

## ABOUT THE AUTHORS

**LE DUY BINH**

Advisor to the GTZ SME Development Program in Vietnam since 2001, with a focus on investment climate, business environment, and SME policy. Previously, he worked in credit and finance at the State Bank of Vietnam, as a trainer and researcher at the National Economic University, and as a senior consultant on private sector and SME research for the Japan Bank for International Cooperation.

**THOMAS FINKEL**

Chief Technical Advisor in charge of GTZ's SME Development Program in Vietnam since December 2005. Previously, he worked in SME development projects and for GTZ's new Public Private Partnership office in Germany before moving to Hanoi as senior technical advisor in an SME development project of GTZ in Vietnam. He continues as project manager for GTZ's PPP program in the region.

# IFC SmartLessons

*real experiences, real development*

## Shifting the Focus to “Quality At Exit”—An Effective Approach to Improving the Business Environment at the Subnational Level

*Impact monitoring and quality assurance have always presented an uphill task for donors, implementing agencies, and recipient agencies. In the last few decades, we have witnessed the evolution of impact monitoring, with lots of new methodologies and concepts, resulting in thick documents that are sometimes difficult to digest. This paper does not aim to describe this evolution. Rather, it focuses on how the GTZ SME Development Program in Vietnam adopted a new approach to impact monitoring—and the challenges that we are facing. It also describes first results and achievements, as well as key lessons drawn from the process.*

### The GTZ' SME Development Program In Vietnam

Vietnam is a rising economy with discernible economic achievements in the last few years. Since 2000, the private sector in Vietnam has grown remarkably and is becoming increasingly important for the national economy. However, constraints facing the private sector are numerous, at both national and subnational levels.

The GTZ SME Development Program aims to improve the competitiveness of private small and medium enterprises (SMEs) in Vietnam by contributing to a favorable private sector policy framework. It also supports creating an enabling business and investment environment at the provincial level and fostering local economic development. Additionally, it helps enterprises integrate into domestic and international value chains, and supports the upgrading of business services.

The program started in 2005, replacing a four-phase SME Promotion Project implemented by GTZ since 1994. The program has a budget of E8.3 million for a four-year phase.



The private sector in Vietnam has grown remarkably and is becoming increasingly important for the national economy.

<sup>1</sup> Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation).

## Analysis of Key Issues or Problems

For a long time, advisory services projects oriented quality assurance heavily toward the quality of the inputs provided—in other words, on “the quality at entry.” Many GTZ projects and interventions in Vietnam, particularly during the 1990s, were designed, implemented, and monitored with this focus being the bedrock. The success of the projects was measured mostly via the number of consultant days contributed, training courses organized, participants in workshops, or other types of inputs (with much emphasis on the quantitative aspects). This approach failed to bring about the most desirable results and, in many cases, sent the wrong messages to project managers as well as partners. As a result, the effectiveness and impact of the projects were limited.

Right at the formulation of the SME Development Program, this challenge became apparent, and a timely, decisive shift occurred toward results-based management and measuring impact. However, this kind of shift is always easier said than done. Despite the many guidelines, examples, and case studies that were available, the learning curve has been steep.

## Description of Outcome

Besides interventions at the national level, the SME Development Program also provides support to four provinces: An Giang, Dak Lak, Hung Yen, and Quang Nam. Despite discernible economic success, these four provinces continue to struggle in the areas of economic governance and competitiveness, and their business and investment climates lag far behind the country's most progressive provinces.

In consideration of the actual context and needs for assistance in each province, the program developed separate action plans and intervention strategies. However, all of the provincial action plans are founded on the following three pillars:

- *Improving the provincial regulatory framework through enhanced governance capability, strengthening the capacity for implementing business laws and regulations;*
- *Assisting local stakeholders in selected provinces to implement essential promotional policies and initiatives, for example in investment promotion, public-private dialogue, promotion of business start-up; and*
- *Strengthening business and cooperative relationships between the stakeholders (production, processing, trade, and services) of selected value chains.*

The three pillars cover a wide range of activities, but they are strongly interrelated, thus making the coordinated implementation and monitoring of impacts manageable. Often, it is easier to measure impacts of subnational-level interventions than of national-level ones, because the average population of a province is approximately 1 million people, with an average of 2,000 formally registered enterprises and 10,000 household businesses. So it is easier

to measure the impact of the intervention and track the impact as far down as the enterprise level. Compared with the national level, it is also easier to implement baseline studies and to maintain a database for impact measurement at the province level.

## Key Lessons Learned

- *A change in the mindset of GTZ staff and partner organizations is a precondition for success;*
- *The shift must be reflected in all binding documents under the program, ranging from the framework cooperation agreement to a simple terms-of-reference document for a consultant;*
- *Internal monitoring is redesigned on the basis of the shift of focus, with clear and logical impact chains developed;*
- *Impact monitoring must be every staff member's task;*
- *Don't be obsessed with the "attribution gap; and*
- *Set up a well-structured database to support the illustration of the achievement of impacts.*

This situation represents both opportunities and challenges for the GTZ SME Program, particularly in the context of its increasing focus on the “quality at exit.” On the one hand, the program can document and demonstrate its impact and outputs in a plausible manner. On the other hand, it still remains a challenge for the program management and its partners to identify the right mix of interventions that will produce really tangible and measurable impact, despite the fact that the attribution gap at the subnational level is apparently narrower. However, the fact that an impact (or no impact) of a given intervention by the program can be traced more easily helps set the intervention strategy better if the impact-monitoring system is used and managed as a knowledge-management instrument, where learning of project staff and partners is the key aspect. This focus on **learning from successes and failures of interventions and trying to continually improve intervention strategies** is what our impact monitoring system and the “quality at exit” approach is all about.

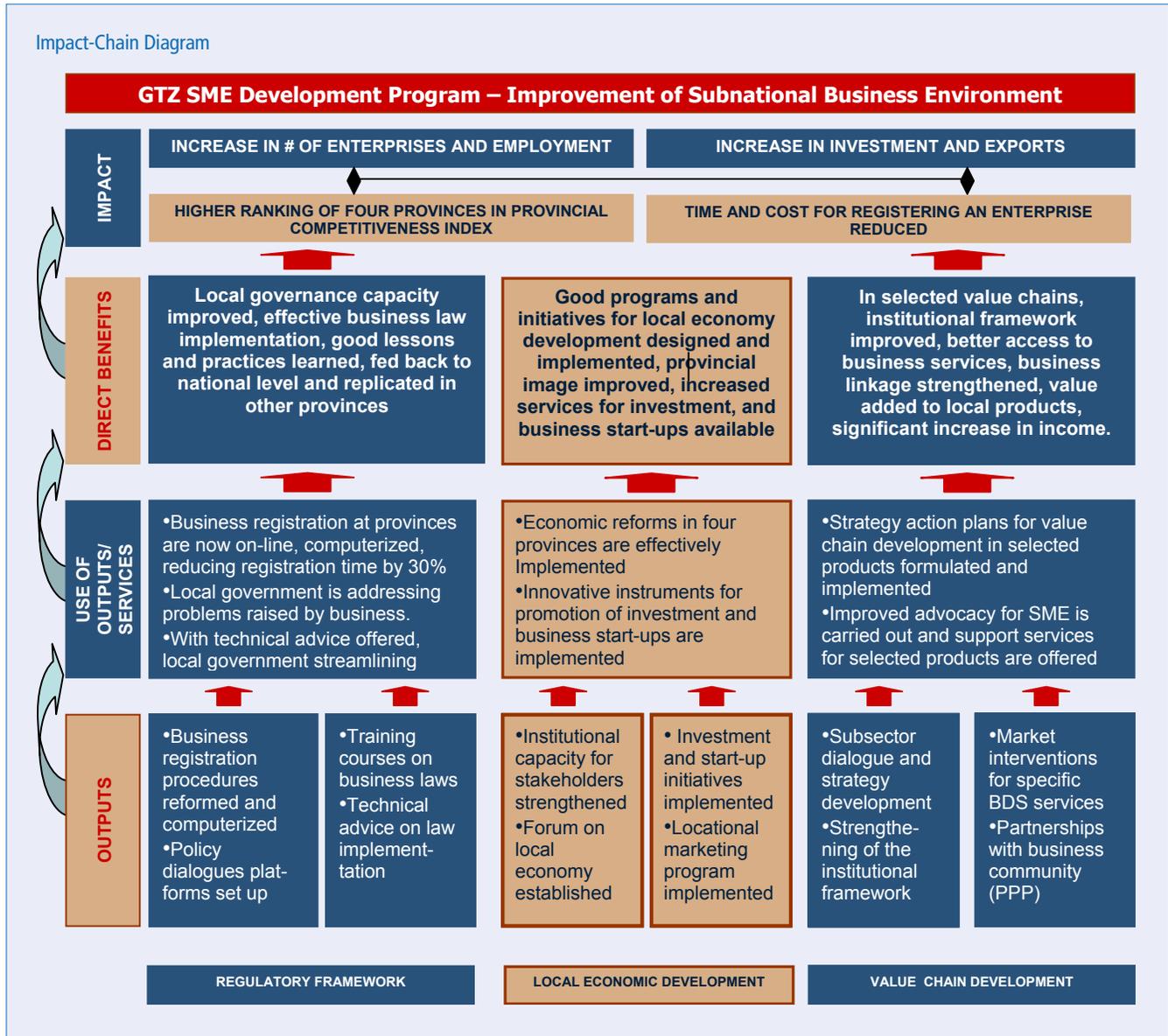
An important lesson came from trying to help all program members understand the importance, the need, and the beauty of the new approach. We achieved this objective through training, a short-term assignment with an international consultant, and learning by doing on the job—a simple and understandable means of clarifying the whole approach and its concepts.

The knowledge was then transferred to partners at both the national and subnational levels—those who will design and implement the program's activities later on<sup>2</sup>. The shift in the approach is also reflected in all binding documents between the program and the partners, as well as in terms of reference for consultant missions or other activities.

<sup>2</sup> The ownership of Vietnamese partners in implementing the program's activities is quite high.

To better steer this shift in thinking and acting, the program, local governments, and other stakeholders worked out different impact chains, using them as the navigator for designing, implementing, and monitoring of every single activity in the program. The diagram below presents a consolidated and abbreviated description of the impact chains for the subnational interventions. It does not provide a full account of the output and the use of the output the

the output to be produced? 2) How will it be used? 3) How will it contribute to the indirect benefit and the objective of the program? The same questions are also asked when the program staff reviews or discusses any proposed activity with the partner and with the managers. Although having a full-time impact-monitoring staff would allow program members to devote more time to crucial data collection, the disadvantage of no longer having the direct obligation to



program creates. Examples in the diagram are for illustrative purposes only.

As mentioned, the impact-chain diagram is used to guide the design and implementation of every single activity. In addition, **impact monitoring has become the task of every program member**—avoiding the need for a full-time impact-monitoring staff. The advantage of this approach is that it requires an impact-oriented mentality that will guide and govern everybody's behavior and performance. Each time an activity is discussed or proposed, every partner agency will naturally ask the following questions: 1) What is

do impact monitoring would be that program members would become less obliged to integrate the concept into their daily work.

The absence of a full-time impact-monitoring staff has not affected the integrity of the measurement and evaluation (M&E) process or of the data collected. The program's internal monitoring system will be cross-checked and supported by independent evaluators and consultants. In addition, though not full-time, one technical advisor in the program is responsible for monitoring the whole M&E process. As a quality controller, she reviews all reports and

data and makes sure every staff member follows the M&E rule—by meeting with every staff member for at least two hours every two months and by facilitating and documenting the knowledge-management meetings held once a year.

**The program’s internal monitoring system has been re-engineered to reflect the shift to “quality at exit.”** Regular knowledge-management meetings review the achievement of milestones and indicators of impacts, and determine whether the logic of the impact chains is still correct. Reports by GTZ and partners are prepared with an increased focus on this logical chain of “output → use of output → indirect benefit and final impact.”

There is a strong argument that the indirect benefit or impact (for example, contribution to the competitiveness of private SMEs in Vietnam) cannot easily be attributed to the program’s interventions. However, we believe that if one or a series of activities or interventions is implemented—producing a good product that is used by the national partners, and yielding tangible and measurable indirect benefits (such as a reduction in business registration time, an increase in the turnover of a selected value chain, and so on)—this will result in the desired impacts. In reality, impacts are quite difficult to measure, but we can observe them at the provincial or subnational level, so long as we incorporate them into our thinking right at the outset. So, we learned: **Don’t be obsessed with the attribution gap!** Don’t let the attribution gap let you down! Work out a plausible system of impact chains, and then implement activities persistently along this line to produce desirable outputs and direct benefits. Then you are contributing significantly to generating impacts.

**What has not worked very well** is the setting up of a systemic and well-structured database to support the illustration of the achievements in indirect benefits and impact. At the outset, the database was structured according to the impact chains and the indicators system developed with advice from an international consultant. However, the limited availability of data statistics in Vietnam and the already heavy workload of the program’s staff members have hindered the completion of the database. To address this issue, all program members are charged with updating the database with data and information most relevant to their own areas of work.

Also, the selection of indicators to reflect the achievement with regard to output, use of output, or benefits has not been very

satisfactory. Some of the indicators turned out to be irrelevant or impossible to measure. Some of the indicators are very vulnerable to the *attribution gap trap* or too abstract to be measured, thus making it difficult to measure the impact of the program’s intervention. For instance, *selected subindexes of the Vietnam’s Competitiveness Index are improved by the end of the program* is far less relevant, useful, and measurable than *the time and cost spent by local authorities and business in the four selected provinces on business registration being reduced by 30 percent by the end of the program*. Therefore, adjustments to the indicator system needed to be made, which required negotiation with the client, the German Ministry for Economic Development and Cooperation (BMZ).

In summary, though the program is still in the learning phase, we are not hesitant to state that our shift to “quality at exit” has been a good choice. The implementation process has had more success than failure. Lessons have been drawn from what worked and from what did not work—and definitely will be the basis for strengthening and improving our impact-measurement approach in the years to come.

## REFERENCES

1. <http://www.sme-gtz.org.vn>
2. <http://www.businessenvironment.org>
3. <http://www.publicprivatedialogue.org>



## DISCLAIMER

IFC SmartLessons is an awards program to share lessons learned in development-oriented advisory services and investment operations. The findings, interpretations, and conclusions expressed in this paper are those of the author(s) and do not necessarily reflect the views of IFC or its partner organizations, the Executive Directors of The World Bank or the governments they represent. IFC does not assume any responsibility for the completeness or accuracy of the information contained in this document. Please see the terms and conditions at [www.ifc.org/smartlessons](http://www.ifc.org/smartlessons) or contact the program at [smartlessons@ifc.org](mailto:smartlessons@ifc.org).