes back to the UNP regime of 1965-70. The 1965-70 government led by the UNP, was a coalition in which the principal political representative of Sri Lankan Tamils, the Federal Party, was a partner. This government tried to appease minority demands through decentralisation. The Prime Minister of that government signed a pact (Senanayake-Chelvanayagam Pact) with the leader of the Federal Party to establish District Development Councils, but this was never implemented because of opposition from the Sinhalese led by the opposition political parties.

At the time of the 1977 election, the UNP resurrected the idea of DDCs as an answer to the ethnic conflict. In its 1977 election manifesto, the UNP put forward answers to the minority question under three items. 'First, a reference to minority rights in the section on constitutional reforms; second, a reference to decentralisation of administration down to village level, to "make people partners in the planning, organisation and implementation of policy".' There was also a reference to the administrative machinery to be established for this purpose: District Development Councils headed by a district minister at the apex, consisting of Members of Parliament (MPs) of the district, elected heads of local bodies and government officials. Third, a whole section of the manifesto was devoted to 'Problems of Tamil-speaking people'¹⁷. In this section the manifesto accepted that Tamil-speaking people faced problems in the areas of education, colonisation, the use of the Tamil language and employment in the public and semi-public corporations. It promised to summon an All Party Conference to consider these matters among many other issues concerning minorities¹⁸.

The DDCs were formed after the report of a Commission in which the Tamil United Liberation Front was represented¹⁹. They consisted of members elected at district level and MPs from the district. The latter always had a majority in the council. The executive functions of the council were vested with an Executive Committee chaired by the District Minister, an appointee of the president, and up to two other members appointed by the district minister in concurrence with the Chairman of the council.

The functions of the DDCs included approval of the annual development plan on the subjects assigned to it, implementation of such plans through the executive committee, making of by-laws, investment of the revenue for development purposes, formulation of plans on subjects not assigned to it and submitting them to the centre and performing duties of village councils and town councils. 'The legislation empowered development councils to levy rates, taxes, duties, fees and other charges; levy fines and penalties; derive income from sales leases, etc; derive revenue from property owned by it; receive monies and sources of revenue appropriated by parliament; receive grants and appropriations allocated to it by ministers at the centre; raise loans with the prior approval of the minister of local

¹⁷ de Silva, K.M., 'Decentralisation and regionalism in the management of Sri Lanka's ethnic conflict', in *International Journal of Group Tensions*, Vol 19, No. 4, 1989.

¹⁸ United National Party manifesto, in 8th Parliament of Sri Lanka, Associated Newspapers of Ceylon Ltd.

¹⁹ The TULF representative, Dr. Neelan Thiruchelvam, whose father played a leading role in the failed DDC efforts under the 1965-70 UNP government disagreed with the findings of the Commission and wrote a dissenting report. But his ideas were influential in the final form in which DDCs appeared.

government and the minister of finance; receive with the approval of the minister of local, general or specific donations. All such income would constitute the Development Fund of the Council, to be disbursed by the Executive Committee on the authority of resolutions of the Council'²⁰.

The District Development Act also established 'Gramodaya Mandalayas' at village level comprising heads of 'non-political village level organizations and pradeshiya mandalayas at AGA level consisting of the Chairman of the Gramodaya Mandalaya'²¹.

The DDCs differ from the earlier efforts because they did try to give a degree of autonomy to sub-national level institutions. Political pressures for autonomy demanded it and the politicians at the centre had to go beyond earlier formulae. However, the structure of the DDCs shows the tension between centralisation and decentralisation. While the DDCs are given a certain degree of autonomy, the centre maintains control through the majority in the council, the figure of the District Minister and powers of approval given to the Minister of Local Government.

Unfortunately the DDCs were a short-lived affair. The first and only election to the DDCs was held in 1981. The election in the Jaffna district was marred by violence. During this violence the Jaffna library, a cultural symbol of the Tamil people, was burned down. Within the next two years the conflict deteriorated and then came the anti-Tamil pogrom of July '83. This event, which is now popularly known as Black July, led to a qualitative shift in the ethnic conflict and from that time there was little possibility of finding answers to this issue through decentralisation at district level.

The next step in reforms resulted in the reduction of powers at district level and the enhancement of power of the sub-district unit. This was the establishment of Divisional Secretariat Divisions in 1993. From this point onwards, the earlier AGA divisions became DS divisions but with enhanced power. The principal thrust of this step was to hand over most of the powers enjoyed by the Government Agent at the district level to a sub-district unit now headed by a senior administrative officer called the Divisional Secretary. The Divisional Secretariat became responsible for implementing much of the work done by line ministries, departments and provincial councils. Some researchers have studied the activities of the DS by dividing it into six groups as follows,

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|-------------------------|---|
| <i>Activity Group 1</i> | <i>Document group: issue of certificates, permits, etc.</i> |
| <i>Activity Group 2</i> | <i>Service group: provision of direct economic benefits to the people</i> |
| <i>Activity Group 3</i> | <i>Development group: development work and infrastructure</i> |
| <i>Activity Group 4</i> | <i>Social group: provision of services relating to culture and social aspects</i> |
| <i>Activity Group 5</i> | <i>Agency group: recommendations/information to other government agencies</i> |
| <i>Activity Group 6</i> | <i>Internal management: administration and finances²².</i> |

Whichever way one classifies the activities of the DS divisions, it is difficult to escape from the fact that these institutions are entrusted with a very large volume of work. They are not institutions devoted to development alone, although many development projects tend to look at them solely through this angle. They have duties that cover a wide range of subjects. This

²⁰ Shelton Wanasinghe, op.cit

²¹ Shelton Wanasinghe, op.cit

²² W. A. Jayasundera, Market oriented public administration, In (ed) M. Somasundram, The Third Wave, Governance and Public Administration in Sri Lanka, ICES / Konark Publishers, 1997.

obviously raises capacity issues. To complicate the matter, the DS Division is accountable for carrying out work linked to a number of agencies – provincial councils, line ministries, MPs of the area or even projects emanating directly from the centre. Owing to this confusion in the accountability structure, political clout plays a significant role in deciding the priorities of the DS division. For example, when the Janasaviya programme, which had the backing of the President, was in operation, DS division activities were dominated by it. Politicisation also affects the DS division significantly. Organising functions for the politicians takes a fair amount of time of the DS divisions. All these complications raise many questions about the effectiveness of this innovation, which actually provided powers to the lowest level.

3.1.2 Establishment of Provincial Councils

Provincial Councils were a direct outcome of the aggravation of the ethnic conflict. In 1987, under pressure from India, Sri Lanka agreed to set up a system of Provincial Councils (PC) that devolved power to the regions. In the agreement Sri Lanka accepted that that Northern and Eastern Provinces had a special link with the Tamil community. The term used was 'areas of historical habitation of Tamil speaking people'. For the purpose of devolution, the Northern and Eastern Provinces were combined as a single province on a temporary basis.

Provincial Councils were established through the 13th Amendment to the Constitution. Powers were devolved through three lists – the provincial list, the concurrent list and the reserved list. The Provincial Council had powers in areas stipulated by the provincial list. The reserved list identified subjects reserved for the centre. The concurrent list stipulated areas where the centre and the province shared powers. There were three special schedules which spelt out powers in the areas of land, education and the police.

The Provincial Council is an elected body. It has a Governor, a Chief Minister and a Board of Ministers. The Governor is an appointee of the President. The Council had powers in areas stipulated by the provincial list and the concurrent list. Executive power is vested with the Governor, who exercises these powers either through the Board of Ministers or officers directly appointed by him.

The Act also established a provincial public service, the police and a High Court. A Finance Commission established at the centre was responsible for allocation of funds to the provinces from the central government. In allocating funds the Finance Commission had to take into account, a) the population of the province, b) the per capita income of the province, c) the need to progressively reduce the social and economic disparities and, d) the need to progressively reduce the differences between the per capita income of each province and highest per capita income among the provinces.

The major criticism from the Tamil representatives of the Provincial Councils revolves around the following issues: a) the powers of Governor, b) a possible undermining of the powers of provinces by the centre through the use of the concurrent list, c) limits imposed on critical areas like land and police powers through the special schedules, and d) implications posed by provisions like 'national policy' which were included in the reserved list.

The establishment of the PC system was delayed for almost two years. The Indo-Lanka Agreement where Sri Lanka agreed to these reforms was signed in July 1987. The legislation to establish the PC system was passed in November 1987. The elections for the PCs were held on a staggered basis. They were held in April 1988, June 1988 and November 1988. The election for the North East Council was the last one to be held. The operation of the PCs needed further legislative enactments in May 1989 so that these bodies could exercise executive power.

Although the establishment of PCs was prompted by the demands of the Sri Lankan Tamil minority, the PC in the North East was another short-lived affair. It lasted from November 1988 to March 1990. In March 1990, the elected assembly was dissolved by the centre. Since then no attempts have been made to hold elections for this council. However, the administrative structure of the council has remained in place and has been involved in relief and rehabilitation activities in the midst of the civil war.

In the other provinces, Provincial Councils have existed for more than a decade with mixed results. These are areas which actually did not ask for a devolution of powers. They were established in these provinces in order to prevent the North East province from getting any special powers. Therefore, the political motivation of these PCs differed very much from that in the North East. There was less of an effort to make use of all the powers given by the Act. The dominant process is closer to one of exercising decentralised powers rather than devolved powers. The centre has also given up powers grudgingly. The centre has taken over powers from the provinces often making use of the concurrent list. Provincial institutions themselves are beset with the usual problems that the state sector has. The lack of capacity and politicisation are characteristic of these institutions. In recent times newspapers have reported several large scale corruption scandals involving the Provincial Councils.

The ongoing peace process and negotiations between the GOSL and the LTTE are bound to bring back the issue of devolution and reforms of the state structure so that the North East could enjoy greater autonomy. Certainly, the new structure will have to go beyond powers devolved through the existing PCs. In December 2002 during negotiations in Oslo, the GOSL and the LTTE came to an agreement to seek a solution within a federal structure. Hence, what has been rejected for so many years has come back to the negotiating table, unfortunately after many years of conflict with all its consequences. These issues are bound to arise during the next round of negotiations on the Interim Administration.

3.2 Trends in the socio-economic development of the Kandy district in the 1990-2000 period

Moving from the level of macro policy and institutional orientation discussed in the previous section, this section focuses on the socio-economic context of the Kandy district by analysing the trends over the last ten years. In addition to providing the socio-economic background to the project - and now the study - area, this overview plays a key role in identifying the focal areas of the village development component of the evaluation.

3.2.1 Profile of the Kandy District

The Kandy district is located in the Central Province (CP), which comprises the 3 districts of Kandy, Matale and Nuwara-Eliya. Of the total CP land extent of 5,674 square kilometres, Kandy occupies approximately 34%. The Kandy district comprises 20 Divisional Secretariat (DS) Divisions covering 1188 Grama Niladari (GN) Divisions, which make up 50% of the total GN Divisions in the province.

Demographic characteristics of the district

Kandy is a highly populated district with over half the Central Provinces 2.4 million people residing within it. This is reflected in the population density that is the fourth highest in the country after the districts in the Western Province that include metropolitan Colombo and its suburbs. However, population growth rates are relatively low with the highest rate of population increase in the province coming from the Matale district.

In terms of the ethnic composition, the Kandy district is predominantly Sinhalese (74%), with 12% comprising Indian and Sri Lankan Tamils and 13.3% Muslims. The distribution is somewhat similar to the national proportions although the share of Sinhalese is lower than the national proportion of 82% and the Muslims are a higher proportion than the national figure of 9%. In terms of sectoral distribution, in general, Muslims tend to concentrate in the more urbanised divisions, while Tamils, particularly 'Indian' Tamils, reside in the estate areas and the Sinhalese predominate in the rural sector.

Table 3.1: Population of the Central Province

	Population 2001	Population increase 1981-2001	Average Annual growth rate 1981-2001	Density 2001 persons per sq. km	Increase in density % 1981-2001
<i>Kandy</i>	1,272,463	21.4	1.0	664	19.9
Matale	442,427	23.8	1.1	227	26.1
Nuwara Eliya	700,083	16.0	0.7	410	15.8
Central Province	2,414,973	20.2	0.9	419	20.1
Sri Lanka	16,864,687	28.2	1.2	342	30.0

Source: Census of Population and Housing, 2001, DCS.

Socio-economic infrastructure

In terms of socio-economic infrastructure, the Kandy district shows a mixed picture, especially given its level of national prominence and urbanisation. On the favourable side, Kandy performs better than both the national and provincial average in terms of access to electricity and safe sanitation²³. The JIMOD findings also show that communities in Kandy reported better living conditions than their provincial neighbours and greater access to electricity and better housing conditions (e.g., permanent walls and floors, water seal or flush toilets, pipe borne water). Much of these improvements have been financed from remittances from the Middle East and from outside the district, as well as housing loans. According to Housing and Finance Corporation statistics, over Rs.178m of housing loans were disbursed between 1993-2000 in the Kandy and Matale districts, of which 81% went to Kandy (JIMOD 2003).

However, in terms of some health indicators Kandy fares poorly, with most rates falling below the national average. For instance, 25% of the population does not have access to safe drinking water²⁴, a fact that is supported by the JIMOD findings, which show a marked rise in water-borne diseases arising from the contamination of water largely because of poor storage and preservation. Kandy, in particular, reports a high incidence of hepatitis.

3.2.2 Macro Economy of the District

Despite being the fourth most populated district in the country and hosting the capital of the Central Province, the Kandy district has recorded sluggish rates of economic growth in the 1990s. According to the UNDP National Human Development Report of 1998, the GDP per capita growth for the Kandy district was 4.3% over the period 1990-1994, below the national average of 5.5%. The per capita income of the district was Rs.6,664 in 1994, ranking 16th among the 17 districts calculated (see table 3.2).

²³ UNDP (1998)

Table 3.2: GDP per capita trends

District	GDP per capita 1990	Rank	GDP per capita 1994	Rank	Per capita growth rate 1990-1994 (%)
Colombo	12,610	1	14,545	2*	3.8
Kandy	5,692	16	6,664	16	4.3
Matale	6,902	7	7,592	9	2.5
Nuwara Eliya	8,985	4	13,987	3	13.9

Note: The Gampaha district overtook Colombo and climbed to rank 1 in 1994. It was rank 2 in 1990.

Source: UNDP National Human Development Report, 1998

According to the UNDP report, the low GDP per capita for Kandy can be attributed to the lack of growth in the areas outside the city of Kandy. While the city of Kandy has benefited from its position as one of the premier tourist destinations in the country, outside the city the major share of the district's economy is based on small home garden agriculture and traditional handicrafts. The products of home garden agriculture, like minor export crops, have suffered low world market prices for many years, while the demand for traditional handicrafts has been declining steadily over time. The diversification of agricultural production and increasing productivity has not occurred significantly.

Income and expenditure

Care should, however, be taken when interpreting the economic growth figures of the Kandy district. While the GDP per capita figures of the UNDP show sluggish economic growth, the mean per capita income per month figures of the Department of Census and Statistics (DCS) show a relatively favourable position for the Kandy district. The mean per capita income per month for 1995/96 was higher in Kandy (Rs.3086) than the CP average of Rs.2764, but marginally lower than the Rs.3367 national average. A possible explanation for the divergence could be the undercounting of rural informal activities in the Kandy district when estimating the GDP per capita figures. As the JIMOD Household survey shows, the contribution from informal agriculture from own land accounts for a substantial portion of HH income²⁵ of Kandy. A particular problem identified by the JIMOD study is that when the returns from agriculture within the Central Province are considered, the lowest returns are in the Kandy district, pointing to the low productivity of the agriculture sector – both informal and formal.

Another explanation that can be made for this divergence between the GDP per capita and mean income per capita per month is the source of income of households in the Kandy district. As the JIMOD study on Real Wages and Market Integration²⁶ shows, the increase in incomes has not come from wages in the informal sector, which, with a few exceptions, have remained stagnant in the Central Province. In the JIMOD qualitative Participatory Assessment most households stated that their incomes had increased. They explained this increase as coming primarily from remittances from the Middle East followed by remittances from migrant workers outside the district but within the country and from small business financed through borrowing from the micro-finance sector. Middle East remittances were most important in the urban and less developed rural sectors. Income from business was important for the more developed rural sector, as well as the urban sector. Income from migrant labour within the country was significant for the more developed rural sector as well.

²⁴ UNDP (1998)

²⁵ Study findings from the Joint Initiative for Monitoring of Development Trends in the Central Province (JIMOD), CEPA, 2003. The study sought to test a project-transcending model of impact assessment through a series of meso-level studies to gauge development trends and analyse / attribute these changes back to project interventions in the province. The study was financed by the German and Dutch governments.

²⁶ Ibid

3.2.3 Poverty in the Kandy District

The texture of poverty in the Kandy district reflects that of Sri Lanka, with relatively high levels of consumption and income poverty but significantly lower levels of human poverty.

Consumption poverty levels in the Kandy district are relatively high at 25.7% of the population (DCS 2000/01) in comparison with the national rate of 23.9%. However, poverty levels in the district have followed the national trend of a steady decline in the decade between 1990 and 2000. While the national levels fell from 30.4% to 23.9%, poverty in the Kandy district fell from 37.4% to 25.7%. What is evident, however, is that the drop in the number of poor households in the Kandy district has been more significant than the national average. Between the period 1990 to 2000 the incidence of poverty dropped by 11.7 basis points for the Kandy district, almost double the decline for the country. The improvement was also much more substantial than its sister districts in the province. Interestingly, the big decline has come in the five years from 1995 to 2000 than in the latter period.

In terms of income distribution, the data for 1996/96 (00/01 data is not available) gives the Gini coefficient for the Kandy district at 0.44, which is more unequal than its sister districts in the CP and is closer to the figures of the more urbanised districts such as Colombo (0.43). The national average was 0.46. In terms of income shares, the poorest 40% of HH received a mere 15.2% of income, in line with the national average.

Table 3.3: HPI ranking for Kandy and selected districts

Components of HPI (%)	Kandy	Colombo	Nuwara Eliya	Central Province	Sri Lanka
Proportion of population dying before age 40	0.10	0.14	0.09	0.10	0.09
Adult illiteracy	10.10	6.00	22.30	15.30	8.90
Schooling non-enrolment rate (grade 1-9)	14.36	24.29	17.56	15.18	8.69
Population without access to safe water	25.73	4.89	25.25	26.08	27.91
Children not fully immunised	20.50	37.25	18.75	13.83	13.50
Births not in institutions	1.10	1.20	58.10	21.47	15.92
Population without access to electricity	47.71	23.40	74.57	65.01	56.23
Population lacking access to safe sanitation	16.82	5.19	35.38	24.20	23.84
HPI	17.39	13.02	30.54	23.08	17.76
Rank	4	2	17	4	

Source: UNDP 1998

Comparing these estimates with the self-perceptions of the Kandy district residents reflects the disparities within the district. In the JIMOD qualitative Participatory Assessment, the majority of households in the urban and the more developed rural sector estimated a level of poverty below 25% in their communities, whereas estate and less developed rural households estimated higher levels, up to 75%. The majority of households surveyed considered themselves to be of middle income, except in the less developed rural sector where the majority regarded themselves as poor. The *Human Poverty Index*²⁷ for the Kandy district shows that despite low economic attainment, there is a high level of social and human development in relation to the other districts of the country. In terms of percentage, Kandy is estimated to have a human poverty level of 17.4%.

²⁷ UNDP 1998

3.3 Trends in enterprise development in the Kandy district in the 1990-2000 period

A review of trends in enterprise development provides the background to the enterprise promotion component of the study. In keeping with the funnel approach, first a broad review of trends is outlined and from this some key research questions are derived.

3.3.1 Investment trends and enterprise development

There was considerable entrepreneurial activity in the Kandy district within the last decade, with the number of registered²⁸ enterprises rising by 26% between 1994 and 1996 (RIS database 1997). However, the actual magnitude of such activity is difficult to establish, as many micro-enterprises remain unregistered. What becomes clear, based on studies such as the JIMOD Enterprise Survey and the RRDP Impact Assessment in 1999, is that while there is volatility in the sector, it does not necessarily mean a high failure rate, when compared with international rates. In terms of the type of enterprise, the JIMOD study on Investment Trends and Growth Sectors revealed that in the district, trading and the service sectors dominated with bakery products, rice milling, carpentry, light engineering and building materials constituting the primary areas of activity.

Considering investment trends, the Kandy district received most of the investment (41%) that went into the province with no major difference between local and foreign investors in choosing Kandy as a site for locating enterprises. In terms of the main growth sectors in relation to investment, the Kandy district had the highest BOI-supported investment in telecommunication services, computer hardware, tourism and garments.

In terms of development financing, the World Bank and the Asian Development Bank introduced a number of refinancing schemes (SMAP, SMI, SMILE) channelled through local banks to promote the SMLE sector during the last decade. Of the total number of loans disbursed within the province, the Kandy district has used around 65%. According to the People's Bank the main sectors supported were rubber products, garments, furniture, wood products and grain milling. Of SMAP loans, 39% went to the garment sector and 29% to steel furniture producers and fabricated metal products. Of SMILE loans, 27% went into printing and 22% into saw milling. A significant part of the Hatton National Bank loan portfolio went into tourism in the Kandy district.

The JIMOD Enterprise Survey corroborates the investment trends among enterprises, indicating higher production and sales in the first half of the decade, which would have led to higher investments in the second half of the decade. These, however, did not result necessarily in anticipated returns, mainly owing to external economic factors, both global (the devaluation of the rupee, increase in fuel prices, the East Asian crisis) as well as national (the escalation of the conflict in the North East of the country).

3.3.2 Potential impact of enterprise promotion during 1990-2000

Employment

In the early 1990s, unemployment in the Kandy district was estimated to be around 20% (DCS 1992). Unemployment rates in the JIMOD Survey remained at a high 17% in 2001.

²⁸ These include companies registered under the Companies Act, as well as those registered with local authorities

While male unemployment appears to have reduced somewhat between 1992 and 2001, female unemployment seems to have increased considerably in the district. The survey data indicates that this is because men tend to move into casual employment and self-employment in the informal sector while women, who are increasingly more educated relative to men, wait for job opportunities in the formal private and public sectors.

The JIMOD Household Survey indicated that 60% of the labour force of households in the Central Province is located in the informal sector - around 67% of male workers and 52% of female workers. A higher proportion of women compared to men are engaged in the formal private sector, rather than the public sector. Employment in the agricultural sector in the Central Province had declined by 25%, whereas employment in all other sectors has increased between 32% and 163% (Census and Statistics 1992,1997). This decline is most marked in the Kandy district, where the proportion employed in the service sector (22%) almost equals that of the agriculture sector (25%) by 1997 and those engaged in trading and eating establishments is 18%, followed by 14% in manufacturing.

The employment generated through the BOI and IDB supported industries between 1990-2000 totalled around 24,056 jobs within the province. The manufacturing sector (especially garment and electronics industries) chiefly employed women, with the female proportion of labour in this sector reaching 76% in Kandy. (Employment Survey, Department of Labour 2001). The investment trends and employment generated by enterprises, however, have been relatively stagnant despite the peak in 1998. The JIMOD Enterprise Survey showed high employee turnover owing to loss of sales, aspirations for self-employment by employees and poor salaries and incentives. Although the sub-sectors which generated the highest employment, according to the JIMOD study on Investment Trends and Growth Sectors, were garments, tourism and information technology, where women have high rates of employment, the opportunities were not sufficient to impact female unemployment rates significantly.

Income

The majority (67%) of households in the province had changed their main source of income from 10 years ago. Then around 42% had derived their main income from informal agricultural activities on their own farm/land. In 2001 around 88% of all households surveyed in the province received non-agricultural income, further corroborating the shift away from agriculture, indicated by the DCS data. The reliance on agricultural income was lowest in the Kandy district, where the returns from agriculture were also the lowest. The returns from trade were highest for the Kandy district. Transfers and remittances amounted to around 15% of income in the Central Province, with the biggest proportion coming from overseas remittances, followed by remittances from friends and relatives within Sri Lanka.

3.4 Identifying focus areas for the evaluation

As already stated, the objective of this chapter is to refine further the focus areas of the evaluation so as to assess the 'impact, relevance and sustainability' of the RRDP. This will be done in the following section according to the three main components of the study.

Policy and institutional component

The assessment of the institution development efforts of the project will be done by placing the specific activities undertaken by the project in the context of the overall policy framework of Sri Lanka, including frameworks for sectoral and regional development.

Hence, the first task of this component will be to map out in more detail the reforms of the state structure briefly reviewed above. This will cover changes in the structures of administration, development planning and political representation. The objective will be to provide a picture of the “immediate and broader project environment”²⁹. This will help to identify the political, economic and administrative milieu within which the project had to operate. In the terminology used by BMZ this will be the broader end of the so called ‘funnel approach’. The geographical focus of this mapping exercise will be the Kandy district and the Central Province.

A special section of this mapping exercise will cover the changing discourses of regional development during the period when the RRDP was in operation. The principal focus of this will be the ideas that influenced the IRDPs and the factors contributing to the emergence of the Regional Economic Advancement Approach. In examining these ideas we shall explore how this evolution dealt with the reforms of state structures mentioned above.

Armed with the contextual knowledge within which institutional development has taken place, the next step will be to look at a selection of specific activities under the rubric of institutional development.

The final objective of this analysis at two levels is to unravel the linkages between them with the objective of coming to conclusions about the ‘impact, relevance and sustainability’ of the institutional development component of the project. We use the more loose term ‘linkages’ because the relationship of these two levels is bound to be complex.

The conclusions of this component will cover institutions at different levels. The Regional Development Division of the Ministry of Plan Implementation, the Provincial Planning Level and the Divisional Secretariat Level will be the primary focus. This multi-level analysis will help us to come to conclusions about the overall impact of the institutional development component.

Enterprise promotion component

The Kandy district in the last decade has not experienced a significant increase in employment, despite considerable entrepreneurial activity, as revealed by the increase in the number of enterprises. The first half of the 1990s was relatively favourable for enterprises and production and sales were high, according to the findings of the JIMOD Enterprise Survey. The JIMOD study on Investment Trends indicates that this was also translated into a higher level of investment between 1996-1998. However, the end of the decade saw a downturn, attributed primarily to external economic factors. Employee turnover was high throughout the period, as revealed by the Enterprise Survey.

Yet, both the JIMOD Household Survey and qualitative Participatory Assessment revealed that incomes of households have increased to some extent and living conditions have improved considerably during the last decade. The increase in incomes appears to be externally generated, for the most part from remittances from employment in the Middle East and outside the district. Living conditions have been improved also through micro-finance borrowing and state-sponsored housing loan schemes. However, some households had increased income through employment in enterprises, especially in the medium and large-scale garment sector.

Thus, the impact of the RRDP’s approach to enterprise development and private sector promotion needs to be placed within this overall framework. The key questions that emerge are three-fold:

²⁹ BMZ Terms of Reference

1. The impact of the RRDP support for enterprise development/private sector promotion on clients and partner institutions in terms of viability and sustainability
2. The efficacy of promoting primarily micro and small enterprises in the Kandy district as a means of poverty reduction
3. The contribution of the RRDP to the impact (positive/negative) of enterprise/private sector promotion within the Kandy district.

Village development component

The findings of the above review show that while the Kandy district has benefited from relatively large levels of investment in development, it has not translated this into productivity impact by way of enhanced growth rates. The primary reason for this appears to be the low productivity of the major sector that absorbs the population, that of agriculture. However, the poor levels of growth have not led to high levels of impoverishment of the people of the district, as income levels are robust, thanks to a migrant economy that provides a steady flow of income from migrants outside the district and the country. Notably, the low levels of agricultural productivity might disguise a relatively better off picture, as the large informal economy active in the district is possibly not being captured in the official statistics. The income poverty of the district is on par with the national averages, although in terms of human poverty Kandy is relatively well off, thanks largely to substantial investments by the public sector in social and economic infrastructure.

Arising from this, the key question to be asked about the RRDP is the relevance and impacts of its investments, particularly at the village level. Given the significant investments made by the project in rural infrastructure, particularly during its first and second phases (1987-1990 and 1991-1993), the component on village development will seek to:

- assess what has been the impact of these on reversing declining levels of agricultural productivity and stimulating incomes of the rural poor and
- look at the major activities undertaken by the RRDP in the fields of agriculture, livestock development and economic infrastructure development.

Altogether close to Rs.50m was spent supporting some 150 projects involving over 8000 families in five D.S. divisions in the Kandy district³⁰. Impact will be assessed in terms of the relevance, significance and sustainability referred to in the objectives of the evaluation by the BMZ. In terms of relevance, the RRDP interventions in the face of a declining agricultural economy and the growing importance of the service and business sectors will be addressed.

³⁰ RRDP, A Brief note on activities completed (1987-1995)

CHAPTER FOUR PROJECT OVERVIEW AND ANALYSIS

The objective of this section is to provide an overview of the RRDP by reviewing the development concepts that have underlined it so that the reader can place in context the findings and lessons learnt from this evaluation. This section presents the RRDP from the point of view of the 'project's logic'. Hence, the overview will describe the 13 year period of the RRDP as it was structured by the GTZ using its approaches and planning frameworks. It should be pointed out that the evaluators do not necessarily follow this project logic in structuring the analysis that follows. The development concepts as identified by the evaluators differ and are placed in the context of the development logic of Sri Lanka at the time. Nevertheless an overview of the RRDP is deemed necessary to place the evaluation in its proper context.

This section is written from three angles. One is from the point of view of the predominant development strategies being practised by the government during the 70s and 80s, when the IRDPs were conceived. The second is from the point of view of the GTZ/BMZ and their concepts and approaches towards regional rural development (RRD), and finally the project, the RRDP itself and its particular construction over its thirteen years.

4.1 Predominant development strategies of the GOSL in the 1970's, 80's and 90's

Poverty alleviation strategies of the government have varied over the decades since Independence. In the post-Independence period 1948-1977, they were heavily biased towards social welfare with state programmes providing universal coverage. This period was also characterised by low economic growth. This changed in the post-1977 period following economic reforms and the liberalisation of the economy, moving towards the removal of subsidies and administered prices and targeted programmes for the poor.

The significant changes in policy signals and directions after 1977 can be described as follows³¹.

- *Late 1970's and 1980's*

This period was characterised by growth-oriented approaches to poverty reduction with emphasis on investment in economic and productive infrastructure. The universal coverage policies in the period prior to this are replaced by targeted food stamps schemes. However, universal health care and education continue.

The first generation of district-centred Integrated Rural Development Programmes (IRDP) began in this period, starting with Matara, funded and assisted by SIDA in 1979 and continues with Hambantota (1979 NORAD), Nuwara Eliya (1979 the Netherlands), Badulla (1981 IFAD/SIDA/UNDP), Ratnapura (1984 the Netherlands), Moneragala (1984 NORAD), Kegalle (1986 IFAD), Kalutara (1987 FINNIDA) and Gampaha (1989 JICA).

- *Late 1980s and 1990s*

The start of the 80s is a tumultuous period in Sri Lankan history. High unemployment and a background of youth unrest brought pressure on the government to distribute the benefits of growth more evenly (see chapter 5.1 for more details). Hence, the growth-oriented approaches of the latter period continue but are complemented by targeted welfare

³¹ PIMU (2002) A Portfolio Analysis on the Poverty Orientation of the GTZ Country Assistance Programme to Sri Lanka, Colombo

programmes. Single, multi-pronged programmes for the express purpose of alleviating the poverty of target groups are introduced. They aim to improve basic services and draw the poor into the growth process through social mobilisation. Universal health care and education are still continued.

Donor-supported projects that came in this period included the **IRDP Kandy** which came on stream in 1987 supported by GTZ/BMZ, the Southern Province Rural Development Project (1991, ADB), the Integrated Basic Services Project, Puttalam (1992, UNICEF), the North Western Dry Zone Participatory Development Project (1992, IFAD/GTZ), the North Central Province Participatory Rural Development Project (1993, SIDA/WFP), the North Central Province Rural Development Project (1997, ADB), and the Janasaviya Trust Fund / National Development Trust Fund (World Bank, Bilateral donors).

- *Late 1990s and 2000 onwards*

This period saw the onset of the Regional Economic Advancement Programmes (REAP) characterised by their emphasis on the region than on the district. They aimed to further reduce inter and intra-regional disparities in growth and poverty by linking the poorer pockets to regional growth centres. The rationale was that the government would concentrate on poverty alleviation through high profile, multi-pronged poverty alleviation programmes and shift partnership for growth to the private sector. Enterprise promotion, thereby, took centre-stage.

Donor-assisted projects that came into being through this approach were the Matale Regional Economic Advancement Programme (REAP 2000 IFAD), the Southern REAP (2001, ADB) and the Regional Economic Development Project Group (2000, GTZ), which in many ways, built on the experiences of RRDP.

Background to Integrated Rural Development Programmes in Sri Lanka

Integrated Rural Development Programmes (IRDPs) were launched in Sri Lanka during the late 1970s with the aim of bringing about multi-sectoral regional development in areas of the country hitherto not covered by high profile, high priority 'national' projects. These include the Accelerated Mahaweli Development Programme, the National Housing Development Schemes and Free Trade Zones. The IRDPs were conceived as multi-sectoral programmes with the particular aim of addressing the problem of regional disparities. The IRDPs had, as overarching goals, the improvement of living standards of the rural poor in their project districts.

The *first generation* of IRDPs³² (from 1979 to the mid 1980s), focussed on district level planning and implementation, taking into account the needs and resources of each district and tailored their interventions accordingly. Significant concentration was given to the development of rural infrastructure such as roads, irrigation and housing. Within four to five years, however, the programme design of the IRDPs underwent a change with the focus shifting away from a meso to a micro approach. Target-group oriented interventions were at the forefront of the *second generation* IRDPs and concentrated on reaching the poorest of the poor within the geographical regions.

This was accompanied by a parallel change in the planning approaches of the IRDPs. The first generation IRDPs adopted rigid planning procedures, usually by technocrats from Colombo and abroad. Executing agencies provided little input into planning and merely implemented the programmes. The financiers of the second-generation projects adopted more flexible approaches that sought the participation of beneficiaries as well as the

³² Gunatilaka (1999)

executing agencies³³. Consequently, planning was more general and open to the needs of special groups (e.g. women) and special concerns (e.g. environment and ecology) and the stimulation of bottom up planning procedures characterised these programmes.

From around 1989, the emphasis went from rural infrastructure to income generation through micro-credit schemes and in 1997 yet another shift occurred giving way to a so-called third generation of IRDPs, known as Regional Economic Advancement Programmes. The shift was prompted by perceptions of inter and intra-regional disparities and the feeling that earlier efforts had failed to bring about dynamic change in the districts and villages. The spatial unit for planning was no longer the district but the region based on economic / agro-physical characteristics than administrative boundaries. More attention was given to strengthening the regional authorities such as the provincial, district and local government³⁴.

When the IRDP Kandy was being conceptualised it was in the mid 1980s³⁵ and the focus was on reaching the poorest of the poor. In other words, it had the target orientation language of second generation of IRDPs. Similarly, planning approaches were more in keeping with second generation IRDPs with a high emphasis on participation, particularly of counterparts, which also matched well with the GTZ's orientation towards poverty alleviation and participation (see chapter 4.2 below). When the project reached its final phase, the orientation towards REAP was highly evident, as will be seen in 4.3 below.

Volumes of investments on IRDPs

In financial terms, the first generation of IRDPs carried more significant volumes in keeping with their heavy infrastructure orientation, although some second generation IRDPs financed by donors such as the ADB and JICA were also substantial.

Table 4.1: Expenditure on IRDPs by District, 1979 - 1997

District / Project	Start	Donor	Contribution (Rs.m)		
			Foreign	Local	Total
Matara	1979	SIDA	599	73	672
Hambantota	1979	NORAD	1330	50	1380
Nuwara Eliya	1979	NETHERLANDS	826	26	852
Badulla	1981	IFAD/ SIDA/ UNDP	1116	297	1413
Ratnapura	1984	NETHERLANDS	627	64	691
Moneragala	1984	NORAD	1156	57	1213
Kegalle	1986	IFAD/ SIDA/ UNDP	408	228	636
Kalutara	1987	FINNIDA	397	120	517
Kandy	1987	GTZ	494	41	535
Gampaha	1989	JICA	1971	204	2175
Southern Province Rural Devt. Project	1991	ADB	1920	480	2400
Integrated Basic Services Project	1992	UNICEF	106	53	159
Human Resources and Institutional Development Project	1992	SIDA/NORAD	91	3	94
North Western Province Dry Zone Participatory Development Project	1993	IFAD/GTZ	629	235	864
Irrigation and Community Devt. Project	1994	EC	376	81	457
North Central Province Participatory Rural Development Project	1996	IFAD/SIDA/WFP	948	395	1343
North Central Province Rural Devt. Project	1997	ADB	1060	584	1644

Source: Gunatilaka (1999)

³³ Ibid

³⁴ Ibid

³⁵ Domros (1985) Appraisal Report on the Feasibility of an RRD Programme in Kandy District

As the table shows, the quantum of investment in the IRDPs during its two decades has varied with a maximum of Rs.2400m (approx Euro 44m³⁶) in the ADB-financed Southern Province IRDP to a minimum of Rs.94m (approx. Euro 1.7m) in the NORAD-financed HRID project. Taking the IRDPs that were strictly implemented on a district basis over 1979-1989, the total investment into the RRDP of Rs.535m (approx. 7.4m) is roughly half the average for the period. Similarly, the quantum of donor assistance for the RRDP at Rs.491m (approx. 6.8m³⁷) is also half the average of Rs.892 for the period. As a proportion of the total investment, the foreign investment component is 12 times that of the local investment and significantly higher than for the comparable IRDPs, barring Hambantota, Nuwara Eliya and Moneragala. It should be noted, however, that these figures do not distinguish between loans and grants. In general the investments made by the multilateral agencies carry a high loan proportion, whereas most bi-lateral aid tends to be in grant form.

4.2 Regional Rural Development concept of the GTZ / BMZ

The concept of Regional Rural Development (RRD) as developed by the GTZ in the early 80s is the basis for its assistance to partner countries in developing rural regions. It is described as a multi-sectoral concept that has at its heart people-centred rural development³⁸. While the RRD concept demands flexibility so that the needs and requirements of the people can be incorporated into its programmes, the concept is based on four underlying principles, which would ensure that interventions led to sustained economic, social and ecological change in the programme region³⁹. These principles are:

- Poverty orientation
- Sustainability
- Target group orientation'
- Participation.

With respect to the RRDP, the four principles of the RDD were formulated as follows⁴⁰:

Poverty Orientation: To reach the overall goal of the project, priority shall be given to activities which are aimed at those parts of the population whose human resource potential is most untapped. These are the ones who do not or hardly participate in the development activities in the district. Owing to their inactivity (for whatever reason) a common characteristic of these groups is that they are poor. 'Poor' in this context, means that they are unable to cover their basic needs such as a balanced food ration, minimum shelter etc. through their own income. In the Kandy district, they even compromise the majority of the population as, according to official statistics, approximately 50% of the total population are food stamp recipients. For these reasons one of the fundamental principles of the Kandy IRDP is that the activities will have to be poverty oriented. This implies that the activities should contribute to satisfy the basic needs of the rural population.

Target Group Orientation: As the rural poor generally do not represent a homogenous ethnic, social and economic group the development approach for each of these groups is most likely to differ. In this context, the target group in the Kandy RDP is understood as those groups, which besides being poor have the same interests that can be pursued jointly.

³⁶ Please note that conversions are approximations based on prevailing year end exchange rates

³⁷ This is a converted rates from figures from a different source. The figures given by the BMZ TOR states a total German contribution calculated at Euro 8.1m. The variations are unavoidable given the different sources of the data

³⁸ Steigerwald (1998)

³⁹ Ibid

⁴⁰ IRDP Work Programme (1988)

Participation: The goal of the Kandy IRDP is to support the target groups to improve their living conditions by themselves, wherever this is possible. This support aims at a change in the knowledge, capabilities and actions of those persons and groups willing to improve their living conditions but whose poverty hinders them in doing so. It is therefore important that the target groups do not simply become recipients of project services. Their activities should be supported where they are faced with problems they cannot overcome by their own efforts but, at the same time, they should be regarded as responsible individuals, who can alter their own living conditions. This means that the target groups and their institutions as well as the local authority must be included in all phases of project execution (identification, planning, implementation, ME etc.).

Sustainability: The project activities should be designed in such a way that a sustained improvement of the living conditions of the target group can be reached. In this context it is essential that the activities fulfil the following requirements:

- All activities should be economically viable on a long-term basis. For social activities, it should be ensured from the beginning that the running costs are covered by local sources
- The activities should maintain or even have a positive impact on the environment
- All major activities should include population growth reducing measures
- The project should, as far as possible, make use of the local resources within the Kandy district
- The project should use the existing organisation infrastructure.

In summary, a clear focus of the project on the poor is evident, specifically on those sections of the poor that have been deemed to somehow have been 'left out' of development owing to factors beyond their control. The underlying principle seems to be one of selecting the poor that have the potential to uplift themselves when provided with the right conditions and stimulus.

To achieve these principles and objectives, the RRD projects apply a **two-pronged** approach:

- a. develop and strengthen the receiving / utilisation systems at the local level, namely the target groups and,
- b. develop and strengthen the delivery and support systems comprising government, non-government and private sector agencies to be more responsive to demands of the target groups.

Hence, a central pillar of the RRD approach is to improve the coordination and cooperation of the two sets of actors. In this sense, the projects are seen as facilitators or links in the process.

Both the four sets of principles and the two-pronged approach to achieving this are relevant to the ex-post evaluation as they run through the three components that are selected for study. The first three principles are particularly relevant for the village development projects and their aim of improving livelihoods at the grassroots, while the principle of sustainability is relevant for all three components.

Phased approach

RRD projects were typically planned with a time-frame of 15 years and followed a six-phase scheme through this period. In the words of the GTZ, "A characteristic feature is a pronounced shift of the activity focus from experimenting and searching via applying and testing to disseminating and lobbying"⁴¹.

⁴¹ Ibid

The six phases are described as follows. Implementation starting with a so-called Orientation Phase, to be carried out in a problem and demand oriented way, paves the way for the Innovation Phase. Here, the focus rests on testing various innovations and strategies for their dissemination with the use of different participatory and learning-oriented instruments. The spread of those technical and organisational innovations that have stood the test is the focus of the Dissemination and Integration Phase that is supposed to establish and ensure institutional accessibility to available knowledge. During the Consolidation Phase, efforts are concentrated on local institution building and the sustainability, effectiveness and replicability of the project impact. A concluding Follow-up Phase helps to identify and overcome bottlenecks in the sustained application of the technical and organizational innovations by the concerned actors and organizational entities.

4.3 Project chronology and analysis

In keeping with the phase approach, the Kandy Integrated Rural Development Programme (KNIRD) as it was initially called, operated four phases during its thirteen years extending from April 1987 to March 2000. Each phase comprised three years. The total German contribution to the project over this period was DM20m, while the Sri Lankan contribution was DM 17m, bringing it to a total of DM37m⁴². Table 4.2 below gives the breakdown of financing per phase.

Table 4.2: Budgetary allocations of the four phases

Phase Contribution (DM mn.)	I	II	III	IV	Total Project
	Orientation 1987 - 1990	Innovation 1990 - 1993	Dissemination 1993 – 1996	Consolidation 1996 - 2000	
German Contribution	3.60	4.16	6.64	5.60	20.00
Sri Lankan contribution	0.36	13.64	1.50	1.50	17.00
Total	3.96	17.80	8.14	7.10	37.00

Source: IRDP / RRDP Project progress reports, various years

The following is a brief description of the four phases together with an analysis of their major focus and development concepts.

Phase I - Orientation phase, April 1987 to August 1990

Beginning as it did in 1987, the RRDP straddled the first and second generation IRDPs. As outlined earlier, the second generation IRDPs placed less emphasis on heavy infrastructure investment, adopting a target group orientation, focusing on the poorest of the poor, which matched well with the principles of the GTZ RRD concept. In keeping with the phase orientation of the GTZ, the first phase was devoted to elaborating the project approach, namely the participatory approach⁴³. The project concept would be jointly worked out, agreed and tested in close collaboration with the people and agencies involved. The Project Goal and Purpose for phase I, are as follows:

“Goal⁴⁴: Sustained social, economic and environmental development in Kandy with a reduction in social and regional disparities

⁴² The figures given in GTZ documents are in DM and hence are not strictly equal to the Rupee figures provided by the Central Bank in table 4.1 before.

⁴³ A brief note on activities completed (1987-1995), RRDP, 1995

⁴⁴ RRDP, Planning and Communication Workshop Report (1987)

Purpose: The rational decision of policymakers (RDD/MPDI – GTZ/BMZ) about the implementation of the IRDP in the Kandy district and on the proposal for the implementation phase

The Activities carried out in this phase comprised:

- a. The establishment of the project office
- b. Training (e.g. 10 officials of the RRDP and the IAA were sent for training abroad, training programmes for village leaders and Village Working Committee members)
- c. Development and testing of the participatory approach (e.g. elaboration of the bottom-up flow cycle)
- d. Implementing pilot measures (13 pilot projects implemented in two villages: 4 in agriculture, animal husbandry and related activities, 2 in economic infrastructure, and 7 in social infrastructure). The total budget for the pilot projects was SLR 3.4m (approx. Euro 65,000)
- e. Institution building
- f. The establishment of an information database
- g. The development of a monitoring and evaluating system”

The activities undertaken in phase I, were entirely concentrated in the D.S. Division of Pathahewaheta. At the end of the orientation phase, an evaluation was carried out followed by a planning workshop for phase II. It is worth pointing out that the orientation phase took place amidst a highly unstable period in Sri Lanka, at the height of the second insurrection by the JVP, which reached its peak in 1989-1990. During this period, Kandy witnessed many killings and disappearances, including that of a prominent Member of Parliament (MP) from the division who had been instrumental in getting the project to the division.

Phase II - Innovation phase, September 1990 to August 1993

The key feature of the innovation phase was the extension of the project coverage to four additional divisions, namely, Gangaihalala Korale (GI), Medadumbara (MD), Minipe (MI) and Udadumbara (UD), covering 48.6% of the Kandy district and 22% of its population. The concepts that had been elaborated during phase I were further tested in this phase with a view towards their dissemination in the subsequent implementation phases (as envisaged in the GTZ phase approach). The goals and activities in this phase were as follows:

“Goal: The situation of the poorer section of the population within the Kandy district has been sustainably improved in respect of their income, nutrition and health and inter as well as intra-regional disparities have been reduced in regard to available public services and infrastructure.

Purpose: Participative planning, coordination and conversion strategies are introduced at Province, sub-district and village levels and development measures geared to bottleneck situations and adapted to the target group, where necessary, are implemented in 5 sub-districts of the Kandy district”⁴⁵

⁴⁵ RRDP, Project Progress Report (1993)

Activities:

- a. Project co-ordination and management (the project office was strengthened by recruiting required staff and providing necessary facilities and equipment)
- b. Training (45 officials from the RRDP and the IAA were trained abroad. An additional 25 officials of the RRDP, the IAA and NGOs received training locally and 16 training programmes for the community were conducted)
- c. Development of the capacity of DS divisions (Divisional Planning Committees were set up in the five divisions and upgraded through improvements in buildings, provision of office equipment, etc.)
- d. Village Development Projects were implemented (altogether 156 projects, 44 agriculture and animal husbandry, 18 industrial training and skill development, 44 economic infrastructure and 49 social infrastructure were carried out with a budget of SLR33.8m (approx. Euro 600,000) for these projects)
- e. Development of Information database (the data collection of local enterprises begins)
- f. Development of a monitoring and evaluating system”

As described in a project report⁴⁶, during this phase, “the construction of roads, minor irrigation systems, tube wells, community centres, school building and the initiation of various self employment schemes in agricultural and cottage industries, helped to improve the living standards of rural people’.

Apart from the expansion and extension of the village development projects to the additional four divisions, the institutional development component, namely the capacity building of the DS divisions, took centre stage during this phase. Linking up with the IRDP concepts in practise during this time, the strengthening of capacities at the decentralised level was also a key feature of the second generation IRDPs, to which RRDP belonged.

Phase III - Dissemination phase, September 1993 to August 1996

A review mission conducted in December 1992, just prior to the commencement of phase III, observed that the project should enhance its advisory role towards the District Planning Committees at the DS level to address existing weak capacities. The mission advised the recruitment of a Regional Planner and the establishment of a Regional Rural Planning and Development component for the project. In addition, the mission recommended the project to more outline clearly its support to individual entrepreneurs and enterprises in line with its objective of promoting rural enterprises⁴⁷.

A notable change that took place was the changing of the name of the project from Integrated RDP to Regional RDP in line with the increased emphasis on regional planning. Correspondingly, the goals and activities for the third phase were defined as follows:

“Goal⁴⁸: A lasting contribution to improve the living condition of the population in the Kandy district, taking special account of needier groups, to be achieved through a set of multi-sectoral, closely coordinated measures, aimed at:

- Strengthening the planning capabilities of government executing agencies at provincial and district levels and the target group organizations

⁴⁶ “A change agent in a changing environment’, RRDP

⁴⁷ Project Progress review, Condensed Report, GTZ, 12/1992

⁴⁸ Angebot (1993), Project Progress Report (1993)

- Activating the initiative and self-reliance of the target groups and lower administrative levels in the development process
- Developing and introducing income-generating and ecologically sustainable production options in and outside agriculture
- Securing access for the target groups to qualified government and private services in the long term

Purpose: The needier parts of the population of the Kandy district increasingly apply appropriate methods and techniques to permanently improve their living conditions. Government and non-governmental organizations as well as the private sector at provincial, district and community level pursue strategies and render services that effectively support a socially, economic and ecologically balanced development in the Kandy district”.

In addition, the project defined an interim objective for the five D.S. Divisions: “Institutions, groups and individuals at provincial, division and community levels increasingly apply the strategies and methods introduced in participatory development planning, coordination and implementation”.

The orientation towards institutional strengthening at both the district and the recently (1987) established Provincial Councils was clearly evident in the revised goals and objectives of the project during its third phase.

The Activities during this phase comprised:

- a. Project Management and Coordination
- b. Training (10 officers from the RRDP and the IAA were trained abroad and 8 training programmes for village leaders and groups were conducted)
- c. Strengthening the planning capacity of the Divisional Secretariats
- d. Village Development Projects (126 VDPs were supported, 42 in agriculture and livestock, 17 in industrial training / skill development, 32 in economic infrastructure, 29 in social infrastructure. The total budget for the VDPs was SLR13.3m (approx. Euro 202,000), significantly less than in phase II)
- e. Promotion of Rural Private Enterprise (the preparation of the ‘Economic Directory’, 83 prospective entrepreneurs trained in entrepreneurship training programmes conducted with the assistance of the SLBDC, links with the Central Province Chamber of Commerce and Women’s Chambers established)
- f. Development of Information and database (development of a spatial / geographical information system under the aegis of the new Regional Planning Advisor and overall strengthening of the Provincial Planning Unit)
- g. Development of a monitoring and evaluating system.

In summary, therefore, in the dissemination phase the focus shifted more to the provincial level, while maintaining the divisional level activities. Specific efforts were made to strengthen the planning capacity of the Provincial Planning Unit. The results expected in this phase included: improving the efficiency of the Provincial Planning Unit, improving the ability of the Divisional Planning Units to contribute to planning at all levels and increased participation of the target group in planning at the divisional level. Hence, in this phase the institutional development objectives covered all levels. Finally, this phase saw the project give greater attention to the private sector through the addition of a component (e) on the Promotion of Rural Private Enterprises.

Phase IV - Consolidation phase, September 1996 to March 2000

The consolidation phase was meant to be the penultimate phase of the project, followed by a final two-year Follow-up phase. Instead it turned out to be the final full phase owing to the premature ending of the project (see below). With this, the RRDP came to an end after an implementation period of 13 years from an envisaged total of 15 years.

The phase began amidst the shift towards the regional economic advancement programmes (REAP) or the so-called third generation of IRDPs, which was seen by many to have been influenced by the RRDP (see chapter 5.1.1). There was a distinctive shift in the interpretation of regional development as had been practiced by the RRDP involving the following conceptual shifts⁴⁹:

- “From promoting rural to promoting regional development
- From promoting rural to promoting regional development
- From operating in remote rural areas to operating in regional growth centres
- From direct support to the poorest of the poor to the promotion of entrepreneurs
- From supporting primary agricultural production to the creation of wage employment
- From interacting with Government schemes to the promotion of the private sector”.

Another distinctive feature of this phase was the spread of RRDP activities throughout the district, in keeping with the regional economy concept. However, as a rural development project, it excluded urban centres from its target group selection and sought to promote micro and small enterprises to target the poorer sections of the district.

No changes to the goals and objectives from the previous phase were defined although project components and activities were strongly oriented towards the promotion of the regional economy (PRE). They include:

- a. “Working with the RDD in developing the REAP concept (this was a significant focus of activity, with a number of concept papers prepared jointly by project staff and officials from the RDD⁵⁰)
- b. Supporting small and medium entrepreneurs (around 400 MSMEs were supported)
- c. Setting up the Central Province Enterprise Promotion Centre (The CPEPC was set up first as an affiliate of the Central Province Chamber of Commerce and Industry and then at the end of 1988 it became an independent limited liability company)
- d. Establishing the Digital Regional Information System (RIS) for regional planning
- e. Completing the data collection for the GIS system on local enterprises”.

Phase V – Follow-up phase, September 1999 to March 2001 (Planned)

This final Follow-up phase of the RRDP was planned as two-year phase at the project's inception, to elaborate options for follow-up projects or measures. A planning workshop held in December 1997 for the follow-up phase recommended that the RRDP should continue to be guided by the REAP principles and contribute to operationalisation of this concept⁵¹.

⁴⁹ Promotion of Regional Economy (PRE), An Innovative Approach Towards Regional Rural Development of Sri Lanka-German Cooperation in the Central Province, Programme Framework and Profile, GTZ, Sri Lanka, November 1998

⁵⁰ For example: “Income and Employment Generation through the Promotion of Private Sector Enterprises – An approach developed by the RRDP” (1996), “An Innovative Approach Towards Regional Rural Development of Sri Lanka-German Cooperation in the Central Province” (1997),

⁵¹ First Workshop on Replanning of RRDP Kandy beyond the Consolidation Phase, MPI/GTZ, 12/1997

Private sector promotion, in particular the strengthening of the Provincial Enterprise Promotion Centre (PEPC) was a key aspect of the activities of this phase.

This phase, however, did not take place. According to observers, political factors were largely responsible for this premature cancellation. Instead, in October 1999, the tender document for the RRDP 'successor project', the Enterprise Service Systems Promotion (ESSP)⁵² project was completed and later submitted to the BMZ. It was envisaged that the ESSP would develop an innovative cooperation concept with the IFAD-financed Matale REAP project that had recently begun⁵³. Similarly, other GTZ-supported projects such as the Enterprise Information Project (EIP) and the Rural Banking Innovations Project (RBIP) that had begun during the consolidation phase of the RRDP were taking forward concepts and approaches developed by the RRDP. Hence, the RRDP officially came to an end in March 2000, leaving its offshoots to carry out the rest of its work in the Central Province.

What did take place, interestingly, was a so-called 'REAP Phase' which ran for six months, financed entirely out of government funds (close to SLR13m = approx. Euro 180,000) and implemented by the Provincial Ministry. Some 150 projects following the RRDP approach were implemented during this short phase, which according to observers, was meant to assuage political demands in the run-up to the 2000 General Elections.

Summary and links to the evaluation

The following chapters containing the findings of the evaluation are structured according to the three main analytical components of the project, namely, policy and institutional impact, enterprise promotion and village development. The evaluation was not, therefore, structured along the project chronology, as has already been explained at the outset. Nevertheless, it is clear that the components of the study have greater relevance at some periods of the projects history than at others. For instance, the village development component takes most of its reference from project activities during phases I and II which were heavily oriented towards activities at the village level in the five divisions. Enterprise promotion began with income generating activities in phase II but took on its distinctive character and approach during the consolidation phase, which saw the project adopt the concept of the Promotion of the Regional Economy. The institutional building component of the project, particularly towards its government partners at the Provincial, District and Divisional levels, took centre stage during the early years of the project. In the consolidation phase, while its orientation to the Provincial Planning Unit was still strong, the focus had shifted away from the concentration on the divisional level, with its expansion of activities to the entire district. At this point, the capacity building of private sector partners such as the Chambers and most notably the PEPC became the focus.

By de-linking the analysis of the RRDP from a project 'mind-set', it is hoped that a more meaningful and relevant analysis of events as it happened in the Sri Lankan context can be provided.

⁵² Interestingly, the ESSP chose not to adopt the project name of REAP Kandy as a successor to the RRDP Kandy, but chose to start with a fresh name and image.

⁵³ PFB #17, 10/99

CHAPTER FIVE FINDINGS AND IMPACT

This chapter presents the detailed findings of the evaluation pertaining to its central objectives, that of ascertaining the impact, relevance and sustainability of the RRDP. It is divided according to the three components that formed the basis of this evaluation, namely:

1. Policy and Institutional arrangements for decentralised development
2. Enterprise promotion in facilitating decentralised development
3. Village development as an enabling factor for decentralised development.

The findings are the result of the empirical investigations undertaken in the fieldwork phase of the evaluation. The lessons learnt outlined in chapter six are drawn from the findings presented in this chapter.

5.1 Policy and institutional arrangements for decentralised development

The focus of this section is on the policy and institutional impact of the RRDP. It analyses the 'impact, relevance and sustainability' of the policy and institutional components of the RRDP. It is set against the context of the discussion in Chapter 3 which highlighted the reform of the state polices and institutions that occurred immediately prior to – and during - the RRDP period. These reforms signify the environment in which the RRDP attempted to strengthen existing institutions and set up new ones.

In this section, the implications of these reforms for the policy and institutional component of the RRDP are assessed. The findings are organised in two parts. The first part which looks at the RRDP and its policy and institutional components is presented in three sections covering the principal development strategies of the RRDP. Based on this, the second part considers the impact, relevance and sustainability of the policy and institutional components. Chapter six contains lessons that flow from this analysis.

5.1.1 The RRDP and its policy and institutional developments

As discussed in Chapter 3, the RRDP existed at a time of the significant reform of the structures of the Sri Lankan state. Specifically the most important reforms that took place during this period were the establishment of Provincial Councils and Divisional Secretariats. These reforms had a far-reaching impact on the state structure. In other words, the RRDP had to carry out its task of institutional development of sub-national units in the context of these reforms.

This also meant that the nature of the RRDP's counterpart underwent reforms while the project was in operation. When the RRDP began it was dealing with a centralised state with districts headed by a Government Agent and a sub-district unit called the AGA divisions. Very soon these structures changed. A provincial unit with devolved powers was established above the district level. The AGA divisions became Divisional Secretariats with enhanced powers. The Government Agents at district level remained with a lesser degree of power.

This environment of institutional reforms and a multitude of institutions would have created many complications for the RRDP. In addition to a multitude of overlapping institutions they were beset by problems of partisan politics, the lack of capacity and contradictory pressures. This would have had a special impact on the section dealing with institutional development.

However, this complex environment of institutional reforms was a reflection of various political and economic pressures that the Sri Lankan state was subjected to. These reforms signified some of the major characteristics of the Sri Lankan state which was the main counterpart of the RRDP. It was with such a state that the RRDP was hoping to implement its institutional development component. In other words, the complexities that the RRDP faced were not an unusual situation or an aberration, but reflected the processes of the society in which the RRDP was situated. Therefore, projects working in such an environment had to develop concepts and strategies that could deal with the situation. The very decision to start a project during this time made it imperative that the project equipped itself to grapple with this environment.

This observation becomes even more relevant for a project like the RRDP which placed such a high priority on institutional development. When the RRDP set out to make institutional development a core of its activities its intention was to improve, strengthen or transform Sri Lankan state structures that were undergoing these complex changes. Whether the project realised the complex task that it was undertaking is another matter. The fact of the matter was that if the project was serious about institutional development there was no other way out but to deal with the reality as it operated in the real world.

These comments become extremely important when we deal with the question of the relevance of the approaches in institutional development adopted by the RRDP. In other words, the question is how relevant were the approaches to institutional development adopted by the RRDP for the Sri Lankan state which was undergoing a series of reforms as described in the previous section. Relevance is a key aspect of the concerns of the BMZ in addition to impact and sustainability. In fact, it is quite possible that these three aspects are closely interrelated.

This section, therefore, analyses how institutional development was conceptualised within the RRDP. It looks at the principal development strategies followed in the project and their institutional development aspects⁵⁴. These development strategies are identified by the study team as encompassing the following concepts:

- I. Instituting participatory development methods at village and divisional levels
- II. Strengthening regional development through support to the provincial council
- III. Promoting regional economic growth through private sector development.

These concepts were the key driving forces of the project. The following sections analyse how the RRDP made use of these concepts.

Beginnings of the RRDP

The RRDP belongs to the group of development projects that was first identified as IRDPs. IRDPs came into prominence after the United National Party (UNP) won power through the General Election held in July 1977. The leadership of the UNP was always oriented more towards the promotion of the private sector, market forces and the opening up of the economy as a means to bring about economic growth.

Within this broader economic framework the bulk of the government's investment programmes were concentrated in what was called lead projects. The Accelerated Mahaweli Development Programme, the Housing and Urban Development Programme and the establishment of the Free Trade Zone constituted the lead projects. 'Apart from these lead

⁵⁴ Much of the information about the development strategies and the institutional development aspects of the RRDP came from the reports cited in the bibliography and e-mail interviews.

projects, the government had to find resources for irrigation projects outside the Mahaweli Programme, and infrastructure development projects in water supply, roads, railway, telecommunications, health, education, etc⁵⁵. The IRDPs fitted this objective of providing investments to areas not covered by the lead projects.

Once the IRDPs were identified as the principal means of bringing investments into areas not covered by the lead projects, members of the parliament from various districts began to lobby for such projects. The objective was to bring in investments that would cover their constituencies. The establishment of a system of District Ministers also contributed towards this lobbying process. Owing to these factors, the IRDPs expanded to cover many districts in the country. According to Central Bank sources, between 1979 and 1997 there were seventeen such programmes with various titles, accounting for a cumulative expenditure of Rs.9741m (very approx. Euro156m), with the involvement of around eleven donors⁵⁶.

One can identify two important reasons as to why the government elected in 1977 was very keen to promote large-scale new investments in the country either through lead projects or IRDPs. The UNP government which assumed office in 1977 inherited a situation with many problems. The economy was stagnant, unemployment was running as high as 20%, there were shortages in essential commodities and a heavy backlog of infrastructure development. In the mind of the politicians the high unemployment situation always kept the spectre of the possibility of another insurgency as in 1971. Theoretically the government had only six years to go before it faced another election. In these circumstances, the political leadership of the UNP was extremely keen on several large-scale investment programmes on which the government could concentrate and generate economic activity within a relatively short period. The mood was not for long-term planning or for development concepts that would take a long time to bear fruit⁵⁷.

The political importance given to this strategy can be gauged by the fact that all lead projects and IRDPs were placed under the control of influential political appointees. They had a significant degree of autonomy in implementing these lead projects in keeping with the regime's political objectives. Institutionally, the IRDPs were placed in the Ministry of Plan Implementation headed by a powerful Secretary politically loyal to the regime. The ministry itself came under the President.⁵⁸

These basic factors were influential at the time the RRDP came into being in 1987, which was at the tail end of President Jayawardena's rule. The basic rationale and the institutional structure that was established in 1977, in order to begin and implement these IRDPs, were still intact. Basically, the IRDPs were still seen as a means of bringing in investment to districts not covered by lead the projects. There were pressures from the MPs from areas not covered by the existing projects for new IRDPs.⁵⁹

⁵⁵ Lloyd Fernando, Development Planning in Sri Lanka, in 'Dilemmas of Development - Fifty Years of Economic Change in Sri Lanka', Ed. W.D.Lakshman, Sri Lanka Association of Economists, 1997

⁵⁶ Central Bank Annual Report, Central Bank, Colombo, 1997

⁵⁷ Dr. Lloyd Fernando in the article quoted above has this to say on the attitude towards planning in the new government. '...the government saw little role for planning, in the sense of formulating a comprehensive plan. It was considered both a wasteful exercise inconsistent with the liberalised economic policies of the government. Planning in the minds of many was an instrument used by socialist governments and based on state ownership.'

⁵⁸ Director General of the Mahaweli Authority was Mr. Panditharatne. The Greater Colombo Economic Commission was headed by Mr. Paul Perera. Dr. Wickrema Weerasooriya headed the Ministry of Plan Implementation. As known to students of Sri Lankan politics these are well-known personalities linked to the UNP. After their stints in these institutions they continued to be active in UNP politics.

⁵⁹ An overview of the early period of IRDPs can be obtained from: Rao V.M., G.H.Pieris, S.Tillakaratne, 1984, Planning for Rural Development: The experience of the District Integrated Development programme of Sri Lanka, ILO, ARTEP, Bangkok; Perera K.P.G.M., 1982, District Integrated Development Programme, Progress, September issue; A.M.L.B.Polgolla, and Hiran D. Dias, Rural Poor Get Limited Benefits: An Impact evaluation of the Kurunegala District Integrated Rural Development Programme in Sri Lanka, Asian Institute of Technology, 1989 (introductory chapter). For a more recent contribution see, Ramani Gunatilaka, Tushara Williams, The

Therefore, as far as the GOSL was concerned what was needed was a project that would cover the Kandy district. While many of the surrounding districts were covered by similar projects, Kandy was still devoid of one. The government was also under pressure from the MPs of the district to initiate such a project.

However, by this time the existing IRDPs had moved away from being simple channels of investment. The existing projects had generated a wide-ranging debate about development strategies, approaches and innovative methods. Donor-supported technical assistance in projects that were in operation contributed to this development. This had an impact at the level of the Regional Development Division, located within the Ministry of Plan Implementation (MPI) and entrusted with the job of co-ordinating the various IRDPs.

Essentially the RDD saw the RRDP as a project that could focus on the sub-district level and try much more intensive methods of project planning. This was an approach that the RDD wanted to try out. The Pathahewaheta DS Division in Kandy was considered a possible candidate for such an exercise. It was seen as a good case study with remote villages and diverse agro-climatic zones where these new approaches could be tested. The other possibilities were in Karadeniya in the Galle district and Deraniyagala in the Kegalle district.

These considerations of the RDD fitted with the type of project that was possible with German support. Two factors seem to have been in operation with the German decision. On the one hand, the GOSL requested a project in the Kandy district that had an element of natural resource management. This fitted well with the objective of protecting the catchments area of the KFW funded Rantambe, hydro-electric project.

Secondly, the GTZ, the main technical assistance provider of BMZ projects, was well-versed with projects on Regional Rural Development. According to GTZ sources the 'German approach and understanding of the project were based on the principles and concept of Regional Rural Development, a well-defined and elaborated concept of integrated rural development which was first developed in mid eighties and meanwhile has seen several updates and modifications. Some characteristic elements of this approach are the long term project support of 10-15 years, the strong emphasis on participatory elements in project identification and implementation and the understanding of regional development as a common learning process of both target groups and intermediaries such as public and non-governmental service providers. Other important features of the concept are a long and flexible 'orientation phase' during which focal areas of support are identified, new concepts and methods are developed and tested and last but not least a comprehensive information or planning base of the larger project intervention 'region' are established'⁶⁰.

A feasibility study of the project was carried out in 1985⁶¹ and the project agreement was signed in 1987. The RRDP was begun in 1987 in the midst of political instability. The JVP insurgency and its intensification after signing of the Indo-Lanka Accord affected the whole country. This situation continued almost until the end of 1990. Several Sri Lankan officials interviewed thought that it was commendable that the German government decided to fund the project despite this environment.

I. Instituting participatory development methods at village and divisional levels

Integrated Rural Development Programme in Sri Lanka: Lessons of experience for Poverty Reduction. Research Studies, Poverty and Income Distribution Series No.4, IPS/UNDP, December 1999.

⁶⁰ Communication from GTZ

⁶¹ Domros Manfred, Wolf R. Scheffer-Boichorst, Appraisal of the Feasibility of an RRD-Program in Kandy District, Sri Lanka, June 1985

As in the case of most IRDPs the primary concern of the RRDP was the living conditions of the poorer sections of the population. As mentioned in the report of the review mission of December 1992, the project goal was stated as ‘the situation within the poorer section of the population within the Kandy District has been sustainably improved in respect of their income, nutrition and health, inter- as well as intra regional disparities are reduced in regard to available public services and infrastructure’⁶².

What distinguishes the RRDP is not so much this broad objective of ameliorating the conditions of the poor but the specific means or the strategy through which the project wanted to achieve this objective. This specific strategy was to depend on institutional development as a principal means through which these development goals could be achieved. In other words, the underlying assumption of this development concept was that more than anything else it is the lack of institutions with certain characteristics and that implement projects through certain methods that explain the conditions of the poor people. Therefore, there is a need to focus on this factor.

The next step in this process of conceptualisation was to determine the desired characteristics of these institutions that would achieve these development goals. What determined this was the notion of participation which by this time had become an orthodoxy in projects dealing with poverty. This notion was present right from the beginning of the project to the exclusion of any other idea. For example, the participatory concept is emphasised in the feasibility study⁶³. This was also true in the case of the GTZ, the principal provider of technical assistance. As stated in the GTZ response to the first draft, ‘strong emphasis on participatory elements in project identification and implementation’⁶⁴ is a key element of the GTZ concept of Regional Rural Development.

The central idea here was that the participation of beneficiaries was necessary to identify investments that would improve the conditions of the poor. It was believed that by facilitating such participation it would be possible to identify the ‘real needs’ of the beneficiaries. This would help the project to direct investments that would improve the conditions. Hence, institutional development amounted to establishing methods, procedures and systems that would facilitate participation.

One of the first activities carried out by the project was a well-attended Planning and Communication workshop held in September 1987. A central objective of this workshop was ‘to develop a common understanding about the project objectives and the participatory approach among all participants of the workshop. Hence, the usefulness of the basic idea of participation was not in dispute. What the project tried to do was to try and obtain a common understanding among the participants’⁶⁵.

The specific method of participatory development that was introduced by the project was called the ‘Bottom-up flow cycle’ (see illustration in annex 2). It included 14 steps and the project developed 14 formats for this purpose⁶⁶. The steps covered a process that included village organisations identifying their needs to continuous impact monitoring. By any

⁶² Regional Rural Development Project, Kandy, Sri Lanka, Report on the Project Progress Review, January 1993

⁶³ Domros Manfred, Wolf R. Scheffer-Boichorst, the Appraisal of the Feasibility of an RRD-Program in Kandy District, op.cit. There is a considerable body of research on the Kandy district which identifies many other factors for the poverty in these areas of Sri Lanka. Some of the important ones are the persistence of some of the feudal elements in the social structure, land ownership patterns, land tenure patterns, conditions of agricultural labour, the inability to influence the existing political structures and the impact of the opening up of the economy on the poorer sections.

⁶⁴ Communication from GTZ

⁶⁵ Planning and communication workshop, Kandy – September 1987, Workshop Report, IRDP, Kandy

⁶⁶ Regional Rural Development Project, Kandy, Sri Lanka, Report of the Project Progress Review, January 1993. See Annex 2 for diagrammatic representation of the Bottom-Up Flow Cycle taken from this report.

standards this was a detailed, labour intensive and carefully planned method of project planning.

In order to achieve the objective of instituting participatory decision-making methods the project concentrated on certain areas of the Kandy district on a pilot basis. The focus was on the Pathahewaheta DS Division. This Division was selected at the Planning and Communication Workshop mentioned above. One of the reasons for selecting this Division was 'the potential for development of target group oriented approach during a short period'⁶⁷. Here, participatory planning, monitoring and evaluation systems were introduced and tested. A number of pilot measures were introduced in two villages.

However, this focus on one single division and the emphasis on instituting participatory methods ran into difficulties with the expectations of some MPs representing the district. In keeping with the GOSL's general idea of IRDPs described above, what they expected was much more large investments in the area. These MPs also saw such investments as a means of responding to JVP politics that was destabilising the area. These concerns of the MPs were also voiced at the RDD level. Queries about the low investment levels of the RRDP were a regular feature at the monthly progress meetings of the IRDPs held at the RDD⁶⁸.

These disagreements over the approach adopted by the German side went to the extent of the Sri Lankan counterparts threatening to pull out of the project. This issue was resolved in the mid 1990s by the agreement to expand the project gradually into five divisions⁶⁹. These were the Pathahewaheta, Ganga Ihala, Uda Dumbara, Minipe and Meda Dumbara DS Divisions covering 22 percent of the population.

Several factors influenced the choice of these five divisions. First of all, the level of investment available with the project was such that it could not cover the whole district. Within these limits to Divisions were chosen on the basis of statistical indicators such as family income, source of income, unemployment/underemployment rates, development and employment opportunities/potential, spatial disparities in the district and findings of sector studies. In other words, in the choice of Divisions both the existing conditions of the district and the potential for development was taken into account. This process involved a series of extensive discussions and workshops where the rationale for this choice was made transparent.

The process of instituting participatory planning mechanisms at the divisional and village levels included the following specific activities:

- a. The establishment of Divisional Planning Committees. The function of these committees was to prioritise investments in the Division making use of participatory methods.
- b. The establishment of Village Development Committees. Their function was to prioritise investments at village level making use of participatory methods.

⁶⁷ Planning and communication workshop, Kandy, op.cit. Other reasons were, the replicability of experiences to other areas in the Kandy district, the potential for implementing integrated agricultural and non-agricultural project activities, the potential for short term conclusive results and the implementation capacity of the formal and informal organisations.

⁶⁸ This information is based on interviews with two types of sources. First, E-mail interviews with expatriate advisors that has served the project and second, interviews with the Sri Lankan officials who were serving the RDD at this time. According to the Sri Lankan officials the significant expatriate presence in the project was also a concern that they had. In fact this seems to be a general concern that the Ministry had during this period. During the same period the Ministry rejected another IRDP, proposed for the Ratnapura district and funded by the Dutch government principally because of the heavy technical assistance budget that went into hiring expatriate technical assistance.

⁶⁹ E-mail interview with Dr.Rainer J. Blank.

- c. The introduction of the 'Bottom-up flow cycle' methods of planning
- d. The training of officers from the project, DS office, implementing agencies, NGOs and members of the Village Development Committees on participatory planning methods introduced by the project.
- e. Investments on social infrastructure, economic infrastructure and self-employment schemes determined through participatory methods.

Regular progress reviews conducted by the project and external mission reports demonstrate that the project achieved many of the tasks that it set itself up to do. The project documents give an impression of an extremely labour-intensive, detailed process of planning. Given the focus on institutional development, training was a major component of project activities.

II. Strengthening regional development through support to the Provincial Council

The beginnings of the RRDP coincided with the establishment of the Provincial Councils. The legislation to establish the PC system was passed in November 1987. The first election for the Central Province Provincial Council was held in 1988. In the second phase of the project, the RRDP began to respond to this new element in the structure of the Sri Lankan state. The recommendations of a review mission that took place in December 1992 were influential in this development.

The mission was in broad agreement with the approach and fundamentals of the project, i.e. the focus on a selected group of DS Divisions, the emphasis on the participatory approach, the strengthening of institutions at the Divisional level, establishing village-level bodies and support to the provincial planning unit for the same purpose. It recommended the continuation and strengthening this approach but with a focus on regional development. It advised the project to establish a regional planning component in the RRDP, to strengthen the institutional development efforts at village and divisional levels and to see how these approaches could be introduced at the provincial level. In order to achieve these objectives the mission recommended the appointment of an expatriate regional planning advisor.

The project's experience during the first phase and the experience of other German-funded projects supporting planning and capacity building also convinced the RRDP of the need for an expatriate regional planner. In keeping with the recommendation of the mission and this experience a regional planning adviser was appointed in 1993. The project also changed its name from the IRDP to the RRDP in 1994.

These developments coincided with several initiatives aimed at strengthening the newly-established Provincial Council system. The Wanasinghe Commission on administrative reforms⁷⁰ provided a broad framework for the organisation of provincial systems should be organised. The National Planning Department of the Ministry of Finance and Planning had issued a guideline on provincial planning which defined the institutional arrangements such as a Provincial Planning Committee and Provincial Planning Councils. The RDD also developed a provincial planning guideline. There were also improvements at the level of the Provincial Council in terms of its staff.

⁷⁰ Administrative Reforms-An Agenda for Action, Sessional Paper No VIII, Colombo, Government Publication Bureau, 1987

After the arrival of the regional planner⁷¹ a review of the regional planning experience of Sri Lanka was done. This was discussed with the RRDP Project Director who at this time was also the head of the Provincial Planning Unit. This happy coincidence allowed the project to work very closely with the Provincial Planning Unit.

The review of the existing regional planning experience demonstrated that what were needed were 'practical and applicable 'spatial' planning tools and methodologies both on provincial and DS division level'⁷². The demand was mainly for a database that could be applied to smaller spatial units in order to prioritise the disbursement of scarce public funds.

A number of other factors also contributed to the need for this type of information base. Owing to the political instability in the country, the 1991 Census could not be held. Hence, the only information base that was there at the DS Division level was the data generated in the 1981 census. This lack of data was felt acutely during the preparation of the Madyama Lanka Development Plan, which was one of the comprehensive development plans prepared by the Central Province Provincial Council⁷³. Hence the need for an information base that could have a practical value in planning was, felt especially by the planning unit of the Central Province Provincial Council.

Before setting up its own GIS system for regional planning the project explored the possibilities of outsourcing this work to other institutions with GIS facilities. This option was explored with the Forest Land Use Mapping project under the Mahaweli Authority which was also located in the Kandy district. The inability of these projects to provide the type of maps required by the planning units when they were needed prompted the RRDP to assist the provincial unit to build up its own GIS capacities. Hence, this option was decided upon after exhausting the other possibilities.

One of the principal activities undertaken within this notion of supporting regional development was to set up computerised baseline data for regional planning. This was done making use of a GIS system. This created a basic database for the Central Province and planning officers were provided with relevant base maps. The project also produced a statistical handbook for the province. It carried out extensive training in the use of the GIS system. Planning officers of DS Divisions and Provincial Councils were trained in the use of basic data and map reading.

The other aspect of strengthening the planning capacities of the Provincial Council was the training of staff from the provincial, district and divisional levels. These training programmes were carried out in Kandy at a location equipped for the purpose with funds from the RDDP-K. A common feature of this training was the participation of staff from other projects both as lecturers and participants. It was possible to pool and share the existing experiences in this manner.

The project also produced a number of concept and background papers on the planning component. Many discussions were held with the representatives of various provincial ministries on the basis of these papers.

The GIS work of the RRDP was quite well-known. There were interactions with a number of other projects. It also led to the formation of societies of GIS enthusiasts. The focus on a

⁷¹ The information about the activities on regional planning is from the E-mail interview with a former RRDP GTZ advisor

⁷² E-mail interviews

⁷³ Madhyama Lanka Development Plan, Main Report, Madhyama Lanka, Development Plan Office, Kandy (undated)

very practical need that was expressed by the provincial authorities has certainly resulted in a specific product, which hopefully, will be used by the Provincial Council system.

III. Promotion of regional economic growth through private sector development.

From the beginning the RRDP included activities that promoted self-employment through small-scale income generation activities. These were undertaken within an overall perspective of integrated rural development that dominated these projects from 1977. This vision emphasised a focus on the poor and poverty alleviation rather than economic growth or the private sector.

However, from around the middle of the eighties, the experience of the IRDPs was being reviewed by the RDD⁷⁴. A study⁷⁵ done on the Matara IRDP, supported by SIDA, demonstrated the limitations of the strategy hitherto dominant in the IRDPs. The findings of this study generated a discussion on a new approach. In May 1996, the RDD officially presented its new Strategy for Area-based Economic Growth to the donors⁷⁶.

In the following years the RRDP got actively involved in concretising this strategy at the RDD level and bringing it into the RRDP. The RRDP contributed several papers conceptualising further the notion of regional rural development through private sector promotion⁷⁷. Therefore, in establishing this new strategy the RRDP not only worked in the regions, but also was influential at the centre through its collaborative work with the Regional Development Division.

At the regional level the RRDP became one of the first projects to embrace this new strategy. These developments were also strengthened by a shift within the GTZ towards a programme approach. 'The idea was that German-assisted Technical Assistance (TA) projects should collaborate under a common 'programme approach' instead of implementing their isolated projects in different regions'⁷⁸. The common objective of these efforts was regional economic growth.

At the incipient stage between 1987-1990 (the so-called "orientation phase"), the RRDP-Kandy followed the general approach of previous IRDPs in focusing on social and economic infrastructure, piloting a participatory planning process and a number of activities in two villages in one of the "least developed" DS Divisions of the Kandy district. At this point, there was no visible focus on the private sector.

In the "innovation phase" (1990-1993) this approach was modified to include income generation and extended to five "least developed" DS Divisions – Pathahewaheta, Ganga

⁷⁴ See Workshop Report on the past experiences and future perspectives for the Integrated Rural Development Programmes, 30th September to 2nd October 1985, RDD, Ministry of Plan Implementation

⁷⁵ Lakshman, W.D. 'Self employment within a framework of structural adjustment: A study in the light of social mobilisation programme experience in the Matara District, Sri Lanka, SLAE-SIDA Research Project, Colombo, 1994, (mimeo)

⁷⁶ There are several policy papers of the RDD on this issue. See for example, From Rural Development to Regional Development, A Draft concept Paper, RDD, Ministry of Finance and Planning and National Integration, September 1994; Regional Development Programme Framework, A Strategy for Area-Based Economic Growth in Sri Lanka, No.1 Programme Document, RDD, Ministry of Plan Implementation, Ethnic Affairs and National Integration, February 1997; Regional Development Programme Framework, A Strategy for Area-Based Economic Growth in Sri Lanka, No.2 Rural Economic Advancement Programme, RDD, Ministry of Plan Implementation, Ethnic Affairs and National Integration, February 1997

⁷⁷ S.B. Dissanayake, Udo Gartner, Income and employment generation through the promotion of private sector enterprises – an approach developed by the Regional Rural Development Project, Kandy – a concept paper designed for the Regional Development Division of the Ministry of Planning, October 1996, RRDP, Kandy

⁷⁸ E-mail interviews

Ihala, Uda-Dumbara, Minipe and Meda-Dumbara, inhabited by approximately 22% of the district's population. Thus, a number of economic activities such as home gardens, livestock farming and poultry farming, where the borderline between income generation and enterprise creation was not clear, was initiated among 1007 farm households. Training programmes in skill development were conducted for 299 unemployed youth and the improvement or construction of economic infrastructure, such as two training centres for carpentry and motor mechanics was also carried out. A number of group enterprises to promote crafts and small-scale agro-processing (spices, rice mills) were supported through the state-sponsored Gramodaya and women's organizations, as well as the Pradeshiya Sabha during this period. Self-employment and income generation activities that were supported during the second phase were generally in line with the integrated rural development model, followed by most projects of this kind.

The first significant attempt at enterprise development was started only in the "dissemination phase" (1993-1996) where enterprise development training and small-scale industries programmes were added to the skills development training programmes, reaching around 307 beneficiaries in the five targeted DS Divisions. A growing number of individual enterprises were supported with grant subsidies, primarily for improved equipment/technology. While the home gardens and livestock development programmes continued, a milk collection programme and agro demonstration plots were also added, reaching 1481 rural households and 2448 students. The largest proportion of finances during this phase went into enterprise development training programmes. The village-level activities were supported by forging partnerships with the chambers of commerce and banks, compiling an "Economic Directory" of about 200 ideas for enterprises and information on currently available services and by strengthening the planning capacity of the provincial level by transferring (and elaborating) the initial monitoring and evaluation system to the Provincial Planning Unit in the form of a digital information system.

In the final "consolidation phase" (1996-2000), the project concept changed to incorporate private sector promotion in the entire Kandy district, thus encompassing the "regional" character envisaged in the name of the project. A fully-fledged approach to enterprise development at the micro, small and medium (MSME) levels of the agriculture and small industrial sectors was launched through the establishment of a multi-stakeholder Central Province Enterprise Promotion Centre (CPEPC), with four Regional Enterprise Promotion Units (REPU), as an affiliate of the Chamber of Commerce and Industry of the Central Province (CCICP) and presided over by the CCICP. The aim was to link enterprises to a network of available services. Altogether around 254 enterprises were supported by the CPEPC, including the provision of a criteria-based subsidy scheme which provided mainly machinery and equipment in grant form, and was linked to a mandatory bank loan.

The CPEPC was also mandated to promote public-private sector cooperation to achieve its goals. A further 316 clients visited the Enterprise Information Centre established by the GTZ-supported Enterprise Information Project (EIP) at the CPEPC. In addition, the RRDP supported the establishment-expansion of trade associations such as the Competency-based Economies through the Formation of Enterprise (CEFE) Association, the Spice Growers People Company, the Protected Agricultural Enterprise Association, as well as private companies marketing organic tea, organic spices and mushrooms through out-grower systems. During this phase, the PPU consolidated the Regional Information System (RIS), which was envisaged to provide spatial planning data for regional economic promotion, enterprise planning and marketing. The project focused on small and medium entrepreneurs. In selecting entrepreneurs several criteria such as the entrepreneurial potential of the business idea, the structural problems the proposals could face and whether the enterprises were situated within the officially identified 'growth centres' or 'growth

corridors⁷⁹ were taken into account. Most of the focus was on the Pathadumbara and Kundasale DS Divisions which were located within these growth centres.

In the last two phases, a project concept emerged to consolidate an existing but scattered network of institutions that had hitherto engaged in the promotion of private sector enterprises to deliver most services that such enterprises needed in a customer-oriented manner. These included technical and managerial skills, enterprise technology and the supply of production inputs, finance and marketing, business information and lobbying on behalf of enterprises. The role of the project was to link functions, actors and institutions that would provide such professional services and promotional instruments in a sustainable manner. The project concept also espoused the application of regional and socio-economic criteria for the development of the economy of the district. Thus, it was envisaged that it would coordinate and create synergies with other GTZ projects in Kandy such as the EIP, the RBIP and the VTW, which aimed at establishing sustainable systems of delivering business information, credit and vocational training respectively through existing partner institutions.

The activities of the project were re-conceptualised to focus on the new roles and functions of promoting the private sector and regional economic growth. As also stated in chapter 4, there was a shift of the project towards the REAP principles, namely:

- From promoting rural development to promoting regional development
- From operating in remote rural areas to operating in regional growth centres
- From direct support to the poorest of the poor to the promotion of entrepreneurs
- From supporting primary agricultural production to the creation of wage employment
- From interacting through Government schemes to the promotion of the private sector.

In the third “dissemination” phase, the support to the private sector was still a loose-knit set of activities. It was in the final “consolidation” phase that these activities gained greater coherence and were housed in a specific institution created for the purpose, namely the CPEPC. In addition to coordinating a network of institutions through business promotion activities, the greater part (Rs.7.2m / approx. Euro100,000) of the CPEPC’s budget of Rs.8.5m (approx. Euro120,000) was set aside for small enterprise and special enterprise grants.

To disburse the grants, the project developed a **criteria-based subsidy scheme**, which was considered a “supplementary public investment programme that aims primarily at the creation and sustaining of job and income opportunities in mainly indigenous enterprises”⁸⁰. Apart from providing direct benefits to the enterprises, it was also regarded as serving as an instrument for financing essential interactions between the public and private sectors – specifically the enterprise promotion centre and the banks – and increasing the flow of commercial credit to economically sound enterprises.

Subsidies were available to improve the overall performance of individual enterprises by improving infrastructure, equipment and technology. Subsidies were provided directly to enterprises as outright, non-repayable grants, only if a bank had verified the commercial viability of the enterprise and was willing to provide credit under market conditions. Thus, the preparation of sound business plans was part of the requirement to obtaining subsidies. In

⁷⁹ The Central Province Provincial Council developed a development plan called Madhayama Lanka Medium Term Development Plan for Central Province. This gave an overall vision for the development of the province. It identified specific growth corridors and growth centres. It was anticipated that future growth would occur dominantly within these areas

⁸⁰ RRDP 1996. Income and Employment Generation through the Promotion of Private Sector Enterprises – An Approach developed by the Regional Rural Development project-Kandy (RRDP). Concept paper by Dissanayake, S.B. and Gartner, U. Kandy.

addition, the enterprise also had to be willing to share risks by the sharing of finances at approximately 1:1:1 among the equity of the entrepreneur, the bank and the subsidy fund.

The four REPU publicized the enterprise promotion activities, especially, the grant scheme and enterprise promotion officers at the REPU assisted in the preparation of business plans. Once these plans were prepared they had to be submitted to the multi-stakeholder committees at the REPU level for approval. The ones that were approved negotiated loans through the bank and received the grant funds through the CCICP. The CPEPC had a monitoring and follow-up process to ensure that enterprises utilised the finances for the stated purposes and improved their production and employment. It was also envisaged by the project that recipients of the subsidy scheme would form “know-how pools” in local trade associations.⁸¹ The CEFE association in Kandy was an example of such a trade association which was initiated by the RRDP.

With the functioning of the CPEPC and enterprise promotion activities, the new vision of the project was focused on regional growth centres, especially the Kundasale and Pathadumbara DS Divisions, and project activities expanded to these growth areas, away from the five “least developed” divisions. The new strategy entailed working with new partners in the private sector, especially the chambers of commerce.

In shifting its focus on regional growth and private sector promotion, the RRDP significantly moved away from its early approach of promoting self-employment through small-scale income generation activities. These were undertaken within an overall perspective of integrated rural development that dominated the IRDP projects from the 1970s, with the focus on the poor and poverty alleviation. The major shift into private sector promotion meant that while the “poorest of the poor” were still regarded as the “final target group”, the goal of poverty reduction was to be achieved through an “intermediary target group” comprising entrepreneurs and promotional organizations/institutions providing services to these entrepreneurs.

5.1.2 Findings and impact

This section looks at the impact of the institutional development efforts of the RRDP and lessons that can be learnt from this experience. Conclusions are organised under the three development strategies of the RRDP, namely:

- I. Instituting participatory development methods at village and divisional levels
- II. Strengthening regional development through support to the Provincial Council
- III. Promotion of regional economic growth through private sector development.

I. Instituting participatory development methods at village and divisional levels

To begin with the most significant and sustainable impact of these efforts at institutional development, it may be noted that it has been at the level of individual officers, specifically the third level of impact analysis. All the officers that were interviewed (e.g. those who have been in the project, officials of the DS Divisions and village level activists) were unanimous in their appreciations of the capacity building that was carried out by the project. It was clear to the team that this appreciation was not simply a case of an opinion expressed because of the benefits they secured individually. It was much more because of the very firm conviction that what was introduced by the project was definitely a better way of planning projects and implementing them. They wished that this could be the norm in all the institutions in which

⁸¹ See RRDP 1996 above.

they worked. The intensive character of imparting skills certainly had had an impact at the level of the individual.

Special mention should be made about the planning officers at divisional level. From the early seventies planning officers were appointed at the sub-district level. These officers came under the Ministry of Plan Implementation. It is these officers that received exposure to the team work of the RRDP, the project planning methods, the use of selection criteria, the ranking of divisions on poverty and the potential criteria and the prioritising of investments.

The team also found that some of the officers who had benefited from capacity building were utilising the skills at present when there were opportunities. A case in point was the Divisional Planning Officer at Pathahewaheta DS Division who has used these skills to develop a project proposal to submit to the Ministry of Agriculture. The team's impression was that this would vary from officer to officer. The degree to which the techniques and methods transferred by the project would be utilised would vary depending on the motivation and skill level of the individual officer. When it came to ex-planning officers from the provincial ministry, who were seconded to the RRDP over its 13 years, at least three senior level officers had left the government service when the project reached closure to join the private sector and international NGOs. While the expertise of these individual officers were no doubt highly appreciated by the private and NGO sectors, it is debatable whether this helped the overall capacity building of the public administrative structures. The issue also raises the dilemma of the 'positive' impact that projects had on the seconded public officials they employed, who grew accustomed to a different culture and found it difficult to fit back into the state-sector mind-set after their stint in the projects.

The other sustainable impact of this aspect of institutional development was the continuous utilisation of some of the resources that were produced by the project. Maps and divisional profiles produced by the project top the list. Once again, the enthusiasm of individual officers had been the key. Very often it was these individual officers who continued to make use of the resources produced by the project. Sometimes they did it under difficult circumstances. An example was the Director Planning at the Pathahewaheta DS Division. He continued to use resources such as maps produced by the project but complained that he did not even have a place to keep them.

These positive effects at the level of individual officers could have been greater if the project was much more systematic about sharing the methods that the project was introducing with a wider group of stakeholders. For example, if there was a strategy of partnership with other agencies like the provincial planning units, SLIDA, etc., that could have included a component of documenting the project's experience, there could have been a possibility for longer term sustainability.

While there was much positive impact of the project at the level of individual officers, it was at the level of the institution that there was very little long-term impact⁸². Although there were instances of improvement whenever the Divisional Secretary received some support from the Divisional Planning Committee, what went as planning in the divisional secretariats is still a list of activities with poor problem analysis and a vision for the division. By and large no institutionalisation of the methods introduced by the project was found within the DS Divisions.

This was confirmed by all the officers of the DS Division levels interviewed. They provided a number of reasons for this situation. The strong feeling that the participatory procedures were really meant only for investments brought in by the project, the futility of following such

⁸² Interviews at the Gangaihala Korale DS Division and interviews and observations at the Pathahewaheta DS Division

methods if these were not accompanied by any real investments and the difficulty of following such elaborate procedures in the context of the load of work that DS Divisions had to carry out were some of the reasons provided. As mentioned by several officers, as a result of these factors the participatory procedures introduced existed only during the lifetime of the project.

The Pathahewaheta DS Division, the team observed the preparations for a meeting (held on 10th November 2003) to review the progress of all development activities and also obtained the report of the previous progress review meeting held on 29th September 2003. The documents relating to these meetings showed that investment to the DS Division during this period had come from twelve sources – the decentralised budget of the MPs, from allocations by the provincial members, the Ministry of Central Region Development, the Department of Up Country Peasantry Rehabilitation, the Ministry of Cultural Affairs, the Ministry of Agriculture and Livestock, the Ministry of Co-operatives, the Chief Ministers' Office of the Central Province Provincial Council, the Department of Culture of the Central Province, the Kandy District Secretariat and a Sports Foundation. The total number of projects under these different headings was 42, with a total budget of Rs.6.7m (approx. Euro 60,000). However, 38 or around 90 per cent (70 per cent in budgetary terms) of the projects came either from the decentralised budget of the MPs or the allocations by Provincial Council members.

Taking this total picture of the DS Divisions there seems to be very little impact of the type of participatory processes introduced by the project. This was especially true of the decentralised budget items and the allocations of the Provincial Council members. The interviews with the DS officers confirmed this.

Looking at these observations of the failure to institute participatory methods at the institutional level, a number of reasons could be identified as to why it was difficult for the RRDP to have a sustainable impact in instituting participatory methods at the divisional level. These are:

- a) 'Relevance' of participatory approaches in the context of state reforms at sub-district level

As mentioned above, the sub-district unit that the project was dealing with is the basic unit of public administration in Sri Lanka. The DS Division comes under the Ministry of Public Administration. It is not simply an agency doing only 'development' work, although many development projects tend to look at them solely from this angle. They have responsibilities that cover a wide range of subjects.

Until 1993 these functions were at the district level under a government agent accountable to the centre. In 1993 this arrangement, which existed from the colonial period, was changed and power handed over to a sub-district unit now headed by a senior administrative officer called the Divisional Secretary. The Divisional Secretariat became responsible for implementing much of the work done by line ministries, departments and provincial councils. The implementation of this historic change in the public administrative structure was carried out by the Ministry of Public Administration. In the Sri Lankan context this is the central agency charged with improving the capacity of DS Divisions. Once the DS Divisions were established, the Ministry of Public Administration had to train over 200 Class 1 officers to run these divisions with new powers. This was the principal activity of institutional development that took place in the context of the historic change that the Sri Lankan state went through in 1993.

However, neither these historic developments of the Sri Lanka context, the parallel processes that were taking place within Sri Lankan society, nor the complex issues that

came into play in such a context seemed to have had much of an impact on how the RRDP conceptualised institutional development at the sub-district. Neither the interviews carried out by the team nor the documentation that was perused gave any indication of the awareness of these developments or strategies to tackle institutional development in this context. .

Instead, what was dominant in conceptualising institutional development were two things - the notion of participation, which according to GTZ comments is a 'well-defined and elaborated concept of integrated rural development' and the need to prioritise investments that the project was bringing in through the use of these methods. In some instances there were efforts to extend this process to prioritise investments coming from other sources as well.

It is quite obvious that this 'well defined concept' fell far short of handling the complexities of the institutional development of the DS Division.

This situation also arose because of the relative isolation in which GOSL institutions work. As the account given above shows, it is much more feasible to institutionalise long-term changes at the DS level if these efforts have a link with the Ministry of Public Administration. For example, participatory methods being incorporated into training programmes of the carried out by SLIDA, the principal state institution that trains officers of the DS Division. However, institutionally the RRDP, like many other such projects, had a different link at the central level. It was linked to the RDD which is part of the Ministry of Plan Implementation and there were hardly any mechanisms that linked these ministries institutionally for the purpose of development. Unfortunately, many development projects such as the RRDP that tried to change the DS Division institutionally got trapped into this separation within the structure of the Sri Lankan state. However, without having a strategy of overcoming this separation it was difficult to foresee how long-term change can be achieved at the divisional level.

b) The attitude of the bureaucracy to participatory methods

In a country characterised by highly centralised institutions introducing participatory mechanisms can be daunting. It requires changes in many aspects such as procedures, processes and attitudes. The system is much more used to and much more comfortable with top-down methods. Therefore, officers may respond positively to participatory methods while the projects are in operation but these do not become institutionalised once the project is over.

However, these observations throw a new challenge to agencies that would like to institute participatory methods. Such projects have to be ready to engage with the counterpart on a long-term basis and to identify strategies that would make participation attractive to the stakeholders.

c) Cost of instituting participatory methods on a long-term basis

The participatory methods that were introduced were complex and labour intensive. If we remember the range of tasks that a DS division is engaged in and also the complex institutional framework within which it works, the cost of instituting such methods (mainly in terms of human resources) on a long-term basis could be formidable. How far an underdeveloped economy can afford this is another issue that needs to be addressed.

d) How to handle 'politicisation'

The analysis of the investment patterns at the DS level shows the extent to which lines of investments are politicised. During interviews, both with the project staff and government officials, this type of 'politicisation' was put forward as a major stumbling block in instituting

participatory methods. However, as the analysis of the overall context showed the so-called 'politicisation' reflected the historical processes of the real society within which we need to work. Therefore, rather than posing this as a stumbling block it is necessary to develop strategies to deal with it. In fact some might even argue that reforming state institutions is a task where politics plays a central role and it is difficult to see how such reforms can succeed without a strategy to deal with political issues.

Of the other organisations set up at village level, the most successful and sustainable seem to be those that bring together producers of a particular economic activity. One such example is the Neelawala Athkam Banda Shilpa Sanwardena Samitiya (The society for the development of skills in handicrafts at Neelawala). The project supported this organisation for the purchase of machinery that is used for cutting and polishing the sheets used for the production of silver jewellery. This had certainly improved productivity. The society is still quite active. The common interests and also perhaps the common social identity, keep the members together. The society has been active in seeking assistance from other projects and can be considered as a success story for the RRDP.

A similar but perhaps less successful example is the Anthurium Growers Association of Dolosbage. This too received support from the project for the expansion of anthurium cultivation. This was a successful intervention and the area became quite famous for these flowers. The society still functions, but is not active to the same extent. Among the anthurium growers there was a difference, with some being more successful than the others.

Basically, producer organisations at village level seem to have a better chance of continuity simply because there is a common need and a benefit from being together. However, it is a different story with the Village Development Committees that were established to identify infrastructural investment needs through the use of participatory methods. By and large, they ceased to exist once the project came to an end. Obviously, there was no interest among the people to sustain such organisations. It is also difficult to understand how such organisations could continue once the investment opportunities that accompanied them came to an end.

The institution that was totally ignored by the project was the district level institution. The reason for this did not lie solely with the project but had more to do with the reforms that the system was going through. Earlier the IRDPs were closely linked to the district level, but the establishment of Divisions and Provincials Councils left the district in limbo. In the case of the RRDP, at one time the Project Director also headed the Provincial Planning Unit. This made the links of the project with the province stronger. The district had been the loser.

II. Strengthening regional development through support to the provincial council

The setting up of a GIS system for regional planning and for training in regional planning were the most important activities carried out by the project in order to strengthen the Provincial Planning Unit. The GIS system for regional planning was a very specific and practical output of the project. Much effort had gone into setting up the system and carrying out the necessary training. The regional planning adviser worked very closely with the PPU. The activities included the collection of data, digitizing data, training and the production of maps. This system became popular and projects from other districts were very keen to learn from this experience. Owing to the effort that has gone into this exercise the team was particularly interested in the sustainability of this initiative.

The GIS system that was set up by the project was very much appreciated by the Provincial Planning Unit⁸³. The system has been maintained to a certain extent and has been updated three times since the end of the project. The funds for this effort have been obtained from projects such as the ESSP and the REAP Matale that are currently in operation. In addition some funds have come from the Provincial Council budget. The Provincial Planning Unit had obtained the services of two statisticians to carry this out. The system is able to provide maps and tailor-made information for the Provincial Planning Unit, the DS Divisions and the private sector.

It is clear that when it was decided to introduce a GIS system it coincided with a need felt by the Provincial Planning Unit. The PCs had just been established and the powers had been devolved. The need for systematic planning, databases and appropriate institutional mechanisms to carry it out at the provincial level were emphasised through several initiatives of the Sri Lankan government. The findings of the Administrative Reforms Commission, directives of the National Planning Department of the Ministry of Finance and Planning and the RDD all contributed to this process. In other words, the project emphasis on regional planning and regional development coincided with the interests of several Sri Lankan initiatives on the same subject.

In such a context data and information was an immediate need. Therefore the decision to set up a GIS system fitted in with the need of the new provincial set up. In other words, when compared to the efforts at introducing participatory methods, the idea to develop planning capacities through a GIS system fitted well with the larger process that was taking place. This made it easier to develop stakeholder interests in this exercise.

From this beginning the provincial set up had developed its own interests and identity. It is clear that the council is quite protective of its interests and is keen to developing its own capacities autonomously from the centre. In such a context the PC found the GIS to be an extremely useful resource that it had acquired because of the project. In other words, the GIS is a specific output which fitted in with the overall needs of the council. It was this that motivated the council to maintain and use the system.

The system has been maintained up to now, although it may not be up to the proper standard. Much of the support for this maintenance seemed to come from other existing donor-funded projects, including the BMZ/GTZ-supported Enterprise Service Systems Promotion (ESSP) project. The Provincial Council had not taken the overall responsibility for the system. Without such a commitment the sustainability of the system is doubtful.

However, these positive aspects of the GIS system did not mean that provincial planning as a whole had reached any degree of maturity. For example, the Madhyama Lanka Development Plan, which was an overall vision of development that the Central Province tried to develop, no longer had any relevance in the province. A cursory glance at how the administrative system worked points out to uncoordinated expenditure through different budget lines. In other words, the setting up of a GIS system had not influenced the overall capacity for planning within the Provincial Planning Unit.

III. Promotion of regional economic growth through private sector development

Perhaps one of the activities of the RRDP that had a reasonable impact was the policy level work undertaken with the RDD. As observed earlier, the RDD had started a discussion on re-conceptualising the notion of the IRDP by the latter half of 1994. The project's interest in

⁸³ Interviews at the Provincial Planning Unit of the Provincial Council. This information was confirmed by several other sources at the ESSP

redefining its own perspective coincided with these trends. Later on, the RRDP played an important role in concretising the concept of regional economic growth through the promotion of the private sector. At present the concept of the REAP forms the core concept of a new generation of projects of the RDD. There are REAP projects in Matala funded by IFAD and in the Southern Province funded by the ADB. How this will evolve is not clear. Some of the traditional donors of the IRDPs such as SIDA, NORAD and the Dutch have not joined this trend.

Specific activities that were undertaken by the project to promote the private sector have had mixed outcomes. From an institutional perspective, the most controversial of these was the attempt to set up the CPEPC. The CPEPC is not functioning at present. Therefore, an understanding of the inability of the RRDP to establish a sustainable institution is necessary.

CPEPC, “the bad baby”

Established in 1997, the Central Provincial Enterprise Promotion Centre (CPEPC) was envisaged as a multi-stakeholder institution, chaired by the CICCIP “to be the best service provider and organization promoting enterprise development in the Central Province”⁸⁴. Some of its objectives were to promote the development of small, medium and large-scale enterprises, increase employment generation, channel financial consultancy services and other assistance to enterprises, create investment awareness through motivation, incentive schemes and infrastructure and to develop markets for products. It had nine members on its Board, including the CCICP and WCSICP, two ethnic trade associations and state institutions dealing with agricultural research and industries, as well as SEEDS. The CPEPC was intended to generate its own funds and become a self-sustaining nucleus of a network of institutions servicing enterprises within the province, by the completion of the RRDP.

However, the CPEPC collapsed shortly after the end of the project owing to a number of complex reasons⁸⁵. The RRDP professionals, the CPEPC staff and representatives of partner organizations generally agree that the CPEPC was a good concept. However, almost everyone also agrees that it was an implementation failure. This was not merely because it became unsustainable in the long run but because during its functioning as an institution there were serious issues of ownership among stakeholders, as well as some problems relating to the day-to-day running of the organization that hindered its enterprise support programme.

The reasons for the collapse of the CPEPC are manifold and vary according to the stakeholders – former project professionals, the private and public sector representatives. However, these can be generally divided into issues of process, structure and actors.

The process of establishing the CPEPC appears to have not been very well planned. The CCICP representatives felt that it was forced on them despite their opposition, through an “under-the-table” agreement between the RRDP management and the first Managing Director (MD)-to-be of the CPEPC – “they quietly incorporated it and told us that we would chair the board”. This is disputed by former project staff, who argue that there was a “consensus” between the project and the chamber about the CPEPC structure and that it was “accepted by the chamber initially”. However, the CCICP representatives are clear that they did not see a need for a new institution whose functions they could perform if resources were allocated directly to them. In addition, certain financial contributions were expected from all the stakeholders, which were not properly negotiated and were not forthcoming for the most part. Moreover, the RRDP initiated the institution with barely three years to go

⁸⁴ Project documents

⁸⁵ Although it exists as a legal entity within the CCICP it is no longer operational.

before its completion, with inadequate preparation for its future sustainability – thus, *“it had to grow up faster than it could”*, according to a former RRDP professional. The CPEPC staff were aware that the institution had to generate its own funding to continue but this realization came too late for them to actually do anything about it. The timing of the effort at the tail-end of the project meant that the necessary support and motivation was not there for it to continue. The project was already involved in planning the new ESSP project, where the key partner was the chamber. Therefore, the role and hence the survival of the CPEPC was less important.

In terms of the process, what stands out is an inadequate stakeholder analysis and consultation process prior to the initiation of the CPEPC. One private sector representative pointed out: *“The RRDP just gave them (CPEPC) money. What the end purpose of that institution, what their vision was, we couldn’t see. They had a grant scheme for enterprises, but the members of the various organizations, who were represented didn’t necessarily receive grants. Then they started to question the selection criteria – a lot of time at meetings was spent on that.”*

Given the inadequate stakeholder consultation process, the structure of the CPEPC became a serious impediment to its functioning. The institutional arrangement, comprising a nine-member board, representing private sector trade associations, public sector organizations servicing enterprises, as well as the RRDP itself, was initially conceptualised by the RRDP professionals as a multi-stakeholder organisation, rather than merely a branch of the chamber. It was pointed out that under the constitution of the chamber, it could not even generate any profits, whereas the CPEPC could. Thus, the CPEPC was incorporated as an independent entity with a separate constitution, physically located in the CCICP, which was considered by the RRDP to be the primary stakeholder.

In addition to its agenda of establishing a multi-stakeholder institution, which would promote private-public sector cooperation, the RRDP also wanted to maintain some control over the new entity through an accounting system that would be separate from that of the general system of the chamber. However, this made the CPEPC inadequately integrated into the chamber. The CCICP representatives questioned the reason for the existence of the new institution. Former RRDP/CPEPC professionals pointed out that the chamber considered the CPEPC as a threat as it was incorporated as a separate entity. The CCICP representatives argued that the attempt to form a separate board was a mistake and this made the CPEPC far too independent of the chamber. In addition, they were critical of the differences among the stakeholders who were on the board of the CPEPC. *“They didn’t understand the culture here when they set up the board. There were too many outsiders in that board. There was no common understanding”*, said a private sector representative. Meanwhile, a public sector representative laid the blame squarely on the CCICP: *“CPEPC failed because the interest taken by the chamber was inadequate. They were supposed to be spearheading the organization but somehow things didn’t work out”*.

In addition there were problems relating to the personnel structure of the organization. Private sector representatives felt that the MD had too much power under the constitution and there was little transparency in the day-to-day running of the organization. Ex-staff of the CPEPC argued, additionally, that personnel problems were compounded by a top-heavy wage and incentive structure in the organization.

Finally, the issue of the actors involved with the CPEPC came up for critique frequently – in fact, explanations for its failure were often expressed in terms of personalities. Both private sector representatives and former staff of the CPEPC pointed out that the personnel management skills of one MD was more than wanting - an ex-staff member accused his boss of running the organization by *“developing a team of informers”*. Private sector representatives argued that another MD had been *“arrogant”* and *“smug”*. Ex-project and

public sector professionals were critical of some of the individuals associated with the chamber and their desire to dominate the CPEPC. They argued that there were personalities within the chamber who always wanted to dominate and control things. Since this was difficult within the structure of the CPEPC, these actors eventually ensured that the organization would not survive. These personality problems, which were initially kept at bay through the negotiation skills of the senior management of the RRDP at the initial stage of the CPEPC, however seem to have come to a head owing to personality problems between some senior and expatriate staff handling the CPEPC within the RRDP at a later stage, in addition to the worsening relations between the senior management of the RRDP and the chamber towards the tail-end of the project.

Additionally, some actors at lower levels also appear to have contributed to the institution's demise. The CPEPC operated with a decentralized structure of REPUs and DALEPUs, which were responsible to another set of multi-stakeholder committees. Here, allegations of bias in the selection of enterprises under the criteria-based subsidy scheme and a troubled relationship with the SEEDS (which was subcontracted to operate two of the REPUs) because of alleged corruption by one of the Enterprise Promotion Officers appeared to have played a role in hindering the performance of the CPEPC. This does not in any way imply that the majority of Enterprise Promotion Officers were not committed to their work or did not perform well. Entrepreneurs who received support from the CPEPC appreciated the grants they had received and were generally satisfied with the other services provided or facilitated by the Enterprise Promotion Officers.

It is plausible that a combination of all these factors led to the collapse of the CPEPC. However, as many donors are now interested in working with the private sector, learning lessons from this experience with the CPEPC becomes extremely important.

A former RRDP professional pointed to the gap between the concept and its practice, as well as the lack of consistency and focus by the project:

"It was just a bad baby – it didn't really go wrong; it went in another direction. What was conceptualised never took place. Different people pulled it in different directions. Too many cooks spoilt the soup. If RRDP just focused on it during the last three years, followed through with a continuous approach, 'be with it, sit with it', it would be there today. It could have been the ESSP."

However, our analysis points to both several process and structural failures that contributed to the collapse of the CPEPC. In the CPEPC the project wanted a multi-stakeholder institution, which would promote private-public sector cooperation and facilitate services to enterprises - laudable enough goals. However, the manner in which the RRDP went about initiating this goal appears to have been wanting. First, there had been a traditional antipathy between private and public sector organizations, which have their own histories and pursue their specific agendas. Working with the private sector plunges projects into the complexity found in society - like civil society, private sector organisations are not constituted of homogenous groups. Therefore, working with the private sector demanded a greater degree of scrutiny of the nature of the interest groups with which the project was working than when working with the state sector.

In initiating a new multi-stakeholder institution in the Central Province, sufficient attention did not seem to have been paid to a comprehensive stakeholder analysis, as well as a stakeholder consultation process. The organization was plagued with problems of ownership from the beginning. These issues only worsened rather than improved as the organisation implemented its programme. A better preparation and consultative phase might have resulted in a different set of organisations, constituting an institutional structure that was sustainable. In the case of the CPEPC, it is clear that this did not happen. This however, does not mean that the impact of all the enterprise promotion activities carried out by the

CPEPC were entirely negative. On the contrary, as discussed in 5.2, there are indications that most enterprises valued the services provided by the institution and many of the enterprises that were supported did in fact survive and grow.

5.1.3 Moving development cooperation beyond ‘project islands’

This section on institutional development will conclude with some general comments. As mentioned in the project review the RRDP was thought of as a special experiment where institutional development was the principal goal. The low investment budget was rationalised with this objective. It was not expected to bring in investments on a significant scale.

This emphasis is reflected in the structure of the overall budget as well. According to the data provided in the terms of reference by the BMZ and tabulated in table 5.1 below, around two thirds of the expenditure (67%) has been on long-term (363 months) and short-term (92 months) expatriate technical assistance and training of counterparts locally and abroad (90 months). The bulk of this expenditure would have been on expatriate technical assistance. If we add to this the expenditure on vehicles, equipment, etc. which goes to maintain expatriate as well as local project staff, the proportion spent on investments at village level would be small.

Table 5.1 Budget breakdown of German financial contribution

Category	Euro	DM	Percent share
Seconded long-term experts (363 person months)	n.a.		
Short term-experts (92 person months)	n.a.		
Training of counterparts locally and abroad (90 person months)	n.a.		
Sub total (calculated)*	5,455,000	10,637,250	67.3%
Material equipment & consumables (e.g., vehicles, office equipment etc.)	615,000	1,199,250	7.6%
Contribution to running costs and maintenance	230,000	448,500	2.8%
Contribution to small projects (agr., industry, craft / trade etc.)	1,800,000	3,510,000	22.2%
Sub Total (actual)**	2,645,000	5,157,750	32.7%
Total	8,100,000	15,795,000	100.0%

Source: BMZ Terms of Reference

Notes:

*These are calculated figures after deducting the actuals given from the actual total

**These are actuals given in the BMZ TOR.

In other words, what is evident is that the project spent a large proportion of the budget to secure technical assistance, train local staff and provide facilities for this staff to do their work. This makes an assessment of what has been achieved through this heavy expenditure on technical assistance and institutional development a critical issue.

Almost every single Sri Lankan official interviewed also raised concerns about one aspect of this large proportion of expenditure on technical assistance, namely the heavy expatriate presence in the project. Some expressed this concern in terms of the cost. Others mentioned that such a situation led to far too much domination of the project by expatriates. Perhaps the most unkind opinion expressed was that this type of a composition led to a series of ‘pilot experiments’ that expatriates like to experiment on while the project is there without leaving much behind.

One cannot ignore this issue, as it has been a controversial issue discussed between the donor and the Sri Lankan counterpart during the lifetime of the project. It also emerged as a point of discussion during the workshops held in the course of this study. The team does not share all these views. However, it raises the basic issue of what has been achieved on a sustainable basis with this emphasis on institutional development and significant investment on technical assistance.

When making an overall assessment on this question it is clear to us that institutional development is a complex and difficult task. It needs the capacity to get to grips with a complex set of factors, to try and see what type of interventions the project can provide in the overall context, the ability to negotiate with many stakeholders and a long-term commitment to a slow process of change. This may be said to be true whether dealing with the state or private sector institutions. The CPPEPC experience shows us the complexities in dealing with the private sector.

A key issue that comes out from the analysis in this section is the importance of paying greater attention to the political and economic interests that operate in the context. The general lesson is if what is initiated by the project dovetails with the processes taking place in the context there is a greater chance of it being sustained, because it is similar to the interests of the Sri Lankan stakeholders, which, in the case of the institutional development component, is the Sri Lankan state.

This can be illustrated by comparing what happened to various components of institutional development within the project. For example, the RRDP's move towards the regional economic growth concept went along with a policy change initiated by the RDD. It was not something done outside the principal policy thrust of the Sri Lankan authority. The same was true in the attempt to set up a regional planning system using the GIS. A number of factors contributed to the interest of Provincial Council system in getting this input and it is maintained to some extent. The exception was the attempt to institute participatory methods at the divisional level. This was an input quite remote from the mainstream attempts to improve the capacity of the DS Divisions, which were undertaken by the Ministry of Public Administration. In such a situation there is very little sustainability.

Hence, the critical issue is not the extent of the technical assistance budget or the presence of expatriate specialists, but the ownership of the initiatives by the stakeholders in Sri Lanka. This, together with explicit strategies for internalising these skills within Sri Lankan organisations, can go a long way in achieving long-term sustainability⁸⁶.

⁸⁶ The issue of heavy expenditure on technical assistance also arose during the Dialogue Workshop, which discussed the findings of the evaluation. The comparison was made with other IRDPs which had higher proportions on investments 'on the ground' and the RRDP where a large portion was consumed by personnel costs.

5.2 Enterprise promotion in facilitating decentralised development

In analysing the impact of the enterprise promotion component of the RRDP-K, an understanding of the overall business context within which the project operated is necessary. As reviewed in chapter 3.3, entrepreneurial activity in the Kandy district rose considerably in the last decade with the number of enterprises increasing from 21,221 to 26,822 between 1994 and 1996 (RIS database). The first half of the 1990s was relatively favourable for enterprises and production and sales were high, according to the findings of the JIMOD Enterprise Survey (2001). The JIMOD study on Investment Trends (2002) indicates that this was also translated into a higher level of investment between 1996-1998.

However, the end of the decade saw a downturn, attributed primarily to external economic factors, such as the conflict in the North East nationally and the East Asian crisis globally. The JIMOD household survey findings revealed only a minor reduction of unemployment in the Central Province to 14% in 2001 (according to DCS data unemployment was around 16% in the early 1990s), whereas the DCS data pointed to a greater reduction, reaching 9.8% in 2001. The discrepancy between the 2001 JIMOD and the DCS data is greatest for the female unemployment rate. Male unemployment recorded by the JIMOD survey was 6% whereas female unemployment was 25%.⁸⁷ Thus, although it is undisputed from the available evidence that an overall reduction of unemployment took place during this period, what is disputed is the extent, as well as which groups benefited. The JIMOD Enterprise Survey also revealed that employee turnover was high throughout the period.

Whatever the status of employment was within the district, both the JIMOD Household Survey (2002) and the qualitative Participatory Assessment (2002) revealed that incomes of households increased to some extent and living conditions improved considerably during the last decade. The increase in incomes appeared to have been externally generated for the most part from remittances from employment in the Middle East and outside the district. Living conditions also improved through micro-finance borrowing and state-sponsored housing loan schemes. However, some households had increased their income through employment in enterprises, especially in the medium and large-scale garment sector.

The impact of the RRDP's approach to enterprise development and private sector promotion needs to be placed within this overall framework. The key questions addressed in this section are:

- The impact of the RRDP support for enterprise development/private sector promotion on clients and partner institutions in terms of viability and sustainability
- The efficacy of promoting primarily micro and small enterprises in the Kandy district as a means of poverty reduction
- The contribution of the RRDP to the impact (positive/negative) of enterprise/private sector promotion within the Kandy district.

This section on enterprise promotion looks primarily at the impact of the third ("dissemination") and fourth ("consolidation") phases of the RRDP project where the emphasis shifted towards enterprise development. An overview of the activities carried out during these two phases is provided in Chapter 4.

⁸⁷ This might be due to undercounting of female unemployment by the DCS (assuming that most women are "housewives" or placing them within the "unpaid labour" category) whereas JIMOD followed a more gender sensitive approach.

5.2.1 Shift towards private sector promotion and enterprise development

In analysing the impact of the enterprise promotion activities, the perceptions of the various stakeholders involved in the RRDP's shift towards the private sector in the third and fourth phases of the project become relevant. There was a considerable difference in the perspectives of former RRDP staff, the private and the public sector representatives on the project's turn towards private sector promotion and enterprise development.

Project staff, on the whole, viewed this as internally generated and tied to specific individuals who were "movers" of the project. The German team leader and other advisors/experts as well as a Sri Lankan Project Director and influential officials linked to the Ministry of Plan Implementation were seen to be responsible for the conceptual transition and/or its implementation. It was not customary for an integrated rural development project to engage in private sector promotion and in that sense the project was seen to be "a flagship of innovation" and "ahead of its time". This opened the project's approach to criticism from sections of the GTZ and BMZ on the German side, as well as from the national and provincial governments on the Sri Lankan side, which was accustomed to an infrastructure development/social mobilisation model of integrated rural development. Many former RRDP professionals, both Sri Lankan and German, saw the key person who conceptualised the network approach to private sector promotion (linking individual enterprises with business, financial and information services via associations and providers) within regional (rather than rural) development as one of the German technical advisers with long-term rural development experience in Sri Lanka. The idea went through a gestation period between 1990 -1993. It met with opposition from several quarters. However, by 1996 it was supported by the team leader of the third phase and a new project director, who questioned the RRDP's record on social mobilisation, having been involved in projects with more committed and successful social mobilisation approaches in two other districts. Project professionals argued that the project's approach to the private sector was conceptualised well before the government's general policy shift towards becoming a facilitator to promote private sector development. In any case, government policy was directed at the macro-level of big business and investment in industrial parks, while the project was focused on supporting the MSM sector at a regional level. Many project professionals pointed out that the regional economic advancement programme concept that was later promoted by the state and implemented in other districts, particularly Matale, originated in and was piloted by the RRDP.

Private sector partners, such as those from the chambers, saw the transition as a condition of the times. As the public sector had become inefficient and corrupt it was seen to be natural for the donors and government to turn to the private sector as the engine of growth. The role of the World Bank in promoting the private sector was mentioned. *"Supporting the private sector was forced upon our government by the World Bank. Germans also have to act according to the policies of the World Bank. We're all beneficiaries,"* pointed out one private sector official. Others credited the RRDP with recognising the need for the development of the regional industrial sector. Most private sector representatives of partner organisations saw the RRDP's overall goals and objectives in general as supporting MSMEs and strengthening trade associations. One pointed out that donors were in the habit of changing their approach all the time. *"The conceptual thinking of Germans change every time – one day it's clusters, the next day it's comparative advantage. This might be acceptable in Germany but our culture does not absorb things so fast. There should be some continuity in what is done here."*

Public sector officials saw the project's turn towards the private sector as generally in keeping with new government policy at the national level. The provincial government was also seen to have fallen in line with this policy shift. It was mentioned that since the private sector was more flexible, it had been identified as the *"engine of growth that would deliver*

the goods". If the purpose was now promoting enterprise development it meant that the project had to support the private sector. Hence, it was pointed out that the government had only a supportive role - to facilitate the conditions for the private sector to flourish.

5.2.2 Viability and sustainability of enterprises supported by the RRDP

Enterprise stability and growth

This section analyses the findings from the enterprise survey carried out with 24 former clients of the RRDP that were traced and visited by the team (see annex 3 for analytical tables on clients and non-clients interviewed).

Of the 24 client enterprises, two-thirds were still functioning. All of the group enterprises visited, as well as an individually-owned enterprise, altogether four out of five of the enterprises supported in the earlier "dissemination" phase (1992-1996) directly through the RRDP, were defunct. In contrast, 84% of the later (1997-2000) CPEPC-supported enterprises visited were still in operation.

Of the three group enterprises, the coir fibre products enterprise was a women's enterprise while the spice processing and pottery enterprises comprised mixed groups. The pottery enterprise never lasted beyond the training stage of six months, while the coir fibre products enterprise functioned a few months longer. The spice-processing mill operated for four years before it was discontinued. Two reasons attributed for the failure of all three enterprises was that raw materials had to be procured from outside the local area and the lack of monitoring and follow-up by the project. In addition, the pottery enterprise, which was intended mostly to make decorative items and ornaments using clay and plaster, received a kiln that was not designed properly for firing, lacked tools, had problems obtaining firewood and transporting goods. Moreover, none of the 15 people trained, although from a traditional potter village, had ever previously made a pot in their lives. Of the 20 women trained in coir fibre products, 19 lost interest because of the effort required to obtain raw materials and eventually when their tools became damaged. A lone survivor, the leader of the group, has continued to produce brooms below cost, combining it with her traditional *ayurvedic* medical practice. The collapse of the spice-processing mill was primarily attributed to mismanagement by office-bearers of the society, once the efficient previous president left to take up paid employment elsewhere. Additionally, the machines bought under the grant were considered to be too small to provide incomes for the 15 people engaged in the enterprise.

Of the individually-owned enterprises, proportionately more owned by men (85%) were functioning as opposed to those owned by women (63%) entrepreneurs. One entrepreneur had ceased to do business and was a paid public sector employee at the time of the study. Of the other defunct businesses, the entrepreneurs continued on a greatly reduced scale or barely broke even with previous or new businesses, other than those supported by the RRDP/CPEPC.

Business was the sole means of income for around 57% of households of client entrepreneurs – this was higher for households of women entrepreneurs (63%), in contrast to male entrepreneurs (54%). Around 33 % of households combined business with paid employment while 5% combined business with paid employment and agriculture. The proportion of households that combined business with employment was lower for women entrepreneurs. Around 34% of households received income from members currently employed outside the district or recently employed overseas. This was considerably higher for households of women entrepreneurs (63%) than those of male entrepreneurs (16%).

In contrast, 33% of non-client households were dependent solely on business. Around 50% combined business with paid employment and 17% combined business with agriculture. Around 50% of non-client households received income from members recently employed overseas or currently outside the district.

As the data provided on profits is not very reliable, household income is used here as a proxy indicator for business success or failure. Household incomes were reported to have “increased” by 62% of client households in the years immediately following RRDP assistance and “increased remarkably” by 38% of households. Around 38% reported an increase in income of up to 50%, 33% an increase between 56% to 100% and 29% an increase between 101% to 1000% in the immediate years following project assistance. Within 2002, 38% of client households reported that income “increased”, 5% that income “increased remarkably”, 24% that it “remained unchanged” and 33% that it “decreased”. Within the last year, non-client households were divided equally among those whose income had “increased”, “remained unchanged” and “decreased”. Thus, while client households had done marginally better than non-client households within the last year, the growth spurt immediately following RRDP assistance has not been sustained.

Among client households, 62% of clients reported that the improvement in their living situation during the last decade was solely because of business, while another 14% considered that business contributed to their improvement. Only 10% reported that business contributed to the worsening of their living situation. In comparison, none of the non-clients reported an improvement in their living conditions as solely owing to business. Around 33% considered the improvement as entirely owing to other sources, while 17% respectively reported that business contributed to either their improvement or the worsening of their living situation.

The performance of the enterprises in terms of expansion, quality and innovation continued to be noteworthy, especially in contrast to the non-client group. Immediately following RRDP/CPEPC assistance, over 70% of enterprises had added new products, hired more workers, sold in new markets, improved quality, made major investment in the enterprise site and purchased small tools / accessories. Over half purchased major equipment/machinery, invested in infrastructure (electricity / water / telephone) and purchased transport facilities. Within the last year, 75% continued to improve quality while over half added new products, purchased small tools/accessories, sold in new markets and bought inputs in greater volume at wholesale prices. The performance of enterprises owned by men was somewhat better than those owned by women during the last year, although the difference was less, immediately following RRDP assistance. In contrast, while half of non-client enterprises purchased small tools / accessories during the last year, only a third added new products, improved quality or bought inputs at wholesale prices.

Client enterprises had also expanded their business networks, increasing not only the number of suppliers and buyers, but also moving beyond local markets to other DS Divisions and even other districts. In addition, they had increased their network of business peers as well as contacts in both private and public agencies providing technical and other services. The extent of such network expansion differed from enterprise to enterprise (please see annex 4 for case studies). Successful entrepreneurs had networks numbering in the hundreds comprising local entrepreneurs, officers of regulatory and other state agencies providing services to enterprises, office holders of local and district trade associations and other community organisations and those with a technical knowledge of their industry, whether in the state / university or private sector. They had made important contacts in the district capital, Kandy, as well as in Colombo. Some successful entrepreneurs did not have very large networks but they had strategic contacts in terms of suppliers and buyers (for example, one large multinational), as well as in significant institutions/service providers (chamber of commerce, research institutes/departments, regulatory/licensing agencies).

They also had direct market linkages with Colombo, while selling a certain proportion locally, mostly as a risk aversion strategy. Enterprises that had failed or were breaking even, in contrast, had small networks, mostly comprising officers of state agencies and those of the project (RRDP/CPEPC) when it was functioning, as well as individual entrepreneurs at the local level. Significant contacts in local trade associations or in private sector institutions, as well as those in agencies providing technical know-how were conspicuously absent.

Client satisfaction with services

In terms of the services provided or facilitated by the RRDP / CPEPC, the majority of clients were satisfied with the grants for equipment / technology, pointing out that they had received what they wanted, at a time when the business needed this type of input or investment. A minority were dissatisfied as they felt that larger-scale equipment / technology would have been more useful. Clients also generally valued the technical training that was facilitated by the RRDP / CPEPC. However, most did not consider the business training as useful – some did not have the time or did not think the training was useful enough to attend the session, others said it was too basic and they had wasted their time, while yet others pointed out that the technical jargon used was beyond their comprehension.

5.2.3 Viability and sustainability of partner institutions

With the exception of the Mushroom Growers Association, which collapsed at the end of the RRDP and was later revived on the initiative of the Provincial Agricultural Ministry, five of the private sector partner associations interviewed have survived and increased their membership by 7 to 10 times since their formation in the 1990s. The Mushroom Growers Association has also increased its membership by 20% since its revival in 2000. The Digana Milk Cooperative although promised assistance at the tail-end of the project, did not receive it because of delays on the side of the Ministry of Cooperatives whose approval was necessary for the grant to be disbursed, as well as the closing of the RRDP. However, the cooperative did construct the planned milk processing plant, suffering some financial losses, and was later supported by the GTZ-Enterprise Services Sector Promotion (ESSP) project. It is by far the largest association with a current active membership of 700 increasing from 25 since its formation in 1975. While less than 10% of the membership of the CCICP, the PAEA and the MGA are women, 25% of the members of the CEFE Association, 75% of the members in the DMC and 100% of the members of the Women's Chamber of Small Industries are women. The majority of the CCICP's membership consists of medium/large entrepreneurs (55%), followed by small (40%) and micro (5%) entrepreneurs. In the Women's Chamber, 48% of the members are estimated to be small entrepreneurs, 29% to be medium and 24% to be micro entrepreneurs. The PAEA membership ranges from small to medium entrepreneurs, while the MGA membership ranges from micro to small entrepreneurs. In the DMC all members were estimated to fall below the poverty line, as the majority were over 50 years of age and supplying less than 8 litres of milk per day. None of the members were able to supply more than 20 litres per day.

Apart from the DMC and the CEFE Association, office-bearers of other organisations admitted that membership fluctuated according to the benefits offered to members and this was often tied to the support received from external donors. All of the associations are currently supported by external donors such as SIDA, BMZ (GTZ-ESSP), the National Agribusiness Council and the Federation of Chambers, as well as the Industrial Development Authority, the Provincial Agricultural Ministry and the Ministry of Central Region Development. Only two organisations, the DMC and the Protected Agricultural Entrepreneurs' Association claimed operational self-sufficiency owing to their involvement in outgrower/producer systems. Others estimated reaching this stage by between two to four

years. The Chamber of Commerce and Industry of the Central Province expected to reach this goal primarily by running a business school and charging members for some of the services. While there was a commitment to achieving financial sustainability through charging for services by all partner associations, this was implemented in a viable manner only by the PAEA and the DMC.

Many of the important office-bearers of the CCICP have moved to form a new Regional Chamber of Commerce, following the government's policy shift towards the formation and development of regions, which expands the political geography of the Central Region to three additional districts. The split was also a result of differences among the membership of the original chamber (CCICP), which was divided between large/medium businesses and small businesses, as well as English and Sinhalese-speaking entrepreneurs. Although the split accommodated these differences to some extent, it also created a sense of competition and threat to the identity, purpose of existence and viability of each chamber. However, there is growing recognition that the two chambers could be complementary and that with the establishment of the Matale and Nuwara Eliya district chambers, the Central Province chamber would have to become a Kandy district chamber and the Regional Chamber an apex body representing the interests of the district chambers as well as that of corporate clients/large enterprises.

All associations are involved in training members, facilitating financial services and providing business advice. The chambers, the CEFE Association and the PAEA also facilitate the participation of members in trade fairs. The RRDP/CPEPC has assisted these associations, especially in training and trade fairs. In addition, the PAEA and the DMC function as a nucleus of an outgrower/ producer system, providing inputs at lower costs and buying the produce of members through a network of private suppliers and buyers linked to markets outside the district. The support of the RRDP/CPEPC was considered to be critical in the formation of the CEFE Association, in the organisational development and professionalisation of the CCICP, as well as the expansion of the PAEA, which received assistance for construction machinery to build poly-tunnels locally.

In terms of the public sector, the cooperation of the RRDP with the then Department of Industries (now transformed into the Industrial Development Authority) which contributed substantial funding for a survey of industries led to a significant database of industries within the RIS. The establishment of this information system was considered to be the greatest contribution of the RRDP to the district's development by former Department of Industries officials. A similarly good relationship existed between the project and the Department of Livestock Development, both at the higher levels of administration, as well as with field officers in the DS Divisions in which the project operated. Two of the successful cooperative milk societies initiated by the project were reorganised for higher productivity according to AMUL principles by veterinary field officers following exposure visits to India. Currently, this system has been expanded successfully to 34 cooperative societies.

However, the relationship of the RRDP with the Department of Agriculture was more complicated. A higher-level officer was antagonistic towards the project because he considered it to be not "systematic" and lacking a regional plan that was agreed upon by all stakeholders as well as ignoring the expertise available at the department. However, several field level assistant directors and officers participated in the RRDP interventions with enthusiasm, earning the displeasure of the higher-level officer who viewed this as taking time away from programmes planned by the department, leading to conflicts within the department.

Although the RRDP/CPEPC has had impact on the development of individual partner organisations, it is not easy to pinpoint the exact contribution of the project to their expansion or performance, as other donors such as USAID had previously supported several of these

organisations and others continue to support them today. However, the agenda of the RRDP also included support for a network of organisations that would provide services to individual enterprises. The facilitator of this network was envisaged as the Central Provincial Enterprise Promotion Centre (CPEPC). The complex reasons for the failure of the CPEPC as an institution has been discussed in detail in section 5.1.2. The CCICP, which had a part to play in the demise of CPEPC, however, has been unable to adequately take over the functions that were envisaged under CPEPC. The need for an institution or an institutional mechanism to facilitate interaction among the various private sector stakeholders as well as between the private and public sector institutions remains. While the ESSP has taken on some of these functions, a sustainable local solution is yet to be found.

5.2.4 The efficacy of supporting micro/small enterprises with a heavy focus on the agricultural/livestock sector: Convergence and divergence with district trends

In general, the RRDP's interventions conformed to the investment trends in the micro and small enterprise sectors, supported by the Industrial Development Board (IDB), as well as the banks, especially in the non-agricultural sectors. The sub-sectors (in this case including agriculture and livestock) supported by the project were also similar to those promoted by other micro-finance providers within the Kandy district, such as SEEDS or SANASA, also working with micro and small enterprises, based on their "credit plus" approach.

On the other hand, the RRDP interventions diverged to some extent from the sectors invested in by the Board of Investment (BOI)-supported medium and large enterprises, such as garments, information technology and telecommunications. However, the concentration of a third of the enterprises supported by the RRDP in the agriculture and livestock sector, although this included improvement in marketing linkages and value addition, as well as primary production, is noteworthy at a time when the general investment trends within the district showed a movement away from agriculture.

Representatives of both the public and private sectors interviewed confirmed that the scale selected by the RRDP to support was appropriate as around 95% of the enterprises in the Kandy district were micro or small. It was also mentioned that the micro/small sector was the backbone of the industrial sector in the district through which village industries had grown. Public and cooperative sector interviewees argued that it was this scale that was in need of development assistance, as these entrepreneurs had the most difficulty in accessing capital, including bank loans. However, some private sector representatives pointed out that support additionally to the medium and large scale sectors by the project, including encouragement of investment from outside the district and overseas, would have speeded up development and growth within the district, as the employment creation potential was much higher within this scale of industries, thus ensuring a better realisation of the goals of the project to reduce poverty.

There was also general agreement about the sectors supported by the RRDP, including the focus on agriculture and livestock. However, the majority of the representatives felt that more emphasis could have been placed on those enterprises with potential for processing and value addition, as well as new technology to improve the livelihood of farmers. Among the potential growth sectors (not supported or adequately supported by the project) identified were tourism, tourism-related handicrafts, inland fisheries, mini-hydro and services.

5.2.5 RRDP's contribution to the impact of private sector promotion and enterprise development in the Kandy district

This section focuses on two types of impact towards which the RRDP might have contributed – institutional level impact as a means to sustain enterprise development as well as poverty reduction impact linked the overall goal of the project.

Impact at the institutional level

In relation to institutional impact, a significant question is whether a viable private sector network of institutions has been put into place, adequately linked to individual enterprises and providing them with the necessary services. The second issue is the contribution of the project in creating/ strengthening public/private sector cooperation.

Network-building among private sector partner organisations had taken place with most associations demonstrating working relationships with other organisations. The Digana Milk Cooperative was an exception, but as mentioned earlier the organisation was not approached until the tail-end of the project. In addition, the fact that it was a cooperative and inherently suspicious of the private sector, has contributed to its relative isolation. Links among the two chambers, the CEFÉ association and the PAEA were regular through participation in workshops, trade fairs and exposure tours. However, many private sector representatives admitted that there was rivalry within and among their organisations owing to the pursuit of personal agendas/interests, secrecy relating to business experience/knowledge, competition over resources and a lack of professionalism. They also pointed out that communication among private sector organisations was more efficient and civil than with public sector institutions and many had become more professionalised within the last decade. However, they were still lagging behind in understanding that “unity is strength” and in creating openness within the membership.

On the other hand, linkages between entrepreneurs and private sector partner organisations were still tenuous. Only 29% of client entrepreneurs were members of any of these organisations, and a further 19% have links through training or through contacts made when they received their subsidies through the CPEPC (located in the chamber). However, of those who had joined, 83% did so following assistance from the RRDP. Moreover, 62% of the entrepreneurs are members of local trade associations or other trade associations (not all of them functional) linked to state institutions and banks and 85% of them have become so after receiving RRDP assistance. However, significantly fewer women were members than men. Thus, it is clear that the project was instrumental in imparting the importance of joining trade associations. In contrast only 33% of non-clients were members of trade associations.

The ESSP project, which is viewed by many as the “continuation” and “natural evolution” of the RRDP, has carried on the CPEPC’s mandate of facilitating a network of enterprise service providers. Several of the RRDP’s partner organisations today consider the ESSP as a major partner, who had also taken on the role of mediating conflicts and problems within private sector organisations. A private sector representative pointed out that this clout comes from the fact that the ESSP is a donor-supported project. However, it was not clear to him or others which institution would perform this role when the ESSP is no longer functioning.

On the other hand, both the IDA and the SEEDS, whose representatives sat on the Board of the CPEPC, have started offering combined services such as training, loans/grants and business advice to entrepreneurs. The SEEDS opened a District Enterprise Promotion Centre in Kandy in 2003. The IDA signed a MOU with the Kandurata Development Bank also this year to provide a complete service package, including the registration of enterprises. While both institutions have invested in trainers for the CEFÉ and the ILO-SIYB entrepreneurship courses, the IDA has also trained staff in industrial diagnosis. Although it is difficult to establish that these developments resulted from the direct impact of the

RRDP/CPEPC, the contribution of the project to “cultivating the seed” elsewhere remains plausible.

The declared vision of the CPEPC included the strengthening of private-public sector cooperation in the Province. Although some private sector representatives were still critical about their relationship with the public sector, pointing to the prevalence of bureaucratic red tape, the lack of a work ethic, politeness and understanding by public sector officials, and their battles with the tax and labour regulations, all conceded that the relationship between the two sectors had improved within the last decade. *“Our relationship is better than earlier. Everyone has begun to understand that the private sector should invest in the development of the country. The Regional Development Ministry has asked us to provide services now. They listen to us. It is our turn now to show our colours.”* One pointed out that public-private sector cooperation was essential to avoid duplication of development efforts, *“otherwise grant hunters can get whatever they want”*.

Public sector representatives involved with the RRDP/CPEPC reported that their relationships with the private sector were currently good and that the project had promoted participation by both sectors. They pointed out that there was greater flexibility in the private sector and it was the role of the public sector to facilitate the conditions for the private sector to grow. However, while conceding that the private sector was in fact a “growth engine” in other countries, several questioned whether the private sector in the Kandy district was ready for the role thrust upon it by donors and the state. The fact that the CICCPC has been unable to take on the mandate of the CPEPC was a case in point. This was attributed to the lack of commitment, the inability to plan systematically and a lack of competent leadership. *“To promote entrepreneurship they should be more dynamic than government organisations like us, but they are not.”*

However, what is remarkable in assessing the institutional impact is that despite the failure of the CPEPC as an institution, the majority of enterprises supported by it have survived and performed reasonably well in comparison to enterprises that did not receive such support. This indicates that the services provided by the CPEPC were useful and had a positive impact even if the institution was not performing optimally in terms of delivering or facilitating those services and was not sustainable in the long run.

Impact on reduction of poverty

Enterprise promotion can contribute both to direct and indirect poverty reduction. In the case of the RRDP, the direct poverty reduction appears to be marginal. Around 24% of the clients considered themselves to be in the low income category before RRDP assistance. The proportion went down to 14% after project assistance was provided.

However, when poverty is considered in multidimensional terms, involving measures of personal empowerment, the project’s contribution could be attributed to client involvement in community affairs. Around 95% of the clients are currently members of various organisations (trade associations, rotating credit associations, community groups, political parties) - 33% in 2-3 organisations and 38% in 4-5 organisations. Around 60% of those who were members had joined these organisations following RRDP assistance. Moreover, 28% were office-bearers, 67% of whom began holding office following RRDP assistance.

The RRDP’s contribution to indirect poverty reduction through employment creation is more substantial. Around 86% of client enterprises hired new workers following RRDP assistance. Within the last year, 31% hired new workers. Immediately following RRDP assistance 20% of enterprises were entirely family-operated (micro), 43% had 1-5 employees (micro), 29% had 6-50 employees (small) and none had over 50 employees. Currently, 25% are entirely

family-operated, 39% have 1-5 employees, 29% have 6-50 employees and 5% have between 51-150 employees (medium). The total paid employment in these 21 enterprises, soon after RRDP assistance, was 127, of which 31% were male and 69% were female. In the currently functioning 16 enterprises employment is 249, a 96% increase.

This conforms to recent Census data on reduced unemployment in the Kandy district during the last decade. However, 70% of employees of RRDP-supported enterprises are currently male and 30% are female. The decrease in the unemployment rate for men and the increase for women is corroborated by the regional data from the JIMOD household survey. There was an average of 6 employees per enterprise soon after RRDP assistance in the 21 individually-owned enterprises. Currently there are 16 employees per enterprise in the 16 surviving enterprises. Four of the enterprises had substantial increases in employment during this period while one had a substantial decrease. Those entrepreneurs who had managed to increase employment exponentially pointed out that monitoring by the project was inadequate to identify the potential of their enterprises and to support/guide them as large employers.

In addition, the dependence of client households on external remittances within the last 5 years at 34% is lower than the 40% average for the district. Moreover, in only one case (a defunct enterprise) had the entrepreneur himself migrated to the Middle East in search of work. In all other cases, entrepreneurs continued to stay within the district, even when members of the households outmigrated. In the case of the three defunct group enterprises, in two no outmigration was reported while in one 40% of those involved migrated to the Middle East. Out of the four remaining individually-owned currently defunct enterprises, household members had outmigrated in one, a trained employee in the second and four out of the six employees migrated to the Middle East in the third. Thus, enterprise failure can lead to outmigration from the district, particularly of employees, but this is not necessarily on a scale that is higher than the generally high outmigration rates of household members within the district.

The vast majority of jobs created by the RRDP supported enterprises are blue-collar and casual, thus providing employment mainly to the poor, unskilled part of the population. Most employees continue to remain within the informal sector, with daily wages ranging between LKR 100 – 400 per day. This conforms to the evidence from the JIMOD Survey that 60% of the employees in the province remain in the informal sector and this is truer for men than women. As income from an employee contributes to a household income, it is not clear whether the employment created by these enterprises enables households to overcome poverty. Census Department data (HIES 2002) shows that poverty in the Kandy district has decreased from 36% to 25%. What can be stated is that employment created through enterprise does prevent some outmigration from the district.

Overall, the RRDP seems to have had a positive impact on the viability and sustainability of the enterprises it supported and if the enterprises assessed for the tracer study are indicative, the RRDP has had a positive impact in increasing employment. However, its impact on employment creation does not seem to deviate from overall patterns in the district – for example, it does not appear to have contributed much to the reduction of female unemployment. If the RRDP had considered employment creation a higher priority in line with its overall goal of poverty reduction, monitored the performance of enterprises, which had the potential to increase employment exponentially and provided them with more support and guidance, the impact in this area could have been much higher.

5.3 Village development as an enabling factor for decentralised development

The purpose of this section is to examine the impact, relevance and sustainability of the village development activities carried out by the RRDP, which dominated much of its Orientation and Innovation phases (1 & 2). Beginning in the Pathahewhata division, village development activities spread to the remaining four divisions during the Innovation phase. While these activities continued to a limited extent in the Dissemination and Consolidation phases (3 & 4), the focus shifted towards a district-wise concentration through the enterprise promotion activities outlined in the earlier chapters. The analysis in this section is therefore concentrated on activities undertaken in the time-frame 1987-1995 and predominantly at the level of the target group / beneficiaries of the project. As already explained in chapter 2, three divisions, Gangaihala Korale, Medadumbara and Udadumbara were chosen for sample selection of sites for this component (see annex 5 for profiles of the five D.S. Divisions that the RRDP concentrated on during the early phases).

Rationale for intervention

Broadly speaking, activities at this level covered three sectors: income generation activities (IGAs) in agriculture, livestock and small industry, economic infrastructure and social infrastructure. The budgetary outlays for the three sectors saw the bulk going to the first sector (60%), while the economic and social infrastructure sectors received 20% each. The allocations reflected the RRDPs objectives and the importance given to the promotion of the rural economy through community-based income generation projects (see chapter 4).

The rationale for concentration on village development is explained in the Appraisal Report of 1987⁸⁸. "In view of the extremely pronounced rural character of the Kandy district, ... [the focus will be] on rural areas and the particularly neglected target groups"⁸⁹. The report points out that two-thirds of the population of the Kandy district derive their income from land-use, through agriculture (export crops and other minor export crops) and livestock. However, owing to large-scale support to the major export crops, especially tea, there was a neglect of minor export cropping⁹⁰. In the field of livestock development, the appraisal report pointed to the neglect of cattle breeding and animal production, owing to a lack of adequate pasture and a traditional bias of the peasantry towards field crops. Nevertheless, resources for livestock production were seen as "far from being exhausted [with] a significant potential even for extensive animal farming exists"⁹¹. Studies commissioned by the RRDP recommended dairy production as a suitable intervention among farmers that derive their primary income from paddy and crop cultivation.⁹² Relatively low yields of milk were reported from the district, which was attributed to inadequate training in animal husbandry and inadequately developed milk collection systems resulting in milking only once a day. Project interventions in these areas aimed at improving agricultural extension services, introducing improved breeds and farmer training.

In an attempt to diversify livestock ownership in order to reduce farmer dependency on a single crop or livestock, activities in buffalo, poultry and goat breeding were promoted. Goat breeding, in particular, was considered a useful way of utilising land unsuitable for farming or cattle grazing as goats could feed on shrub and grassy patches and generally withstand rough hilly terrain.⁹³ Unlike in the case of cattle / dairy farming, farmers had a relatively

⁸⁸ Domros (1985)

⁸⁹ Ibid.

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² Livestock Sectoral Study (Draft), C. Bogahawatte, University of Peradeniya, RRDP, 1989

⁹³ Ibid.

recent history of around five years with goat farming and were therefore not very experienced in this sector at the time of project intervention in the late 1980s. Hence, a more intensive input was required with regard to goat management techniques with cooperating farmers, in addition to the introduction of goat rearing to certain areas.

Linked to this was the need to improve physical, social and institutional infrastructure. As the appraisal report notes, urgent measures are required in order to, on the one hand, raise the overall standard of living of the village communities, and secondly to enable the implementation of activities in the agriculture, livestock and trade sectors. The development of roads, footpaths and bridges was considered essential to improving village 'connectivity' for both commercial and domestic purposes, while the development of minor irrigation infrastructure (anicut, canals, culverts) schemes was directly aimed at enhancing the productivity of agriculture.

5.3.1 Income generation through agriculture and livestock development

Livestock development activities

In the livestock sector the study looked at dairy and goat farming. Poultry farming was not covered as the high failure rate, which was largely because of the susceptibility of the chicks to disease, had already been documented in evaluations⁹⁴.

Dairy farming

The findings from the MD and the GI Divisions indicate diversity in the sustainability of the intervention. Key informant interviews with veterinary officers in the MD Division indicate that of the total number of beneficiaries supported by the project, approximately a third are still actively practising dairy farming, while another third are doing it less successfully and the rest have ceased the activity altogether. These figures were confirmed by the dairy society office bearers and individual farmers visited in the field. In the hilly terrain of the GI Division, the 'drop out' rate was considerably higher with the majority of those interviewed having ceased active dairy farming. In both the MD and the GI Divisions, those in active production owned an average of 6 cows and considered it a primary income source which contributed an average of 50% of household income, while those who did it on a small scale with a head of 1-3 cows, did it alongside paddy farming and considered it a subsidiary source of income. Most of the farmers interviewed owned fewer cows today than they did at the time of project support. Current ownership averaged between 2-4 cows as against a peak of 5-6 cows. This is compatible with the nationwide trend in the stock of registered cattle, which has seen a decline of about 10% in the past decade. Average milk collection was at 10 litres per cow, per day.

While specific household dynamics, such as the need for liquid funds in emergencies, temporary constraints in available labour owing to sickness or migration for education seem to affect dairy farming more than other activities such as paddy farming, the sustainability and further expansion of dairy farming were influenced by two broad categories of factors:

- The profitability of the enterprise
- Enabling conditions for production and marketing.

⁹⁴ A number of studies on poultry-keeping projects report very similar outcomes, where the chickens either die or are sold for meat as a one-off income after receiving project support, or are raised as 'house chickens' and not as a commercial activity.

The constantly increasing cost of production against a fairly stable market price of milk was identified as the main drag on profits. The cost of inputs such as stalls and fodder (which is increasingly used as grazing lands decrease), nutrient cubes and vitamins, vaccinations and other medication rose steadily, with no commensurate rise in the average selling price of milk. At the point of collection the price currently averaged Rs.14-16 per litre based on the quality. A certain bitterness could be detected in the observation made to the field team by a number of diary farmers, completely independent of each other from both the MD and the GI divisions:

'Water from the spring is put in a plastic bottle and sold for Rs.30-35, while our milk gets Rs.16 or less!'

The fact that a number of mineral water bottling sources are located in the area possibly aggravated the problem by pointing to the glaring difference in the price of the two commodities.

Despite the profit margins, the positive aspect of dairy farming articulated frequently by the beneficiaries was its ability to provide a stable and continuous income. This was seen as a special advantage given the seasonality of paddy income.

The primary enabling conditions for production were access to grazing land and support from the livestock development/ veterinary officers. Both these factors have taken a downward turn from the period when the project was in operation. The common grazing lands are shrinking as agriculture and population expands. In the smallholder tea growing areas of the GI Division, the rapid expansion of the tea small-holder sector has effectively eliminated all common grazing land. The option of stall feeding puts a strain both on the profit margins as well as the available labour. In terms of support services from livestock officers, though the services are still available at acceptable quality, it is provided on payment. While most active diary farmers access the services frequently, the cost has become a critical factor to the smaller farmers. However, all farmers, those who continue as well as those who have down-sized, interviewed in the MD Division were very positive about the project's provision of training on improved dairy farming methods and practises, through the coordination of the Vet. Surgeon's office at Teldeniya. The more successful farmers attributed improved milk yields and reduced incidence of disease to better management enabled through the training provided to them. The practicality of the training and management skill imparted during the project period received strong praise even in the Waithalawa Estate where dairy production has all but come to a standstill.

In terms of enabling conditions for marketing, the critical factor is reliable collection. Organising diary societies which facilitated the sale to major buyers such as Milco and Nestle was one of the primary activities of the Project. There is a clear link between the survival of these milk collection points and the sustainability of dairy farming. The higher rate of sustainability and success in diary production in MD as against GI has been primarily because of the issue of milk collection. The continued existence of a critical mass of milk producers and a good road network has maintained buyer interest and encouraged the dairy societies in MD to continue the collection points despite certain institutional problems. Even within the MD Division, certain GN Divisions such as Madadeniyawake and Doraliyadde South had higher rates of success as the community as a whole moved towards dairy production and the milk producer societies were still functioning. In general it was found that the milk producer societies, which had a conducive marketing environment and a critical mass of members still engaged in dairy farming, were seen to be active and vibrant (e.g., Doraliyadde South) while those societies and where members had reduced their cattle head, largely owing to poor collection networks, had either ceased to function or were functioning sporadically.

In the MD division at least, the RRDP appears to have contributed to increasing the popularity of dairy farming in the district.

“Fifteen years ago only about five houses in this area owned cows. Now about 75% own at least 1-2 cows. The milk collection system has become very developed and there is a bigger incentive for people to go into dairy farming. We have good infrastructure and connectivity in this area, so it is an ideal location for dairy farming”.

_____ Beneficiary from Doraliyadde South

Although the RRDP cannot be wholly credited with influencing this sea change, as other actors were also engaged in promoting dairy farming, it is clear that its involvement gave an important additional impetus to the development of the industry⁹⁵ (see case study 1 in annex 6).

Goat farming

The largely positive experiences of dairy farming are not unfortunately replicated in goat farming. In the GN Division of South Doraliyadde, which was identified by key informants as an area in which goats were still kept, only 3 goats remained from the 150 distributed to 50 families during the period 1992/1993. Of those beneficiaries interviewed, only one still owned a goat, although her experience in goat farming had not been positive either. According to the veterinary office in Teldeniya, only 5% of the farmers do any form of goat farming in the Madadumbara DS Division and a similar proportion can be assumed to be doing goat farming in the other Divisions in the district. The major reasons for the large-scale failure of goat farming are not new and are as follows:

- Goats are difficult to control as they wander around and consume almost anything they can get hold of. This leads to the damage of crops of both owners and neighbours thereby causing friction within the community.
- Sheds can be constructed to keep the goats secure, however, this is considered expensive and difficult to maintain. Goat sheds have to be kept constantly clean as goats can catch diseases easily in un-hygienic conditions
- As a result of the above two factors, goat farming demands more labour than dairy farming and, more importantly, requires constant supervision which is not possible as most farmers are engaged in multiple activities
- Goat farming is incompatible with the cultural and religious beliefs of the largely Sinhala / Buddhist target group of the RRDP which discourages the eating and selling of meat.

An observation raised by an ex-goat farmer in Doraliyadde South was that prior to the RRDP intervention they had no experience in goat farming and hence could not make a judgment as to whether the activity would be successful or not. *“Now that I have experienced it I will never do goat farming again”*. He is critical of the project for not sufficiently preparing them for the challenges they would face.

The Treasurer of the Goat Breeders and Orange Growers Society that was set up by the RRDP explained that when they got involved in the animal husbandry group supported by the RRDP, they had asked for cows, but had received goats instead. While some returned the goats in lieu of the loan repayment many of the society members sold the goats for a good profit after they were mature and some used the proceeds to buy cows. In this respect,

⁹⁵ The story of dairy production in the GI Division illustrates the opposite side of the issue. According to the [1999 impact assessment](#), the GN division of Wetakadeniya (within the GI DS Division which was revisited by the 2003 evaluation team) showed a positive impact from the dairy development programme which was attributed to a good milk collection system by Kiriya (a joint venture between MILCO Sri Lanka and AMUL of India). Unfortunately, Kiriya subsequently closed operations in Sri Lanka and while Nestle and Milco were active in the Division the collection system was not operating as efficiently as it did before. Particularly in the Bossward Colony and the Kelly Group in the GI Division, poor road and milk collection networks had led to most of the farmers giving up dairy industry.

goats provided a source of periodic income during the period immediately following the project intervention. A goat can breed twice a year and is ready for sale at 6 months and can fetch between Rs.2500 to Rs.5000. Hence, goat breeding can be potentially a good income source if pursued.

Vinitha (not her real name), a beneficiary, said she received 3 goats with project support, from which she bred a total of 35 goats over a period of approximately 8 years. From this money she bought cows (at Rs.15000 each / approx. Euro135) and now concentrates on dairy production. As she says, on the positive side, goat breeding allowed her to raise the necessary cash to go into dairy farming.

Agriculture sector development activities

Together with the support for animal husbandry and infrastructure, the project frequently gave fruit plants to members of project-supported societies as an additional source of income. In general, the contribution of this particular form of support cannot be assessed to be significant or particularly innovative. Of the various fruit types, 'Jamanarang' or Orange cultivation was somewhat successful. While a major drawback was the long time taken for the tree to bear fruit, ranging from 12 to 15 years, and the early care required to weed and fertilise the trees, those that had given time for the trees to grow could obtain a reasonable sum of money once a year. An orange tree can bear between 1,000 to 7,000 fruits during the season and are sold to traders at Rs.1-2 per fruit or around Rs1500 for the entire tree. Those households that had persevered with orange cultivation therefore could expect between Rs.1000 at the very least and up to Rs15000 at the most per tree in a good season, for virtually no input cost. In the GN Division of the Kelly Group in Gangaihala, orange cultivation registered a higher rate of success than in the other Divisions as the trees were grown as shade trees for tea bushes and thus had an interim function until they were ready to bear fruit. Moreover, there is a ready demand for the fruit from traders who sell them to juice manufacturers in the Kandy district and even outside the district.

Apart from orange cultivation, other plant varieties such as mango, papaw, vanilla and coconut given to beneficiaries were seen mostly as home garden activities providing fruit for the household and occasionally to be sold to the village shop. A major challenge to fruit cultivation in all three Divisions visited came from attacks from wild animals. In the MD and UD Divisions, the common sources of the problem were wild boars while in GI it was monkeys.

Though the benefits of fruit cultivation are not significant, there is a growing appreciation for its potential as a subsidiary cash crop.

"People started thinking seriously of fruit as a source of income"

_____ Beneficiary, Doraliyadda South, Medadumbara

Apart from the case of orange cultivation, the team found a high failure rate in the crop sector development projects. The major reasons attributed to this were climatic (high winds) and attacks from wild animals especially wild boar. Interestingly, orange cultivation was seen to have more potential for success even at that time when none of the trees were bearing fruit. A higher level of receptivity among farmers towards this crop was voiced as the commercial (cost-benefit) potential from orange cultivation was considered to be better than that of the other crops (banana, pineapple, mango). The impact of technology transfer from training programmes for orange cultivation was seen to be higher, with a number of farmers commending the training programmes conducted by the project in Bibile. Ten years later, when the current study was conducted a number of farmers referred – albeit with mixed feeling – to the 'study tours'. While the farmers of South Doraliyadde had a positive reaction, the farmers from the Kelly Group felt the programme was rather irrelevant as the conditions

in Bibile were starkly in contrast to those in the extreme hilly, wet and chilly conditions of Kelly Group. However, a higher level of awareness on cultivation methods was evident from the interviews.

Impact of agriculture and livestock development on poverty

Poverty impact from livestock and agriculture development could be grouped into three areas:

- a significant contribution to household income
- a stabilising and subsidiary contribution to household income
- the diversification of household income sources and a reduction in vulnerability.

Where a significant contribution was being made to the household income, up to a 100% increase in income was observed, depending on the number of cows owned. However, up to a 25% contribution to income was considered very significant by the farmers interviewed. The average price of Rs.15 per litre for an average daily collection of 10 litres⁹⁶ enabled a household to earn up to Rs.4200 per month per cow. Since most households earned from between 1-2 cows, the income from dairy farming brought in between Rs 8-10,000 per month. All beneficiaries interviewed had multiple sources of income, with paddy farming and cash cropping forming the staple source of income and dairy farming being a supplementary income source that became more important during off-season months. One woman who had begun dairy farming after joining the RRDP group society said that her household income would drop by about 30% if this activity stopped. While the dairy related income was not her primary income, it nonetheless formed an important source of dependable income.

The majority of beneficiaries that were still undertaking dairy farming fell into the category of “not so poor”, especially in the MD division when households were distinguished by income. Most had constructed houses with electricity, and good sanitary facilities. A number of beneficiaries said that the income from dairy farming had gone into improving their living space for instance, improvements to their house, the purchase of furniture and consumer durables such as a television or a radio or into their children’s education. Those beneficiaries that had ceased dairy farming tended to identify themselves in the category “poor” and attributed high input costs and insufficient grazing land for the failure of the activity. Hence, while it can be said that the additional income from dairy farming was an important contribution in improving their quality of life, especially the physical quality of life, it is less easy to conclude that it moved them up into a better income category. These households also had at least one member employed in the formal sector or in the non-agricultural sector.

5.3.2 Infrastructure as enablers for village development

Of the three village development projects studied in the evaluation, the impacts from the rural infrastructure projects can be seen as being the most significant. The projects studied comprised the construction and rehabilitation of roads, footpaths, anicuts and other minor irrigation schemes and concentrated on the Divisions of UD and GI for the site selection of these projects.

Roads and footpaths

The study looked at the construction/improvement of link roads in the UD and GI Divisions, and the improvement of footpaths particularly in the hilly Division of GI. The examination of

⁹⁶ Milk collection per day per cow ranged from 6 litres to 14 litres, with an average of 10 litres. The price obtained varied from Rs.14-16 per litre, depending on the fat content.

the roads included the tarring and gravelling of a 4km stretch of road from the village of Bambarabedda to Pitigoda in the UD Division (see case study 2 in annex 6) and the 3km short-cut from the village of Patithalawa to Uduwela in the GI Division (case study 3). In the tea small-holder hamlet of Bosward Colony the project supported improvements to the steep footpath used by 35 families, located on the slope, to get access to the village of Wetakadeniya.

The overall findings in relation to the roads and footpaths constructed or upgraded by the RRDP during the period 1990 to 1996 (phase 2&3) was that irrespective of its condition, the road / footpath formed the sole access (with the exception of the Patithalawa Road which was a short cut) to the communities served by it and hence had a sustained and significant impact. What was clear, however, was that none of the access ways were maintained at optimum condition.

It could be seen that the overall significance of the changes and the specific impact felt by the communities were strongly linked to the marginal change in access. In cases where the road had been upgraded the impact cited was in relation to better quality as against new constructions, which provided access where there had been non and thereby was more substantial. As expressed by the communities:

“The traders always came, but only up to a point. Once the road was improved and extended they come right up to the village”

_____ Small group, Pitakanda, GI Division

“All produce had to be taken by thawalama (animal caravans) as the path was hardly motorable even for tractors. Now the two trucks run twice a week to Hunnasgiriya town” _____ Small group, Pitigoda, UD Division

“There is no other access to the village than by climbing the path – this is our main road! Improvements in the steps have helped somewhat as it is not as slippery as before... but it’s not much of an improvement. We have been promised a motorable road connection” _____ Small group, Bossward Colony, GI Division

The communities connected by these access ways showed a significant variation in terms of isolation. The Bossward Colony steps and the Pitigoda road are 90 minute’s walk from the closest bus route or any form of public transport, with the villagers of Rahalagala who use the Bossward steps being at least 2 hours distance from the road. Other communities such as those served by the Pitakanda and Patithalawa road have much better access to public transport. It is important to note that these roads and footpaths are used not only by villagers directly connected to them but also farmers whose lands lie by the road (e.g., Pitigoda), traders who use the shorter paths (e.g., Patithalawa) and neighbouring villagers who climb down to the better access ways as they develop (e.g., Bossward steps).

In terms of the relevance of the interventions, from the standpoint of the beneficiaries it seemed to be unquestionable. Despite the fact that no one at any of the sites visited could recall the project carrying out any needs assessment exercises, there was no doubt about the priority of the need. The communities at all the sites visited were of the opinion that special meetings were not needed as both the political and administrative structures were well aware of their problem.

“I myself signed 46 petitions...to MPs, to the Chief Minister, to the DS office, the road authority...anyone we thought would have influence. So if after all that if they did not know this road was needed...”

_____ Respondent, Pitagoda, UD Division

An important aspect that was strongly articulated in the Patithalawa case was that improving connectivity is an on-going process. Each access way visited had been developed by a range of actors, including the transport operators and the communities themselves. Within this scenario certain changes become a catalyst of change on which others build. In two of the sites visited – Patithalawa and Pitigoda - the RRDP interventions had played this central role.

“The IRDP took on the hardest part and put a lot of effort into it. After that the local MP was interested in funding the remainder of the road. The IRDP gave us the start and we were able to build on it” _____ President of the Patithalawa Grama Sanwardana Samithiya, GI Division

Minor irrigation schemes

The majority of the interventions within the sub-area of minor irrigation consisted of rehabilitation of anicuts and canals and the construction of a more limited number of anicuts and canals. Considering the GI and UD Divisions, all interventions were in terms of rehabilitation in GI while approximately 30% of the interventions in Udadumbara were newly constructed anicuts and canals.

Interventions in minor irrigation showed a greater variation in sustainability and relevance unlike in the case of infrastructure development for access. In the case of the GI Division, key informant interviews which provided an overview of the current situation estimated that approximately 20% of the 11 schemes were operating below potential. The schemes in the UD Division had a higher rate of success. The main reason for the operation of some anicuts below potential was the change in the livelihood patterns of the communities served. For example, the acreage watered by the Kudamake anicut and canal in Wattegoda had been reduced over the last years owing to the urbanisation of the area and the land being left fallow to be built upon subsequently. However, the greater majority of the anicuts continued to be productive in the sphere of agricultural production and thereby created an impact on income.

Sustainability of interventions: Anicuts rehabilitated or constructed in predominantly farming communities have shown a productivity impact that is noteworthy. In the case of both the Tannewela anicut and the Galheeriya anicut the communities served considered themselves to be 100% farming communities. In both cases the focus groups identified farming as the main livelihood of all households despite the fact that many families had employed and migrant members. In terms of anicuts, which were not operating to their full potential, the field visits confirmed the causes identified by the key informants. That is, in communities undergoing gradual changes in livelihood patterns, the ability and need to maintain the irrigation scheme dwindles. The Nattuwardeniya anicut and canal that was rehabilitated by the RRDP is now all but unusable. While approximately ten acres of land are still cultivated under a rotating tenure (kanna maru) system, the concentration of the farmers has moved from paddy to the lucrative sector of small-holder tea production.

Stability of cultivation was identified by the focus groups as, the major impacts on agriculture. The most important impact from a well constructed anicut was that it ensured a stable supply of water which farmers could use to offset low rainfall in drier months. Minor irrigation schemes became more important given that most interviewees pointed to a marked decrease in rainfall levels over the past 15 years. Farmers no longer had to keep repairing damaged and dilapidated anicuts with mud and rocks each season. Broken anicuts were clearly not as efficient in controlling the water flow and in some cases the anicuts were breached completely because of water pressure. In the village of Uduwela, farmers using the Galheeriya anicut said that there was more certainty with regard to their cultivation pattern after the anicut was repaired and even a single farmer could ‘turn the water’ on his own with

a well built anicut. If the anicut had not been repaired there would be a greater uncertainty about the harvest. Hence, a greater reliability of water ensures a higher reliability of a harvest.

Increased land under cultivation: This impact was observed in land watered by the Tennewela anicut. The anicut currently waters a total of 250 fields (60 acres) cultivated by the villagers of Pitigoda, Bambarabadde and Madugalla. This included the additional 20 acres that was made cultivable with irrigated water following the reconstruction carried out by the RRDP. In terms of increased land area for cultivation, it must be emphasised that most villages in the region do not have access to fallow land. This case is unique owing to the fact that its very isolation had prevented farmers from moving in. In addition, no land is held privately as over 400 acres belongs to the Dalada Maligawa (Temple of the Tooth Relic) in Kandy. Hence, the productivity impact through an increase in the land area under cultivation seen here cannot be expected in most cases⁹⁷.

Reduced conflict among farmers: Farmers also said that the presence of an anicut led to fewer conflicts between farmers with neighbouring fields as the water could be controlled better. As water was always scarce, it was considered important that it was used efficiently. The Farmers Organisation members in Uduwela, in particular, mentioned this.

Maintenance of infrastructure projects

Despite the fact that badly maintained roads seemed to continue to benefit the community, maintenance was critical for optimal benefits to be obtained from infrastructure. In the case of anicuts, unless maintenance is carried out there is a steady deterioration in benefits. In none of the infrastructure sites surveyed were these special systems or funds in place for maintenance. The roads were under the charge of the Pradeshiya Sabha (decentralised authority). Although most sections of the roads that had been attended to by the project were in relatively good condition and had not needed major repairs since the time of construction, other sections had deteriorated quite badly with rocks and boulders on the road (see photo documentation in annex 7). Since none of the roads surveyed had a visible drainage system, this was not surprising. When asked about community involvement in road maintenance, villagers remarked that the cost of gravelling and tarring new sections was beyond the reach of the communities. However, all communities surveyed professed to engage in 'shramadana' (voluntary labour⁹⁸) to keep the roads clear of trees and shrubs and carry out basic surface and drainage maintenance. However, *"if the tar was washed away, we have the knowledge to repair the road but not the materials"*. At various stages support had been forthcoming from the Samurdhi Scheme, the local MP or the Pradeshiya Sabha, but these were rather of an ad hoc nature and in response to political networking rather than a systematic maintenance plan. As one villager remarked, *"if there is a problem, we write to the MP"*.

In the case of the Patithalawa-Uduwela road, the villagers were considering the imposition of a fee on the heavy users of the road (truck drivers, buses) to finance maintenance work. Since it had not yet materialised it was not possible to assess its effectiveness. Considering that in the last 12 years such a scheme did not occur, it could be assumed the idea would not be realised or that it would be realised at a point in time when it became absolutely essential. Interestingly, in Pitigoda, villagers reported that it was the two truck owners who

⁹⁷ According to a key informant from Kandy, the village of Pitigoda has been earmarked for resettlement as the temple lands are to be declared as Reservation land. During the interviews this was not pointed out by any of the villagers and it was only much later that the team learnt of this.

⁹⁸ The Pitigoda villagers carry out an average on one Shramadana every other month. This village seemed to be the most organised in terms of maintenance.

took the initiative to maintain the road by levelling gravel sections with earth and 'paddy chaff'. The ownership of these trucks by residents of Pitigoda could explain the higher motivation to maintain the road.

As with roads, the footpath surveyed was in a mixed state. In Bosward Colony, the 50 metre stretch of steps built with project support was in reasonable condition but large sections of the rest of the approx. 1km path were either missing or broken (see photos in annex 7). When asked about this the response of one household was,

"The road was built in sections and not in one full stretch. We don't know why. The contractors say they have money for only this amount. A lot of sections are broken. We try to repair it through shramadana where we can, but we can't build new sections"

However, in the case of anicuts the boundaries for maintenance was more clearly defined with Farmer Organisations having the primary responsibility. As pointed out by an official of the CP Provincial Ministry

"There are some 3,000 minor irrigation schemes in the Central Province. The government has the resources to construct another 100 or so, but no more than that. It can maintain the larger schemes, but the small schemes are the responsibility of farmers"

According to the farmer organisations there was no special fund set up for the maintenance of the irrigation schemes at the time of their construction/ rehabilitation and no special training was provided on maintenance although it had been explained by the project that the farmer organisations (FO's) were expected to take responsibility for this. While some FO's such as the Udawela FO was clearly more active than the others (e.g., Nattuwadeniya, Dumbundugasmulla) all FO's said that they attend to the routine maintenance of the schemes, which was financed from the FO funds. The Udawela FO had approximately Rs.5,000 to work with for each season as it collected Rs.25 per farmer per acre every season. Routine maintenance involved keeping the schemes clear of shrubs and routine seasonal repairs. However, it was evident that anything more substantial would be expected to be financed by the state, as in the case of the Tannewela anicut, where the doors had been swept away. The FO maintained that they had neither the know-how nor the funds to undertake this work. The FO also pointed to the 'free-rider problem' in maintenance, especially with farmers who were not members of the FO.

In all the infrastructure projects visited for the evaluation, except in the case of the construction of the Patithalawa road, the physical rehabilitation/ construction had been contracted out to a specialised contractor and the work supervised by the engineer of the D.S. Division. Hence, no community involvement was required, except for minor, unskilled work, given the nature of the projects (roads, anicuts), which were specialised tasks. The Patithalawa road contract had been given to the Village Development Society (Grama Sanwardana Samithiya) which, in turn, hired specialised contractors for specific jobs. The relatively good condition of the sections constructed / improved by the RRDP 10 years on, points to good quality work, although it might be said that had the community been more involved they might be willing not only to maintain the projects but also create a skill base that could be used for constructing additional sections that need attending to.

Impact of economic infrastructure development on poverty

The impact of economic infrastructure occurs both at the household and community levels and this is especially true when the connectivity of remote villages is improved. Unlike in the case of more economically differentiated communities where some would benefit significantly more than others from improved infrastructure, in the communities studied

everyone reaped significant benefits, albeit some marginally more than others. For example, in Pitigoda while two families were able to purchase trucks all villagers benefited directly from this purchase as it provided them with a cheaper and better transport system. In a sense, the 'rising tide lifted all boats!' This effect could also be seen in the development of the Tannewela and the Galheeriya anicuts as most farmers in the village had fields watered by these anicuts and others benefited from increased wage labour.

Economic and income impact: All sites visited, with the exception of Bosward Colony, reported economic and income gains. Both in Patithalawa and Pitigoda the cost of transporting produce had dropped substantially in addition to the farmers having access to more sources of transport. In Patithalawa the cost of hiring a vehicle to transport goods to Kurunduwatte had dropped from Rs.2000 to Rs.1300 owing to the shorter distance. In Pitigoda, where farmers previously paid around Rs.100 per animal load, the equivalent amount paid for transportation in a truck was Rs.60. This led to a domino effect on the reduction of the cost of goods, including items such as housing construction materials, which has a more significant impact on lower income groups.

In addition to the reduction in cost, the considerable reduction in the time taken to access the market had brought about greater access by mobile traders. In Patithalawa and Pitakanda traders were now more willing to come to the village. While this was a more convenient method of selling produce, more traders also meant the reduced likelihood of exploitation by a single buyer.

The connectivity of the village also had an impact on the diversity of income sources. Land for cultivation was not a constraint for the Pitigoda villagers⁹⁹ while marketing their produce was more of a problem. Hence, the opportunity provided by the Ceylon Tobacco Company for contract farming of tobacco provided a very lucrative option. The villagers pointed out that access provided by the road was key to the company providing extension services and collection trucks. Some farmers who were not contracted by the company had also started cultivating tobacco and transporting it to the market in the village trucks.

In contrast, in the hilly hamlet of the Kelly Group in the GI Division, the poor road contributed in part to the failure of dairy farming which was being developed as a subsidiary income source. The bad road meant that it was not possible to maintain a collection point in the village and the long time taken to transport the milk to the collection centre at the foot of the hill often caused the milk to turn sour. Hence, one by one the farmers gave up the activity.

The cultivation of tea, however, was not hampered to that extent by the lack of access as the transport needs were very different. The opening up of a private tea factory on the upper slopes of the Kelly Group gave a greater impetus to overcoming the issue of transport. In Bosward Colony, tea continued to be the main source of income, though small-holders paid up to Rs.100 to porters to carry a 50kg sack of tea leaves up the steps to the collection point at the top of the hill.

It was also apparent that increased access gave rise to the greater accumulation of assets. While the lack of connectivity kept most villages trapped in poverty, some households accumulated sufficient income to purchase vehicles once the road was improved. In Pitigoda two households had purchased trucks under a hire- purchase scheme. Both these households obtained a significant proportion of their income from migrant household members. These trucks acted as public transport twice a week for the villagers and at other times they were hired out.

⁹⁹ While all families are tenant farmers owing to the fact that approximately 400 acres around the village are owned by the Dalada Maligawa (The Temple of the Tooth Relic in Kandy), there is more land available for cultivation if needed by the villagers.

Access to services: Improved access to schools, hospitals, government agencies, etc, was stated as an important advantage of connectivity. Access to education and health was an issue that was specifically discussed. For the eight villages in the Patthalawa GN Division the new road meant direct and safe access to the Senadikare Central College – an A grade school - at Uduwela. Previously, all but the oldest children had to be accompanied at dawn to school by an adult, as the 3km footpath along the river was considered dangerous. The students of Rahalagala, however, continued to walk up the steep slopes for over two hours each way to reach the school at Watekedeniya Colony. In addition to students having access to the school, another issue was that of teachers having access to the school. Both in Haldola-Pitakanda and in Pitigoda, teacher attendance had improved following the road improvement. In Pitigoda, however, while the primary school children benefited, the secondary school students continued to be boarded outside the home as the 3km walk uphill to the bus route and the subsequent travel took too long.

The issue of access to health was brought up in Bosward Colony where the RRDP had improved the 1 km of steps leading to the village. As one resident whose house is located at the beginning of the steepest section of the footpath said,

“Everyone comes as far as our house and then stops. Even the Public Health Inspector (PHI) doesn’t go beyond this point to check on pregnant women. The patients have to come here to be checked. There are no house visits. The elderly and sick are transported in stretcher type carriers” _____ Focus group member, Bosward Colony.

The issue of ‘social connectivity’ is an important consideration when assessing the overall impact of roads. Residents of remote villages, such as in Pitigoda, complain that relatives rarely visit them and owing to the distance to schools, children are often boarded in the homes of relatives nearer to schools. This led to the estrangement of families and in later years added an impetus to the migration of the children outside the village in search of employment. The major findings from the inception reviews point out that to a high rate of out-migration from the Kandy district has some roots in the poor access to villages in the district.

In comparison with the findings of previous evaluations, the findings relating to reduced travel time, easier access to villages, the lowering of transport cost to farmers were some of the positive outcomes already seen during the project’s operational time¹⁰⁰. On the negative or minus side, even at that time, the maintenance arrangements for those roads that did not fall under the purview of the Pradeshiya Sabha were not clear cut and the responsibilities were not defined. While the awareness of the need to maintain the roads was raised among road users, it did not seem to have been sufficiently institutionalised for it to be translated into practice. Although the (present) study sought to assess the functioning of a ‘maintenance fund’ for infrastructure schemes, in no case was this either in operation or worse, even known about.

Finally, with regard to the degree of innovation of RRDP activities at the village level¹⁰¹, it could be said that there was no evidence of any significant level of innovation either in the planning or design processes. Agriculture and livestock development followed a combination of a grassroots level participatory and state extension service model. Some new cultivation methods were introduced but were not sufficient to rate as significant innovations and had been tried in varying forms by other projects (e.g., Anuradhapura, Badulla, Kurunegala).

¹⁰⁰ PIMU (1999)

¹⁰¹ The issue of innovation was raised by stakeholders at the Inception Workshop of the evaluation. The large technical assistance component of the project caused it to be termed an, ‘innovation project’ when compared to the more traditional IRDPs of the time.

Infrastructure development, for the greater part, relied on conventional forms of capital input and maintenance: construction through contractors and maintenance of roads through local government agencies and minor irrigation through farmer organisations. The types of interventions at the village level, in agriculture, livestock and infrastructure were similar to those applied by the IRDPs in other districts and were not, therefore, any radical deviation.

CHAPTER SIX CONCLUSIONS AND LESSONS LEARNT

6.1 Conclusions

This report has examined at what the RRDP left behind after 13 years of its operation in the Kandy district in the context of policy, institutional and socio-economic changes that took place in the same period.

The RRDP was implemented from 1987 to 2000, a turbulent period in Sri Lanka's political history. On the one hand, the aspirations of the Tamil ethnic minority in the North East expressed in armed conflict challenged the structure of the central government and sparked off various experimental attempts at decentralization. On the other hand, the militancy of extremist youth forces in the south galvanized the government towards efforts to achieve broad-based development and poverty reduction in the rural hinterland of the country. Kandy, the fourth most populous district of the island, with low per capita GDP levels, high levels of income poverty and a declining agrarian base was deemed appropriate for the kind of intervention that an integrated development project could offer.

However, the level of financing available could not lead to a large-scale project with a wide geographical spread, as was the case with many other IRDPs implemented elsewhere in the country. Thus, the project, stressing "regional" over "integrated", was limited to five Divisional Secretariat (DS) Divisions for much of its lifetime with institutional development as its major concern. This constrained the project already, operating as it were within a political system that depended on distributing benefits to as large a constituency as possible. The reservations by both the political and administrative hierarchy of the district towards the RRDP have to be understood in this context.

What distinguishes the RRDP is not so much its broad objective of ameliorating the conditions of the poor but the specific means or the strategy through which the project wanted to achieve this objective. This specific strategy was to depend on institutional development as a principal means through which these development goals could be achieved. In other words, the underlying assumption of this development idea was that, more than anything else, it was the lack of institutions with certain characteristics and that implement projects through certain methods that explain the condition of the poor people.

The institutional development component of the project comprised three analytical concepts identified by the study team, namely, instituting participatory development methods at the village and divisional levels, strengthening regional development through support to the provincial council and the promoting regional economic growth through private sector development.

The efforts at instituting participatory methods at the local level left a number of tools and methods for more efficient planning and GIS-based methods with a proportion of counterparts who were trained under the project. The most significant and sustainable impact of these efforts was at the level of the individual officers who continue to use their newfound skills in varying degrees and intensities. The use of resources produced by the project, such as maps and divisional profiles, were still evident in the offices of some Divisional Secretariats. Beyond the individual, however, in institutional terms there had been very little sustainable impact. While the tools and techniques remained with a handful of isolated enthusiasts who continue to practice them whenever they have the opportunity to do so this did not necessarily make a dent in the way the institutions, to which these individuals are attached, currently carry out planning or decision-making in a sustainable manner. What

goes on as planning in the Divisional Secretariats is still a list of activities with poor problem analysis and a vision for the Division.

The strong feeling that the participatory procedures were meant only for investments by the project, the futility of following such methods if these were not accompanied by significant investment and the difficulty of following the cumbersome planning techniques that were introduced in the context of the workload faced by the DS's were cited as explanations for the limited impact of instituting participatory procedures. The relevance of the RRDP's efforts to institutionalise participatory planning methods at the local administrative levels was found wanting and points to an insufficient appreciation of the administrative set-up and mandate of this sub-district unit as an agency that does merely administer development.

Thus, by and large, the project was not successful in institutionalising planning methods within the DS Divisions in which that it operated. The lack of institutionalisation of the RRDP's efforts to strengthen regional development through support to the Provincial Council was also evident. This was most evident in the way in which the GIS-based regional information system is currently used. While the database is appreciated, no government institution has allocated resources to update it in a sustainable manner. More importantly, the RIS, which was envisioned to provide spatial planning data for regional economic promotion, enterprise planning and marketing, is barely used by the private sector or policy makers. Even hallmark documents such as the Madhyama Lanka Development Plan that tried to develop an overall vision of development for the Central Province, no longer has any relevance in the province. A cursory glance at how the system works points to uncoordinated expenditures through different budget lines. In other words, the setting up of the RIS had not influenced the overall capacity for planning within the Provincial Planning Unit.

Moreover, the institutional efforts at the D.S. and provincial levels did not necessarily translate into substantial benefits for the poor of those five "disadvantaged" divisions. The question has been asked as to what extent the RRDP was a "planning" rather than an "implementing" project. Within the limited scope of the interventions there was some success in village development efforts in the five divisions but not to the expected levels of synergistic development sought through an "integrated" approach.

In terms of what has been 'left behind' in the promotion of the regional economy, in policy terms, the impact was more significant. The project developed close links with the RDD and substantively influenced the emergence of the regional economic advancement programme concept with a number of key players within the Ministry. It thereby provided an impetus for the acceptance of enterprise promotion and private sector participation as part of rural development. It has to be said, nonetheless, that part of the success with the RDD has to be attributed to the fact that the RRDP shift fitted in with a process of change that was already going on within the RDD.

In terms of institutionalising enterprise promotion, the PEPC was an institutional failure. However, it left behind an embryonic network of private sector institutions, which are currently more aware of their role in regional development, as well as the need for unity to accomplish goals over and above personal agendas. It has to be stated that other donors besides the RRDP also contributed to this development. However, this network as yet has tenuous links with the individual MSM enterprises that the project sought to improve. While the CICCPC, which had been courted to take over the mandate of the PEPC, has so far been unable to do so, an unintended impact is that a state institution (IDA) and a NGO (SEEDS) have taken on some of the envisaged functions of the PEPC. The RRDP also contributed to private-public sector cooperation within the district by involving both sectors in its development activities, including the Board of Directors of the PEPC. Private sector representatives now sit on state development committees and are consulted on regional economic development issues. The public sector accepts that the private sector has a role to

play, although there are doubts as to its capacity to fulfil this role, especially in the Kandy district.

What is most remarkable is that despite the collapse of the PEPC and allegations of the inappropriate selection of enterprises for support by the PEPC staff, the majority of those enterprises appear to have expanded and continue to thrive today, although most are unable to sustain the same spurts of growth that they experienced soon after RRDP support. They have also on average at least doubled the number of employees from the period of initial support. This is consistent with the reduction of unemployment indicated in the latest Census statistics. The poverty reduction impact of this employment creation remains difficult to gauge. Most employment has been in low-skilled blue-collar casual jobs, mainly occupied by young men. The unemployment rate for women has remained high within the district in the last decade. However, there is an indication that employment created by enterprises had a positive impact on preventing migration from the district to other districts or overseas.

In terms of village development, the RRDP appears to have had mixed results. Where most of the resources were expended – i.e. on livelihood (income) improvement, very few projects initiated by the project have survived. This is especially true for the group livelihood/enterprise projects of the 1990-1996 period. Most livestock and fruit crop cultivation projects also failed as income generation prospects for individual households. The only exception to some extent is dairy farming. Around a third of the beneficiaries organised around milk collection societies initiated by the project are considered to be engaging successfully in dairy production and all claimed a better knowledge of dairy farming because of the project. Some of the milk collection societies, which collapsed in the mid 1990s, were revived in 1997 according to the organisation principles used by the Indian giant cooperative AMUL, following an exposure tour for several livestock field officers financed by the RRDP. However, the bigger impetus for the revival of milk societies is likely to be market-driven with two big companies NESTLE and MILCO now substantially expanding their milk collection operations within the district.

Economic infrastructure development at the village level emerged as the most successful part of this component. On one hand, roads and irrigation structures initiated by the project still exist and have had a positive impact on accessibility, connectivity and decreasing transaction costs in the case of the former and agricultural productivity in the case of the latter. On the other hand, most village-level institutions envisaged to maintain this infrastructure do not exist or function. This is particularly true for roads, where sections are in states of disrepair with communities lacking the organisational structures to raise resources for road rehabilitation. In the case of irrigation infrastructure, existing farmer organisations appear to maintain these, depending on participation rates and the importance of cultivation for their livelihood. Nevertheless, in terms of impact on the ground, literally, village level infrastructure development is assessed by the study to have had the more sustainable impact, not least because it matched with village level priorities and concerns.

When applying the concept of instituting participatory approaches at the village level, the findings show that while the project applied the 'group approach' to its income generating activities, the resilience of group survival was highly related to the fortunes of the activity. In instances where group formation was central to the enterprise, for instance with milk collection, group processes had a higher survival rate. In one site where the dairy industry flourished, thanks to the linkages mentioned above, the dairy group expanded into an umbrella association for the Division. However, such instances were few owing to the survival rate of many activities. In the area of group maintenance of infrastructure, a classic community level activity, the findings show that farmer organisations were active and took responsibility for the maintenance of minor irrigation schemes, which was rather because of an age-old tradition than project-supported processes. Similarly, the minor maintenance of roads and footpaths is done through 'shramanda' according to traditional village practice,

although maintenance funds set up by the project have long disappeared. When it came to the selection of activities to support, the project went through the ritual of participatory planning and identification. Nevertheless it has to be questioned as to whether in these instances participation became an orthodoxy (in spite of it being a guiding principle for the GTZ in its support to regional development). The fact that well-networked villages in the Kandy district are well-versed in communicating their needs through petitions and other political processes might question whether the ritual of participation can sometimes be done away with.

With its small budget and technical input orientation, the RRDP primarily aimed at instituting efficient planning processes at the administrative level. All indications are that it did not accomplish this goal in a sustainable measure. However, it did have considerable trickle-down impact with multiplier effects, some of them unintended. The introduction of planning tools and a regional information system had a positive impact on a number of individual professionals, who continue to put the knowledge they had acquired into practice. The project also played a pivotal role in the expansion and growth of the majority of enterprises it supported in the latter "consolidation phase". In addition, it contributed to generating the embryo of a network of private sector organisations within the district and in facilitating private-public sector cooperation.

Finally, at village level the positive impact of the project includes an improved dairy industry and economic infrastructure such as roads and paths, which have made a substantial difference to the lives of beneficiaries. It is possible that these interventions did contribute to the overall reduction of poverty witnessed within the district in the last decade. However, it is difficult to gauge how relevant this contribution was or whether households would have improved more if more members had migrated, rather than stayed in the district. Perhaps the RRDP's greatest impact was at the national level - in placing the agenda of private sector participation squarely within rural development.

6.2 Lessons learnt

In conceptualising the RRDP emphasis was placed on improved planning and institutional development without a proper understanding of the history and nature of institutional structures at regional / provincial, district and divisional levels. It concentrated on instituting participatory development methods at village and divisional levels and in supporting the Provincial Council to strengthen regional development.

The idea to set up a GIS system was a narrow and technocratic interpretation of strengthening regional development capacities. In deciding on this approach there was very little understanding of the Provincial Council system as a whole. The Provincial Council was a very new institution. In order to improve its planning capacity it needed a wide range of inputs such as the ability to make use of its powers under the 13th Amendment, to negotiate its rights with the Centre and to innovate within the powers given to it. If the project had viewed regional planning in this wider sense, perhaps it could have identified inputs that could have had a greater impact.

In particular, change was directed at individuals within institutions rather than the institutions themselves. This might have worked if the individual professionals selected were key players with sufficient power to change the status quo. However, most of the capacity building of the project was at the level of middle and junior officials who had very little voice as to how the institutions were run. Creating a number of competent professionals within the hierarchical and highly politicised state institutional structures is not sufficient to create change at the level of the institution. More often than not, it creates frustrated individuals who are on the

look-out for better opportunities elsewhere. Private / NGO sector development might be an unintended impact.

Although the project intended to be somehow different from other integrated projects, the result of all the participatory planning was the support for the same types of activities undertaken by all other projects - infrastructure development at the village level (typically roads/ footpaths and canals/ anicuts) and income generation activities, primarily within the agriculture/ livestock sector. Thus, in addition to the lack of sustainability of the planning sustainable tools at the institutional level, the mere use of participatory planning tools did not guarantee that the projects were viable. Thus, most livelihood activities and group enterprises identified by the beneficiaries did not necessarily have a higher chance of survival. In defence of the RRDP, it may be stated that this is an experience that is not limited to it but which is endemic to many a development project, not least its sister IRDPs¹⁰².

For most of its lifetime, the project focused on five "poorest" Divisions with potential for development. However, within these Divisions, the project engaged in a multitude of activities. Given the state of development of those Divisions, the project might have achieved more if it focused simply on what proved most successful after the pilot phase such as economic infrastructure – i.e. improving the enabling conditions for production and livelihood.

The project concept changed towards enterprise promotion and growth centres in the mid 1990s, but this design change, which included another institutional component the PEPC, came far too late for impact to be sustainable. While flexibility in the design of projects was important and projects needed to be steered towards new directions if they did not realise intended objectives, it was also necessary, as some private sector representatives pointed out, to stay with a concept and see it through. The PEPC in that sense was a baby who had to grow much too fast. Moreover, in the design of the PEPC an institutional analysis of the relations among the potential stakeholders, what type of structure and location would be viable in the long-term and what kind of gestation period would be required – i.e. the adequate groundwork necessary for a sustainable institution was not carried out at the time of its conceptualisation.

An important lesson learnt from the successful institutional collaboration with the RDD is that when project interventions fit in with something that the Sri Lankan counterpart has already begun or a process that is already taking place in the larger context there is a chance for sustainability.

As could be clearly seen from the RRDP's efforts, institutional development is a complex and difficult task. It needs the capacity to get to grips with a complex set of factors try to see what type of interventions the project can provide in the overall context, the ability to negotiate with many stakeholders and a long-term commitment to a slow process of change, irrespective of whether it is a state or private sector institution.

What emerges is the crucial importance of paying greater attention to the political and economic interests that operate in the institutional context. The general lesson is if what is initiated by the project dovetails with the processes taking place in the context there is a greater chance of it being sustained, because it complementary with the interests of the Sri Lankan stakeholders, which in the case of the institutional development component, is the Sri Lankan state.

This is well illustrated by comparing the different experiences of the RRDPs institutional development components. As was evident, the RRDPs move towards the regional economic

¹⁰² See Gunatilaka (1999)

growth concept went along with a policy change initiated by the RDD. It was not something done outside the principal policy thrust of the Sri Lankan authority. The same was true in the attempt to set up a regional planning system using the GIS. A number of factors contributed towards the interest of the Provincial Council system getting interested in this input and it is maintained to some extent. The exception was the attempt to institute participatory methods at the Divisional level. This was an input quite remote from the mainstream attempts to improve the capacity of the DS Divisions that were undertaken by the Ministry of Public Administration. In such a situation there is very little sustainability.

The other glaring lesson learnt is with regard to the pitfalls that lie in technical assistance projects. The RRDP, being as it were a predominantly 'technical assistance project', came with limited funding – in comparison with its sister IRDPs, but was designed with a large proportion of the budget allocation going towards long and short-term expatriate technical expertise. This created considerable misapprehension and made the project open to unhelpful criticism and antagonism from its counterparts and other interested observers. A project of this size needed to ensure that there was sufficient balance between resources allocated for expertise and project activities and between expatriate and local expertise. Moreover, it was inevitable that being an IRDP, the RRDP lent itself to comparison with other 'capital intensive' IRDPs, especially the neighbouring Nuwara Eliya and Badulla IRDPs, unfair though this might be.

The critical issue, however, is not the extent of the technical assistance budget or the presence of expatriate specialists, but the ownership of the initiatives by the stakeholders in Sri Lanka. This, together with explicit strategies for internalising these skills within Sri Lankan organisations, could have gone a long way in achieving the long-term sustainability of the RRDPs technical support towards institutional development.

At the implementation level, the RRDP activities were undertaken mostly at the Divisional level. The RRDP interacted with Divisional level administrative officers as well as with representatives of relevant line ministries such as agriculture, livestock development and industrial development. While working directly at the Divisional level helped to cut down on bureaucratic red tape, it appeared that the project did not quite take into account how the Divisional level was linked to the District and Provincial levels and failed to develop a good working relationship at the District level with at least one key line ministry, agriculture. While the project informed the District level offices of its activities, the fact that the District level office was not consulted about the selection of activities within that sector created unnecessary ill will.

Once the project shifted towards enterprise promotion, the project's implementing role had to be replaced by a facilitating role. This caused confusion among both staff and beneficiaries, as the project continued to be seen as an "implementer". The notion that it was a facilitator for private sector promotion was not properly understood by staff or clients, both used to projects doing implementation. Therefore, sufficient awareness raising needs to be done before a project shifts from an implementing to a facilitating role.

Insufficient monitoring, especially of impact, was done of livelihood activities, group enterprises and infrastructure development during the first two phases. If in-process impact monitoring had been conducted, the project could have narrowed its focus of intervention to viable sectors and changed direction faster. While monitoring improved during the last two phases, the clients whose enterprises expanded exponentially pointed out that it was insufficient to identify the potential of their enterprises to be large employers and to provide them with the necessary guidance and support to create and cater to a larger workforce. As poverty reduction was the primary goal of the project and the means shifted from institutional development to enterprise development, more attention needed to have been paid to employment creation.

The good relations developed by members of the project team with key actors at the RDD demonstrates the level of influence the RRDP managed to have in changing the contours of rural development nationally. However, it also shows the dilemma the project faced in reconciling the differences in perspectives between more professional national officials and more politicised provincial officials. The changes in the number of Project Directors during the project and how they were placed within the political power structure regionally and nationally, including the resignation of one owing to the abuse of power by a key provincial politician, were realities that the project had to work with and consequences it had to face.

Within the large allocation for expatriate technical expertise, the hiring of particular experts without long standing experience in development or in Sri Lanka resulted in bad working relations between senior Sri Lankan counterparts and the younger expatriate “experts”, which in turn hampered the potential positive impact of their involvement in project activities. It is easy for counterpart staff to become de-motivated, resentful and increasingly critical towards projects where donor organisations place young expatriate professionals with responsibilities and rewards they would not have owing to their lack of experience within the local counterpart structure. This merely reinforces the existing perception that projects such as the RRDP are merely “experiments” and “training grounds” for young expatriate professionals.

Some of the lessons learnt from the experience of the RRDP, especially those relating to private sector promotion, have already gone into the design of the new GTZ-ESSP project. However, the fact that German technical assistance has moved from public to private sector institutional strengthening does not mean that there are no other lessons learnt from this ex-post evaluation that could be relevant in future German technical cooperation in Sri Lanka. While the “facilitating” or “enabling” role of a project is clearer to stakeholders than before, leaving behind acceptable and sustainable institutional mechanisms for facilitating, if not institutions themselves, remains as critical as ever.

Another point for consideration is the medium of language used in official project documents. It has been explained to the study team that official documents intended for the funding agency, namely the BMZ, are required to be submitted in German. However, the absence of corresponding official translations of these documents appears to contradict the ethos of partner orientation, since local counterparts are not privy to documents of which they are meant to take ownership. While a change in this regard is seen over the years - many of the latter project documents were written in English - a number of key documents remained in German.

Finally, the role of ‘culture’ in development cooperation cannot be understated. While not explicitly addressed in this evaluation, largely because it necessitates a specialised methodology to do justice to such a topic, the influence of cultural factors in either facilitating or inhibiting development cooperation remains omnipresent. The issue was highlighted in the Dialogue workshop held to discuss the findings of the evaluation and a potential recommendation would be to pay more explicit attention of this ‘grey’ area.

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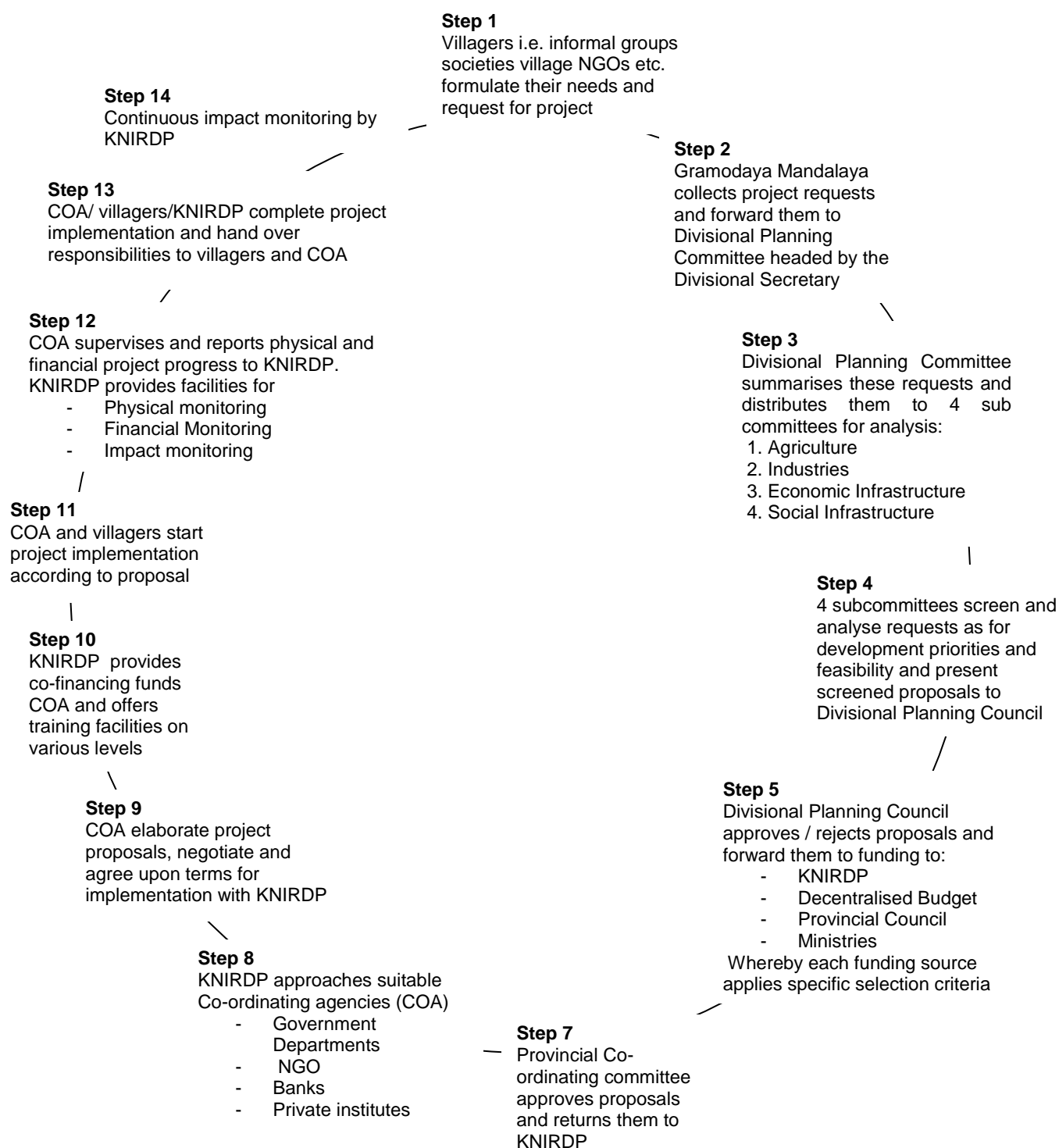
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Chronological Illustration of State Reforms in Sri Lanka

Year	Institution	Main characteristics
1965-70	Role of the Government Agent	The reforms were motivated by promotion of agricultural development (The Green Revolution). GA appointed as the co-ordinator of all activities pertaining to agricultural development. GA was designated as the deputy head of department of relevant government institutions. The objective was co-ordination.
Early 70s	District Development Council	District Development Council consisted of senior officers from the government departments in the district and members of the parliament. This body was responsible for implementation of development plans. GA the principal officer.
	Divisional Development Council	Established at sub-district level. Headed by the DRO. Comprised of representatives from both government and non-state institutions at divisional level. 3 places for youth. Responsible for divisional plans.
1973	District Political Authority	A government party member appointed by the Prime Minister and responsible to the PM. Most of the representatives of the Divisional Development Council became political appointees. Party control over administrative system consolidated.
1974	Decentralised budget	An allocation for each district on the basis of the number of parliamentary electorates in each district. MPs decide how to utilize these funds. Thus this was not really a decentralisation of the national budget, but an allocation given to the MPs. At the district level, implementation of activities under this budget line and programmes of the Divisional Development Councils ran in parallel.
1978	District Ministers	A member of the governing party appointed as District Ministers. Thus District Political Authorities become District Ministers.

Year	Institution	Main characteristics
1980	District Development Councils	<p>Consisted of members of the parliament in the district and members elected from the district for a period of four years. Parliamentary members always had a majority. DDCs had powers to mobilise resources from the district in addition to receiving grants from the centre. Executive Committee headed by the District Minister was the executive arm of the council and was in charge of implementing the annual development plan.</p> <p>The DDC Act established Gramodaya Mandalayas at village level comprising of heads of 'non-political village level organizations. Pradeshiya Mandalayas at AGA level consisting of chairman of the Gramodaya Mandalaya.</p>
1987	Provincial Councils	<p>Eight PCs established. A single PC for the amalgamated North/East province and seven for other provinces. The first major effort to devolve power. Power devolved through three lists – Reserved, Concurrent and Provincial. Governor appointed by the President. Elected PC members. Provincial administrative set up established.</p>
1993	Divisional Secretariats	<p>Established at the sub-district level. Became independent of the Government Agent. Was entrusted with activities linked to line ministries, govt. departments and provincial councils.</p>
2001	Ministries of Regional Development	<p>Five Ministries established for Western, South, Central, North Western and North East regions. Some of the new units are larger than the existing provinces. Headed by Ministers having cabinet and non-cabinet ranks. Function is co-ordination of activities of the centre in these regions.</p>

Illustration of 'Bottom-up Flow Cycle' of RRDP Village Project Implementation



Analytical Tables for Client and Non-Client Enterprises Assessed

Table 1: Client enterprises assessed

Year of support	Number of enterprises in sample	Currently existing
1991-1996	5	1
1997-1999	19	15
Total	24	16

Table 2: Selected enterprises according to sector

Sector	Total enterprises which received RRDP assistance	Selected sample of client enterprises	Selected sample of non-client enterprises
Agriculture/livestock	82 (33%)	7 (29%)	1
Food processing	52 (21%)	6 (25%)	1
Wood-based	27 (11%)	3 (13%)	1
Textiles	24 (10%)	2 (8%)	1
Mineral-based	21 (8%)	2 (8%)	1
Metal-based	13 (5%)	1 (4%)	1
Other	32 (13%)	3 (13%)	0
Total	251(100%)	24 (100%)	6

Table 3: Current status of client enterprises sampled

	Existing	Defunct	All
Male	11 (85%)	2 (15%)	13 (54%)
Female	5 (63%)	3 (37%)	8 (33%)
Group	0	3 (100%)	3 (13%)
Total	16 (67%)	8 (33%)	24 (100%)

Table 4: Socio-demographic characteristics of clients and non-clients

Clients		Non-clients	
Male	Female	Male	Female
13 (62%)	8 (38%)	4 (67%)	2 (33%)

Table 5: Clients by age range

Age	M	F	Total
18-25	0	0	0
26-35	6	2	8
36-45	2	5	7
46-55	4	0	4
55+	1	1	2
Total	13	8	21

Table 6: Non-clients by age range

Age	M	F	Total
18-25	0	0	0
26-35	1	1	2
36-45	1	1	2
46-55	2	0	2
55+	0	0	0
Total	4	2	6

Table 7: Clients by household sources of income

Sources of HH income	Male	Female	All
Business only	7 (54%)	5 (63%)	12 (57%)
Business + employment	5 (38%)	2 (25%)	7 (33%)
Business + agriculture	0	0	0
Business + employment + agriculture	0	1 (13%)	1 (5%)
Employment only	1 (8%)	0	1 (5%)
Employment overseas	1 (8%)	1 (13%)	2 (10%)
Employment in other district	1 (8%)	4 (50%)	5 (24%)

Table 8: Non-clients by household sources of income

Sources of HH income	Male	Female	All
Business only	1	1	2 (33%)
Business + employment	2	1	3 (50%)
Business + agriculture	1	0	1 (17%)
Business + employment + agriculture	0	0	0
Employment overseas	1	1	2 (33%)
Employment in other district	1	0	1 (17%)

Table 9: Clients by self-assessment of living situation within last 10 years

	Male	Female	Total
Living situation worsened	1	2	3 (14%)
Living situation improved	11	6	17 (81%)
No change in living situation	1	-	1 (5%)
Improvement solely due to business	9	4	13 (62%)
Business contributed to improvement	2	1	3 (14%)
Improvement entirely due to other sources	-	1	1 (5%)
Business contributed to worsening	-	2	2 (10%)

Table 10: Non-clients by self-assessment of living situation within last ten years

	Male	Female	Total
Living situation worsened	1	0	1 (17%)
Living situation improved	1	2	3 (50%)
No change in living situation	2	0	2 (33%)
Improvement solely due to business	0	0	0
Business contributed to improvement	0	1	1 (17%)
Improvement entirely due to other sources	1	1	2 (33%)
Business contributed to worsening	1	0	1 (17%)

Table 11: Self-assessment of poverty status by clients now and before assistance

Status	Before RRDП assistance			Current		
	Male	Female	Total	Male	Female	Total
Low income	5	0	5 (24%)	1	2	3 (14%)
Middle income	8	8	16 (76%)	12	6	18 (86%)
High income	0	0	0	0	0	0
Total	13	8	21	13	8	21

Table 12: Self-assessment of poverty status by non-clients now and 10 years ago

Status	10 years ago			Current		
	Male	Female	Total	Male	Female	Total
Low income	2	1	3 (50%)	2	1	3 (50%)
Middle income	2	1	3 (50%)	2	1	3 (50%)
High income	0	0	0	0	0	0
Total	4	2	6	4	2	6

Table 13: Self-assessment of change in household income of clients

Income	Following RRDП assistance			In the last 12 months		
	Male	Female	Total	Male	Female	Total
Increased remarkably	5	3	8 (38%)	0	1	1 (5%)
Increased	8	5	13 (62%)	6	2	8 (38%)
Stayed the same	0	0	0	2	3	5 (24%)
Decreased	0	0	0	5	2	7 (33%)

Table 14: Self-assessment of change in household income of non-clients

Income	In the last 12 months		
	Male	Female	Total
Increased remarkably	0	0	0
Increased	1	1	2 (33%)
Stayed the same	1	1	2 (33%)
Decreased	2	0	2 (33%)

Table 15: Increase in household income of clients immediately following RRDП assistance

Increased	Male	Female	Total
Up to 50%	4	4	8 (38%)
51-100%	4	3	7 (33%)
101-200%	2	1	3 (14%)
201-500%	1	0	1 (5%)
501-1000%	2	0	2 (10%)

Table 16: Employment in client enterprises

# employed	Following RRDP assistance			Current		
	Male	Female	Total	Male	Female	Total
Self only	0	0	0	0	2	2 (10%)
1 family member	1	1	2 (10%)	1	1	2 (10%)
Up to 5 family members	1	1	2 (10%)	1	0	1 (5%)
1 employee	1	0	1 (5%)	1	0	1 (5%)
2-3 employees	8	1	9 (43%)	4	2	6 (29%)
4-5 employees	0	1	1 (5%)	1	0	1 (5%)
Sub-total Micro			15 (73%)			13 (64%)
6-50 employees (Small)	2	4	6 (29%)	3	3	6 (29%)
51-150 employees (Medium)	0	0	0 (0%)	1	0	1 (5%)

Table 17: Employment in non-client enterprises

# employed	Male	Female	Total
Self only	1	0	1 (17%)
1 family member	0	1	1 (17%)
Up to 5 family members	1	0	1 (17%)
1 employee	0	0	0
2-3 employees	0	1	1 (17%)
4-5 employees	0	0	0
Sub-total Micro			4 (67%)
6-50 employees (Small)	2	0	2 (33%)
51-150 employees (Medium)	0	0	0

Table 18: Change in the number of total paid employees since RRDP assistance

	Since RRDP	Current
Male	39 (31%)	173 (70%)
Female	88 (69%)	76 (30%)
Total	127 (100%)	249 (100%)
Employees per enterprise	6	16

Table 19: Enterprise performance – clients (in the last year)

Type of changes/ Investments	Yes/no			For clients only: Following RRDP assistance (1993-2000): yes/no		
	Male	Female	All (N=16)	Male	Female	All (N=21)
1. Added new products	7	3	10 (63%)	11	6	17(81%)
2. Hired more workers	4	1	5 (31%)	11	7	18 (86%)
3. Sold in new/additional markets	6	2	8 (50%)	11	7	18 (86%)
4. Improved product quality	9	3	12 (75%)	11	5	16 (76%)
5. Developed a new enterprise	3	1	4 (25%)	5	2	7 (33%)
6. Reduced costs with a cheaper sources of credit	4	2	6 (38%)	7	1	8 (38%)
7. Bought inputs in greater volume at whole sale prices	7	1	8 (50%)	7	2	9 (43%)
8. Purchased small tools/ accessories	7	3	10 (63%)	11	6	17 (81%)
9. Purchased major equipment and machinery	4	1	5 (32%)	8	5	13 (62%)
10. Purchased transport facilities	4	1	5 (31%)	9	2	11 (52%)
11. Invested (major) in enterprise site (building, storage room etc)	5	1	6 (38%)	9	6	15 (71%)
12. Invested (minor) in enterprise site (chairs, sales counter, etc)	2	1	3 (19%)	3	6	9 (43%)
13. Invested (major) in infrastructure (electricity, water supply, telephone, etc)	3	1	4 (25%)	8	4	12 (57%)

Table 20: Enterprise performance – non-clients (in the last year)

Type of changes/ Investments	Yes/no		
	Male	Female	All (N=6)
1. Added new products	1	1	2 (33%)
2. Hired more workers	1		1 (17%)
3. Sold in new/additional markets	0	0	0
4. Improved product quality	1	1	2 (33%)
5. Developed a new enterprise	0	0	0
6. Reduced costs with a cheaper sources of credit	0	0	0
7. Bought inputs in greater volume at whole sale prices	1	1	2 (33%)
8. Purchased small tools/ accessories	2	1	3 (50%)
9. Purchased major equipment and machinery	0	1	1 (17%)
10. Purchased transport facilities	1		1 (17%)
11. Invested (major) in enterprise site (building, storage room etc)	0	1	1 (17%)
12. Invested (minor) in enterprise site (chairs, sales counter, etc)	0	0	0
13. Invested (major) in infrastructure (electricity, water supply, telephone, etc)	0	0	0

Table 21: Clients – membership in/ links to partner organizations

Current			Since RRDP assistance		
Membership					
Male	Female	All	Male	Female	All
4	2	6 (29%)	4	1	5 (83%)
Links					
2	2	4 (19%)	2	2	4 (100%)

Table 22: Clients – membership in trade associations

Current			Since RRDP assistance		
Male	Female	All	Male	Female	All
10	3	13 (62%)	9	2	11 (85%)

Table 23: Clients - membership in all organizations (community-based, trade, etc)

# Of organizations	Current			Since RRDP assistance		
	Male	Female	All	Male	Female	All
1 only	2	0	2 (10%)	0	0	0
2-3	2	5	7 (33%)	5	3	8
4-5	8	0	8 (38%)	4	0	4
6 +	3	0	3 (14%)	0	0	0
Total	15	5	20 (95%)	9	3	12 (60%)

Table 24: Clients – office holders in all organizations (community-based, trade, etc)

# of organizations	Current			Since RRDP assistance		
	Male	Female	All	Male	Female	All
1 only	1	1	2	1	1	2
2-3	4	0	4	2	0	2
Total	5	1	6 (28%)	3	1	4 (67%)

Table 25: Non-clients – membership in trade associations

Current		
Male	Female	All
1	1	2 (33%)

Table 26: Non-clients - membership in all organizations (community-based, trade, etc)

# of organizations	Current		
	Male	Female	All
1 only	1	0	1 (17%)
2-3	1	1	2 (33%)
4-5	1	1	2 (33%)
6 +	1	0	1 (17%)
All	4	2	6 (100%)

Table 27: Non-clients – office holders in all organizations (community-based, trade, etc)

# of organizations	Current		
	Male	Female	All
1 only	1	0	1
2-3	0	0	0
4-5	1	0	1
All	2	0	2 (33%)

Case Studies on the Enterprise Promotion Component

SUCCESS STORIES

Case study 1: From micro to medium construction entrepreneur

Ranjith's first job after school was as a worker in a garment factory. His father is a retired driver who had worked in the agricultural department. His mother is a practitioner of *ayurvedic* medicine. He had passed his "A" levels but was unable to get a white-collar job. After a year, recognizing the limited prospects in factory work, he took on a new job driving a three-wheeler. One year of working for the owner of the vehicle he bought his own three-wheeler and continued in this line of work for two years. In 1992 he founded a local three-wheeler owners association of which he was elected the President. Between 1993 and 1994 he was the Chairman of the local branch of a major political party. His political activities paid off when he got a job as a Samurdhi Officer in 1994. A year later he started a micro business of undertaking construction contracts from his home alongside his public sector employment.

The government was giving small contracts of LKR 10,000 – 15,000 to Samurdhi officers. I got 90% of the work in this region because I did a good job. I didn't realize my capacities to do this kind of work until then.

He learnt of the National Engineering Research and Development Association (NERD) in Colombo and started going for short-term training sessions on low-cost prefabricated housing. He began to apply this knowledge in his business. In 1998 he saw the new REPU office at Pilimatalawa and approached the Enterprise Promotion Officer for assistance to expand his business. He was told that he could not receive any assistance without registering his business, which he could not do as long as he remained a public servant. Thus, he resigned from his post at Samurdhi in 1998, registered his company and received his grant to buy a concrete mixer from CPEPC the same year. He also received management training. With the purchase of the concrete mixer, he managed to introduce several new prefabricated housing products such as rafters and window frames, to increase his income ten times over and increase employment in his business from 3 to 8 workers.

Since 1998, he has introduced around 25 new low cost prefabricated housing products to the local market, averaging around three per year. His customers then were mostly from Pilimatalawa and the neighbouring villages. He bought most of his supplies locally. Today the majority of his suppliers are from Colombo. His business is divided equally between construction contracts and the sale of prefabricated products. His clients for construction contracts come from all over the Central Province, while he has wholesale buyers for his prefabricated products from the entire province, as well as Kegalle, Ampara and Badulla districts. The enterprise works on around 50 building sites annually and his retail customers for prefabricated products number around 300, while his wholesale buyers are around 50. Now aged 32, his business assets including two concrete mixers, a cement block maker, numerous wood sawing and lathe machines, 5 transport vehicles and self-made equipment for manufacture of fibre glass amount to around LKR 6 million today. In addition to his small production site at home, he has acquired three new sites on lease. He has a turnover of LKR 2.5 to 3 million monthly and his profits are in the range of LKR100,000 –150,000. He employs around 135 workers, the vast majority of whom are male, of which 50 are permanent employees, including 3 white-collar clerical/ administrative workers.

Within the last year he opened new business premises, including a showroom on the main Colombo-Kandy highway, added 5 new prefabricated products, hired 20 new workers, expanded his market to Matale district and developed a new enterprise by buying a bus to run a transport service, in order to have liquidity for his other business. He also got married to an “A” level educated young woman, who gave birth to their first child, a daughter, who was 20 days old at the time of the assessment.

Of the assistance he received from RRDP/CPEPC he found the grant the most useful since it enabled him to buy what he needed most at that stage of business – a concrete mixer. He pointed out that his knowledge at both individual and enterprise levels had increased since receiving the grant, which was instrumental in increasing his business tenfold. Today his business is stable with no foreseeable threats or risks. He was constantly improving his quality, was ahead in technology and was not always able to meet the demand. However, he considered the training provided as not useful:

The business skills training course was very basic and not very useful. They were mostly giving advice on how to deal with competition. I wasn't interested in competing. We can do things without competition. I had new technology at low cost. The course also gave information on how to obtain a loan. This was irrelevant to me as I had already applied and got a loan on my own.

His views on what could have been done better by the project included improved monitoring and follow-up, as well as a bigger emphasis on increasing employment. Monitoring he pointed out was done only for one year. If it had been continued longer and attention paid to those entrepreneurs who could create more employment, the benefits could have been bigger. Another person who had also received a concrete mixer from the project in his village created only one additional job. The project however, had no way of differentiating between this entrepreneur and himself.

He is one of the few entrepreneurs interviewed who had also changed his business practices since 2000. He keeps regular records, has separate budgets for the enterprise and his household, sets aside a salary from his profits every month and has a fixed business location away from his residence. He attributes these change to the advice he has received from three trusted peers. His office/showroom is neatly arranged with office furniture, files carrying computerized labels and telephone. It also displays many of his prefabricated products in its construction, such as concrete rafters, ornamented ceilings, door and window frames.

Currently he is a member of five community-based/local organizations, including a traders' association, three of which he joined after receiving assistance from the project. He has a wide network of business associates and clients in the region, as well as outside the district – numbering over a thousand. In the past, his father made the decisions in the household. Now he is the main decision-maker – in business matters he consults three peers when he feels the need.

I look for improving quality and increasing employment more than profit. There is sufficient satisfaction if I can also do some service to the country.

Case study 2: Adding value to agricultural products

Nirmala is 62 years old and a former employee of the Agricultural Department. She receives a small pension. She started her business, a cannery, in 1979. Beginning with manufacturing flavoured jams, juices and fruit preserves, she expanded into producing dehydrated vegetables and fruit for the processed food industry in the last 10 years. Her main impetus into agricultural processing came following exposure tours to Thailand and India, sponsored by AgENT, an agro-enterprise promotion organization funded by USAID.

She learnt about the RRDP enterprise support programme in 1998, when she visited an exhibition at the Chambers of Commerce and Industry, CP of which she had been a member since 1993. Her dryer had a limited production capacity, which she wanted to increase. The project identified a university professional, who could modify her dryer to double her production capacity through improved design features. The grant approved by the project went directly to the designer. Once she had the new dryer, her production and income doubled, and employment increased from 10 workers to 17.

At the time of receiving assistance from the project in 1998, she was selling her products to three local noodle-manufacturing companies, five small local shops, and two established bakeries/pastry shops in Colombo. Today she sells to three large shops in Kandy town, 10-12 bakeries both in Kandy and Colombo, and since 2000 has entered into a regular contract with the multinational giant Nestle to supply dehydrated vegetables that go into cereals and noodles. She buys her supplies from several vegetable wholesalers at Kandy market, as well as two fruit traders, as she has done in the past.

Her current business assets, including machinery and buildings amount to around LKR 3 million. Her monthly turnover ranges between LKR 500,000 to 600,000. Her monthly profits are estimated between LKR 100,000 to 150,000. Her employees number around 35, the vast majority of whom are female and blue-collar workers, including 5 permanent employees.

Soon after receiving RRDP assistance she added new products, hired more workers, sold in new markets, improved product quality, purchased major and minor equipment and made minor investments in her enterprise site. In the last year, apart from finding new markets she continued with all other improvements. In addition, she reduced costs with a cheaper source of credit, purchased a van for transport and made a major investment in a new building for production. Her decision to make these new investments was based on her income increasing remarkably within the last year. Although her workload has also risen considerably she does not find this a problem.

As a single person I have no family obligations. I do this business partially to keep myself occupied.

Her business practices include keeping regular records, separating her household budget from her enterprise budget and having a fixed location for producing and selling her products, separate from her residence. However, she does not pay herself a monthly wage out of her profits. These practices are primarily a result of her relationship with the DFCC bank from which she has obtained loans several times before she received project support. Apart from being a member of the chamber of commerce, she is also a regular member of a church. She has been invited to join the Fruit Processors' Association but since it is located in Colombo, she does not find the time to travel back and forth for meetings.

Her network of business associates is not huge but she has strategic linkages with important buyers and those who can give her technical knowledge, especially from the Agricultural Department and former contacts from AgENT.

In addition to the dryer, she received training in management and food processing technology through the project. She said all of this was useful.

The project gave me what I needed. I had many orders but couldn't supply because of the small equipment I had at that time. So it was something good that happened that they gave me a larger and improved dryer.

UN-SUCCESSFUL STORIES

Case study 1: Group enterprises: Spice mill grinds to a halt

The spice/flour grinding and packing enterprise at Waradiwela was initiated with RRDP project support through the state-sponsored Gramodaya (Village Awakening) Board in 1993. It discontinued operations in 1997. The enterprise was sealed by the project and its assets auctioned. It was a group enterprise with 15 stakeholders/employees who worked on a piece rate. It was managed by these stakeholders as a society, comprising a President, Secretary, Treasurer and committee members. The enterprise bought raw materials from two to three wholesalers in the nearby town, Karaliyadde, as well as Kandy. At the height of operations in 1996, it supplied around 75 retail stores in the local area and around 40 fellow villagers with packaged spices and rice, millet and maize flour.

The RRDP grant totaling around LKR 153,650 provided support for building materials, two small grinding machines and some raw materials (chillies and other spices) for start up. The enterprise operated thrice a week, producing approximately 60-90 kg of produce in total. The turnover was around LKR 15,000-20,000 per month with a profit around LKR 2,500-5,000. The enterprise had a savings of around LKR 17,000 in its Sampath bank account at the time of closure. It added new products, expanded its market and improved product quality to some extent during its period of operation but was unable to hire additional workers or make any major or minor investments to expand the business.

The main reason attributed for its failure was the incompetence and inefficiency of the officeholders of the society. The dynamic first President left the enterprise to take up another job as a manager of a cooperative society. The office holder who replaced him did not have the same level of competence. Soon afterwards, the Treasurer of the society started his own private enterprise (also of packaged spices), allegedly after stealing a sum of around LKR 6,000-7,000 from the group enterprise.

Former employees also pointed out that the raw materials could not be obtained from the local area, and had to be transported from far. In addition, the capacity of the two small machines was limited and could not support the livelihoods of 15 people.

Apart from the grant, the project also supported leadership training through a NGO for several of the officeholders of the society. The main benefit from the project, according to former members was the earnings of around LKR 4,000-5,000 that they accumulated over the four years. A bigger machine with higher capacity, technical and management training, and more monitoring could have led to a more successful venture, they pointed out.

Instead of two small machines, which could grind 10-15 kg per day, the project could have provided a machine with enough capacity to support 15 people. Better training could have been given. There was not enough follow-up – the officers only came to distribute various goods to us.

Of the former stakeholders, 11 went back to farming. One found employment in the Central Transport Board, while two are working in the private sector, in small eating establishments. One (the ex-treasurer) started his own enterprise but died of an accident around a year later. What is noteworthy about this group enterprise was that apart from the state sector administrative apparatus, a local cooperative, one private bank, a limited number of suppliers and the fairly large number of local buyers, as well as the project itself, it had not built any links with the private sector, at the institutional level.

Profiles of the Five D.S. Divisions Covered by RRDP

This annex is meant to provide a brief background into the five D.S. Divisions that RRDP implemented its activities during its early phases and concentrated its village development programmes. Information and data used is for the period during which the project was active as it is meant to provide a picture of the divisions as it was.

Geographical and demographic characteristics

The five D.S. Divisions covered by the RRDP comprise 22% of the Kandy district's population, and 48.6% of the land extent. Of the five divisions, Minipe is the largest covering an extent of 247sq.km, or 13% of the district. Agro-climatically, the five divisions fall into two categories, wet and dry areas. Agro-climatically the divisions of Udadumbara (UD) and Minipe (MI) fall within the intermediate mid country region and are drier than the divisions of Medadumbara (MD), Pathahewaheta (PH) and Gangalhala Korale (GI), which fall into the wet zone up country region. Topographically, as can be expected within the district, all five divisions are hilly, although Ganga Ihala Korale has the hilliest terrain.

The division of Pathahewaheta is the most populace and also has the highest population density (730p/sq.km) of the five divisions followed by Ganga Ihala. The most sparse division is Udadumbara with a population density of 91 persons / sq. km. Ethnically, Sinhalese constitute over 90% of the populations of PH, MI and UD, while in MD (20%) and GI there is a substantial estate population. In general Muslims tend to concentrate in the more urbanised divisions, while Tamils, particularly 'Indian' Tamils reside in the estate areas.

Table 1: Population of RRDP project areas by sector

D.S. Division	Sector			Ethnicity*			Total
	Rural	Estate	Urban	Sinhalese	Tamil*	Muslim	
Pathahewahata	50,965	2,142	-	47,532	4,256	1,262	53,107
Minipe	47,760	-	-	47,373	61	317	47,760
Udadumbara	20,804	1,847	-	20,480	13,807	281	22,651
Medadumbara	47,154	11,062	-	43,051	11,924	3,171	58,216
Ganga Ihala Korale	44,160	6,546	-	40,181	7,263	3,143	50,806
Kandy district	1,022,895	92,645	156,923	942,038	155,546	169,029	1,272,463

Source: CPH 2001, DCS 2003

Notes: *Only the main ethnic categories are listed, **Sri Lankan Tamil and Indian Tamil categories have been combined

Agriculture and land use

Of the 5 divisions, Pathahewaheta has the highest proportion of its land under cultivation (70%) followed by Gangaihala, indicating a high agricultural dependency of the inhabitants. In contrast, Udadumbara has only 20% of its land under cultivation, with forest area accounting to 50% of its land extent. Paddy is the predomination cultivation in three of divisions and tea in two of the divisions. Minipe is largely paddy dependent while Gangaihala

has a high share of tea smallholdings. Pathahewaheta has a balanced land use, spread among paddy, tea, coconut and minor crops.

Table 2: Land use pattern (percentage share)

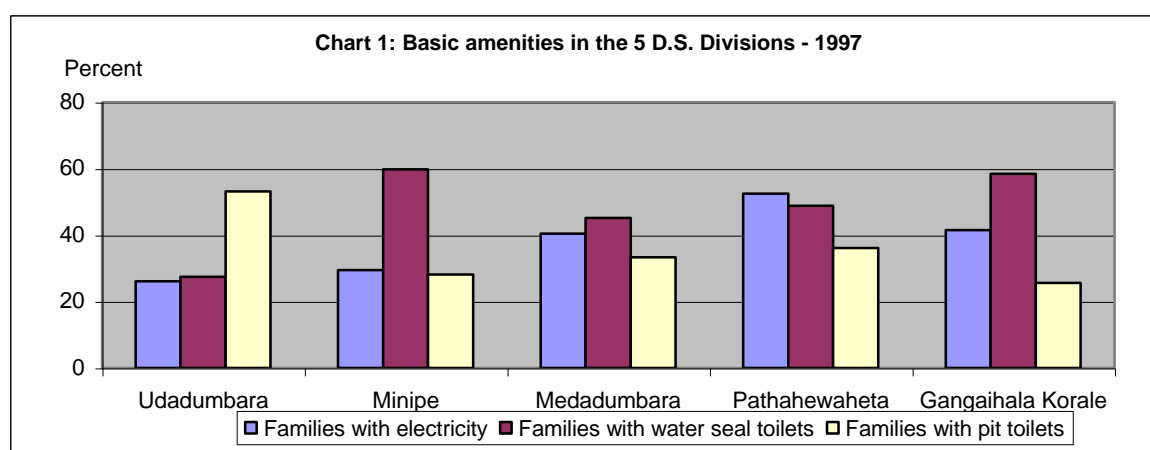
D.S. Division	Paddy	Tea	Coconut	Minor crops
Udadumbara	32.4	6.4	1.5	17.2
Minipe	43.2	0.0	4.3	8.2
Medadumbara	14.4	25.8	7.0	21.8
Pathahewahata	15.7	14.4	12.9	13.5
Ganga Ihala Korale	10.0	52.0	2.8	12.9

Source: Statistical Handbook, Central Province, PPU, Central Province, Kandy, 1997Kandy

Patterns of development

According to data compiled by the Regional Information System (RIS) of the Central Province Provincial Planning Unit (PPU) development indicators in the five divisions vary, indicating however, a lower combined level of development in the divisions of Udadumbara, Medadumbara and Minipe as compared with Gangaihala Korale and Pathahewaheta.

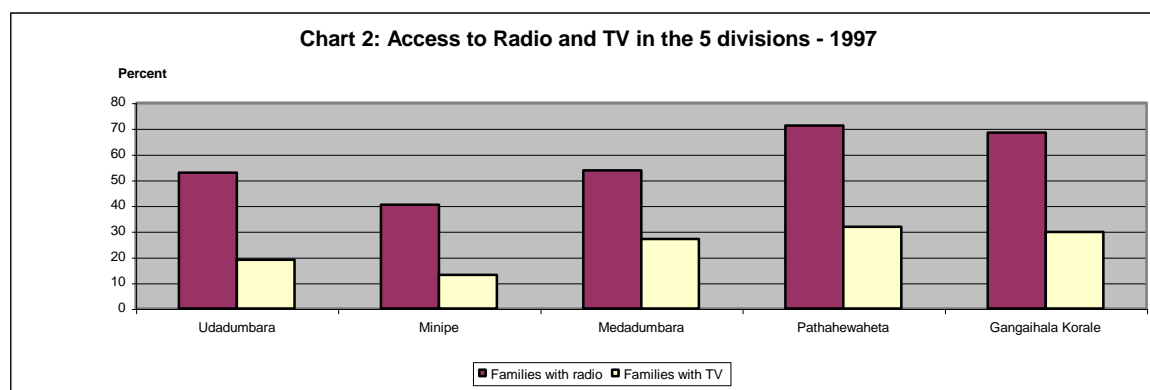
The indicators in chart 1 shows that in terms of access to basic amenities, families in UD, MI and MI are generally worse off than the other two divisions. Particularly, taking the indicator of families with pit toilets, in UD over half of families were still using pit toilets in 1997. Significantly, according to RIS data taken in 2002, the numbers of families using pit toilets had dropped dramatically since 1997, to less than a quarter, except in Udadumbara where it was still at a high 40% (RIS 2002).



Source: RIS Database, 1997

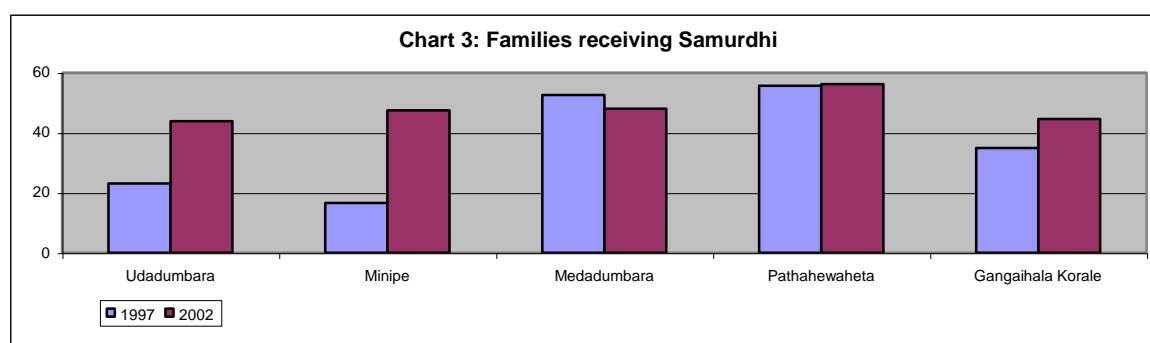
In terms of information access indicators, chart 2 shows that the divisions of MI, UD and MD are relatively less well 'connected' to the outside world than the other two divisions. Minipe is the worst off with less than half its families possessing even a radio, this in spite of it having a higher proportion of families with electricity as compared with UD. The relative isolation of Minipe, geographically, situated as it is near Mahiyangana could explain this phenomenon. In contrast, Pathahewaheta is more connected in the information sense with over 70% of families owning at least a radio.

The pattern of Samurdhi recipients, however, does not correspond with the above indicators. As chart 3 shows, the proportion of families receiving Samurdhi in 1997 (chart 3) the division with the lowest number of Samurdhi recipients is Minipe, which according to other development indicators shows the lowest level of development.



Source: RIS Database, 1997

The divergence in the pattern of Samurdhi payments can possibly be explained by the political nature in which Samurdhi payments are made. Pathahewaheta, which is the best off compared to the above development indicators but has the highest proportion of Samurdhi recipients (56% in 1997 and 2002) was coincidentally chosen by the RRDP to pilot test its concepts at the start during its orientation phase.



Source: RIS Database, 1997, 2002

Finally, the RIS data on socio-economic indicators in the five divisions shows Minipe once again lagging behind, despite it containing a population roughly equal to that of Pathahewaheta, Medadumbara and Gangaihala. UD, which has less than half the population of Minipe, has double the number of health centres. Health facilities in PH and MD are considerably better developed than in the other three divisions.

Table 3: Selected socio-economic indicators

D.S. Division	Central school	Health centre	Sub PO with Tel.	Communication centre
Udadumbara	1	10	1	2
Minipe	3	5	8	16
Medadumbara	3	14	16	30
Pathahewaheta	3	21	19	10
Gangaihala Korale	1	6	7	3

Source: RIS Database, 1997, 2002

Case studies on the Village Development Component

Case study 1: Value addition to obtain a higher profit

Of the sample interviewed, only one beneficiary had gone into value-addition by setting up a yoghurt and curd production small business. Interestingly, unlike the other beneficiaries, Kumara (not his real name) had worked in Colombo for some time after receiving vocational training in engineering. He did not consider the Rs15/litre sufficient of an incentive to continue with dairy farming and opted to manufacture yoghurt, for which he received support from the project.

Although, Kumara had to temporarily suspend the business due to health related problems, he pointed out that at the height of his business he was selling around 250 pots of curd at Rs.50/pot and around 750 cups of yoghurt at Rs.6 each. In comparison with the sale of unprocessed milk for Rs.15 per litre, Kumara calculates that he can sell Rs.30 worth of yoghurt from the same litre of milk making it a much more profitable venture. At the peak of his business Kumara had 8 cows, employed 1 labourer and produced both yoghurt and curd. Presently, he owns 2 cows and earns his income from a grocery shop, which he runs in his village. However, he is using the fridge, which he received from the project, to produce flavoured milk packets, which he sells to schoolchildren at Rs.1 per packet. He plans to shortly revive his yoghurt manufacturing business after obtaining a loan to buy more cows.

Kumara says of his involvement with RRDP, *"it changed my life"*, although he has reservations about the prospect of private sector organizations giving farmers a good deal. He felt that the private sector considers farmers to be uneducated and naïve and prevents farmers from obtaining the necessary information for informed choices. While commending the RRDP for giving him the opportunity to make a start, he pointed out that the project had spent a lot of resources on 'publicity related activities', a criticism that was also echoed by other interviewees. With regard to the dairy society formed by the RRDP, Kumara says that he found being a member of a group too restrictive for those entrepreneurs such as him who *"move at a faster pace"*.

Case study 2: Road to Pitigoda

Pitigoda is a remote village, 12km off the main Kandy-Mahiyangana road from the Hunnasgiriya junction. The distance from the main road to the village of Bambaradde is 8km and another 4km later comes the hamlet of Pitigoda, the site of RRDP intervention in the mid 90s. Previous to 1975 the approach to Pitigoda was via a footpath that in the mid 1970s was cut into a gravel road. However, due to constant rain and the very steep slope the road was not motorable. In 1995, the RRDP responded to the numerous requests of the residents of Pitigoda to improve the road, which led to the tarring of the road bends and re-gravelling at the cost of Rs1.7m (of which Rs.1.4m was RRDP contribution).

The impacts were significant. Since then approximately 50 households from Bambarabedda farm in lands around Pitigoda, the time taken to attend to their lands was reduced from a 1 ½ hour walk to a 30 minute tractor / motorcycle ride. It was an even greater relief to the villages of Pitigoda who travel daily to Bambarabedde to take the bus to the main road, or see the doctor, purchase food and other household items. While previously Pitigoda was accessible

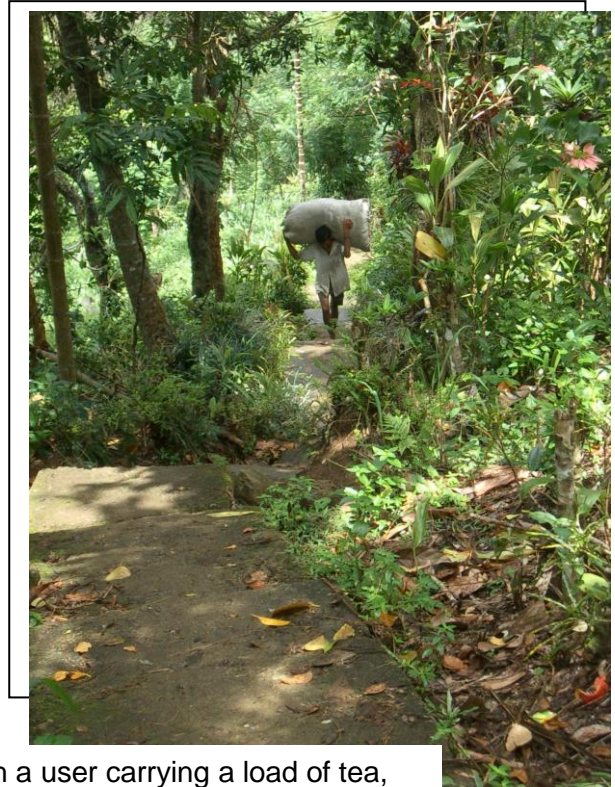
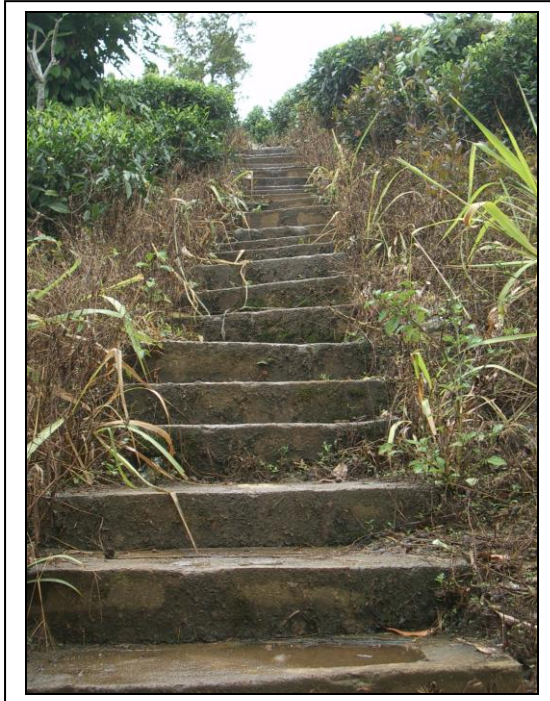
primarily by animal caravans (thawalama) and infrequently by tractor, following the improvements, it is accessible by motorbikes, vans and trucks... Since the road improvement benefits all villagers of Pitigoda the impact has been more widespread and also creates less conflicts, which could arise when only some benefit over others. It was encouraging that eight years on the tarred sections done with RRDP support are still in good condition and require little maintenance.

Case study 3: Short cut to Patithalawa

Patithalawa is a village in the division of Ganga Ihala. From Patithalawa the road to the closest town, Kurunduwatte, is 18km via the village of Dolosbage. Residents of Pathithalawa need to constantly go to Kurunduwatte for their trading, health, schooling purposes. Since Patithalawa is situated in the tea growing area of Gangalhala access to sales points in Kurunduwatte and especially Gampola was vital. School children had to walk for 1½ hours in the darkness of the early morning to take a bus to Dolosbage from where they could go to Kurunduwatte. However, there was another potential short-cut that could shave off 7km off the existing route. From Patithalawa there was a short stretch of about 500m of an old disused road that connected to a footpath leading to the village of Uduwella from where buses ply to Kurunduwatte, 8km away. The Patithalawa-Uduwella stretch is 3 km. The villagers of Patithalawa had for years been calling for a road to be cut along the 3km stretch to Uduwella which would considerably ease their situation. However, the presence of a huge boulder on the path discouraged the authorities to invest in it. In 1995 the RRDP came to the assistance of the villagers by undertaking to construct the first kilometre of the path, which contained the boulder. This enabled the villagers to mobilise further assistance to complete the road.

The road is now motorable to 3 wheelers, motorcycles and vans and has reduced the distance to Kurunduwatte by 6 Km. It has also meant increased connectivity of the village with surrounding villages and towns. Although the road is not in the best of shape and contains quite a few potholes, the villagers point out *“it is the main road for our village. Even if it is a bad road, it is still a road”*

Photo Documentation



Footpath rehabilitated by the RRDP, with a user carrying a load of tea, Bossward Colony, Ganga Ihala Korale



Still in good condition! New road constructed by the project in Pitigoda, Ganga Ihala Korale

Anicut Rehabilitated by the project in a state of disrepair, Ganga Ihala Korale



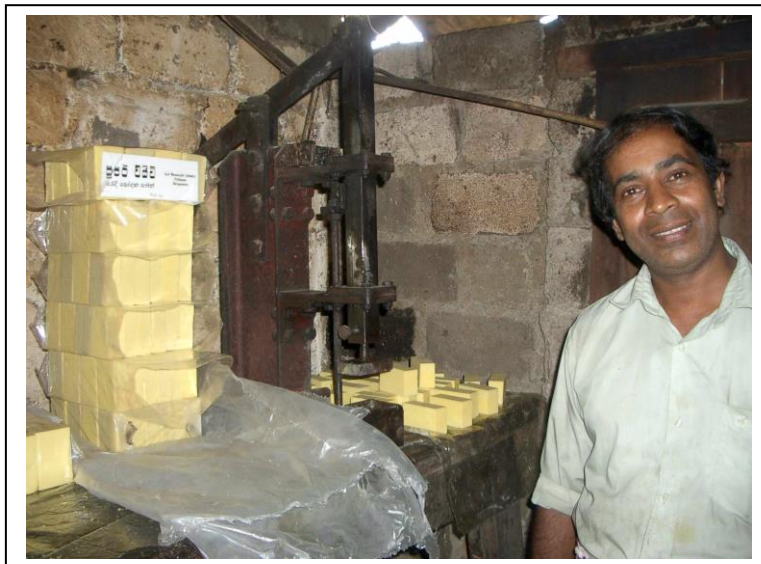
Road rehabilitated by the project in need of maintenance



Still in business!



Yoghurt manufacturer supported by the RRDP



Soap manufacturer supported by the RRDP