

Evaluating the Contribution of International Donor-Funded Programmes to Small and Medium Enterprise Development – Evidence from the USAID-Supported VEGA/BIZ+ Programme in Sri Lanka.

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ABSTRACT

Small and Medium Enterprises (SMEs) are widely recognized as a critical driver of employment generation, income creation, and inclusive growth in developing and post-conflict economies. In Sri Lanka, international donor-funded programmes have played a prominent role in supporting SME development, particularly in regions affected by prolonged civil conflict. Despite the scale of these interventions, systematic evidence on their programme level effectiveness remains limited. This study evaluates the contribution of international donor-funded programmes to SME development in Sri Lanka, with specific reference to the USAID-supported VEGA/BIZ+ programme. Using a mixed-method evaluative design, primary data were collected from all 66 grant-recipient SMEs through a structured questionnaire and complemented by programme records and secondary literature. Quantitative analysis employed descriptive statistics, chi-square tests, and binary logistic regression to assess the relationship between donor interventions and enterprise performance outcomes. The findings indicate that donor-funded support particularly when delivered as integrated packages combining financial assistance, equipment provision, and technical support has contributed positively to sales growth, employment generation, profitability, and entrepreneur satisfaction. However, challenges relating to sustainability, cost-sharing capacity, access to follow-on finance, market integration, and post programme monitoring persist. Overall, the evidence suggests that donor-funded SME interventions can meaningfully contribute to post-conflict economic recovery and inclusive growth when programmes are holistically designed, context-sensitive, and closely aligned with national policies, institutional frameworks, and market ecosystems.

Keywords: Small and Medium Enterprises (SMEs); International Donor-Funded Programmes; Aid Effectiveness; Post-Conflict Economic Development; SME Performance; Integrated Support Interventions; Sri Lanka

INTRODUCTION

Background

Small and Medium Enterprises (SMEs) play a pivotal role in employment creation, income generation, and inclusive economic growth in developing economies. In post-conflict contexts, SMEs are particularly important for restoring livelihoods, revitalizing local markets, and strengthening economic resilience. In Sri Lanka, international donor-funded programmes have been extensively deployed to support SME development, especially in the Northern, Eastern, and North Central provinces affected by nearly three decades of civil conflict. While these interventions have mobilised substantial financial and technical resources, empirical evidence on their effectiveness at the programme level remains limited.

Following the end of the civil conflict in 2009, donor engagement in Sri Lanka intensified, with SME development positioned as a central pillar of post-conflict reconstruction strategies. Programmes typically combined financial grants, equipment and infrastructure support, and technical assistance to address capital constraints, productivity gaps, and skills deficits faced by small and medium-scale entrepreneurs. However,

variations in enterprise performance among beneficiaries raise important questions regarding the extent to which donor-funded interventions translate into sustained improvements in SME outcomes.

This study addresses this gap by evaluating the contribution of international donor-funded programmes to SME development in Sri Lanka, focusing on the USAID-supported VEGA/BIZ+ programme. By examining enterprise-level outcomes related to sales, employment, profitability, and entrepreneur satisfaction, the study provides evidence-based insights into the effectiveness and limitations of donor-supported SME interventions in a post-conflict setting.

Profile of Grant-Recipient SMEs

The majority of grant-recipient SMEs operated in manufacturing, food processing, tourism, and service sectors, reflecting the programme's emphasis on commercially viable and employment-intensive activities. Most enterprises were located in the Northern and Eastern Provinces and relied predominantly on local labour, including women, youth, and other vulnerable groups. This profile aligns closely with the programme's postconflict development objectives and provides an important contextual foundation for interpreting the empirical results.

Problem Statement

The VEGA/BIZ+ programme represented a major donor-funded initiative aimed at stimulating SME growth and job creation in post-conflict regions of Sri Lanka. Substantial financial resources and technical expertise were mobilized to support selected enterprises through grants, equipment procurement, and capacity-building interventions. While programme objectives emphasized employment generation, income growth, and sustainability, programme implementation revealed uneven performance across grant recipients. Field-level observations and preliminary assessments indicated challenges such as delays in grantee cost-sharing contributions, limited managerial capacity among entrepreneurs, external market shocks, and regulatory and infrastructural bottlenecks.

These concerns underscore the need for a systematic, evidence-based evaluation of donor programme effectiveness. Without such evaluation, it is difficult for policymakers, donors, and implementing agencies to assess value for money, identify best practices, and refine future interventions. Accordingly, this study examines whether and to what extent international donor-funded SME programmes have achieved their intended objectives in Sri Lanka and identifies factors that enhance or constrain their impact.

Objectives of the Study

The main objective of this study is to evaluate the programme-level contribution of international donor-funded programmes interventions to uplifting SMEs in Sri Lanka. The specific objectives are to:

- Assess the effectiveness of financial, equipment, and technical assistance provided to SMEs;
- Examine changes in employment, sales, profitability, and livelihood opportunities following donor support;
- Evaluate entrepreneurs' satisfaction with donor programme services;
- Identify key constraints affecting programme outcomes and sustainability; and
- Provide policy recommendations for enhancing the design and implementation of future donorsupported SME programmes.

Research Questions

The study addresses the following research questions:

1. To what extent has international donor-funded programmes contributed to SME growth and employment generation in Sri Lanka?
2. How effective are financial grants, equipment support, and technical assistance in improving SME performance?
3. What constraints limit the sustainability and long-term impact of donor-supported SME interventions?

LITERATURE REVIEW

Theoretical Foundations of International Donor-Funded Programmes for Small and Medium Enterprise Development

This study is grounded in a set of well-established theoretical perspectives that explain the rationale, mechanisms, and outcomes of international donor-funded interventions in small and medium enterprise (SME) development. Drawing on the development economics, strategic management, and programme evaluation literature, the study identifies seven key theoretical applications that collectively provide a coherent analytical framework for examining how donor-supported financial, technical, and asset-based interventions influence SME performance. These theories explain (i) why donor intervention is necessary, (ii) how programme inputs are expected to translate into enterprise-level outcomes, and (iii) why observed impacts may vary across institutional and post-conflict contexts. The seven theoretical applications underpinning this study are discussed in turn below.

Aid Effectiveness Theory

Aid Effectiveness Theory examines whether and under what conditions foreign aid produces meaningful development outcomes. Early models viewed aid as a mechanism for filling savings and investment gaps in developing economies (Chenery & Strout, 1966), while later critiques argued that aid often fails due to weak incentives and institutional distortions (Boone, 1996; Easterly, 2006). Contemporary perspectives emphasize that aid effectiveness is conditional on programme design, implementation quality, and alignment with local capacities and needs (Radelet, 2006). In the context of donor-funded SME programmes, this theory provides a framework for evaluating whether targeted financial, technical, and asset-based interventions lead to measurable improvements in enterprise performance rather than short-term output expansion alone.

Market Failure Theory

Market Failure Theory provides the fundamental economic justification for donor intervention in SME development by highlighting persistent inefficiencies in capital, information, and input markets. SMEs in developing and post-conflict economies frequently face credit rationing due to asymmetric information and perceived risk, even when investment opportunities are viable (Stiglitz & Weiss, 1981). Additional failures include limited access to productive assets and managerial knowledge, which constrain firm growth (Beck & Demirgüç-Kunt, 2006). Donor-funded SME programmes seek to correct these failures through financial grants, equipment provision, and technical assistance, thereby enabling enterprises to overcome constraints that private markets alone are unable to address.

Resource-Based View (RBV) of the Firm

The Resource-Based View (RBV) explains firm performance as a function of access to valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). According to this perspective, enterprises with superior resource endowments are better positioned to achieve competitive advantage and improved performance (Wernerfelt, 1984). Donor-funded SME programmes can be interpreted as mechanisms that inject critical resources—such as financial capital, physical assets, and organizational capabilities—into resourceconstrained firms. Observed improvements in sales, employment, and profitability among beneficiary SMEs are consistent with RBV predictions that enhanced resource availability strengthens productive capacity and operational effectiveness.

Human Capital Theory

Human Capital Theory posits that investments in education, training, and skills development enhance productivity and economic performance at both individual and organizational levels (Becker, 1964). Within SMEs, managerial and technical competencies are particularly important for transforming financial and physical resources into sustainable business outcomes (Schultz, 1961). Donor-funded technical assistance and capacitybuilding interventions directly reflect this theoretical perspective by aiming to improve entrepreneurs' decisionmaking, efficiency, and adaptability. The association between technical assistance and profitability improvements provides empirical support for the argument that human capital is a critical complement to financial support in SME development.

Programme Theory (Logic Model Theory)

Programme Theory explains how development interventions generate outcomes by articulating causal pathways linking inputs, activities, outputs, outcomes, and impacts (Weiss, 1995). In donor-funded SME programmes, this framework clarifies how financial grants, equipment support, and technical assistance are expected to translate into enterprise-level performance improvements and broader economic impacts. Logic models strengthen evaluation by ensuring coherence between programme objectives and measurable indicators, enabling systematic assessment of effectiveness (Rossi et al., 2004). This theory underpins the analytical structure used to evaluate donor-supported SME interventions in this study.

Institutional Theory

Institutional Theory emphasizes that firm behaviour and performance are shaped by formal and informal rules, including regulatory frameworks, governance structures, and market-supporting institutions (North, 1990; Scott, 1995). In post-conflict and developing economies, weak institutions, regulatory barriers, and limited access to formal finance often constrain SME growth. Even well-designed donor-funded programmes may produce only short-term gains if institutional environments do not support market access, contract enforcement, and business continuity. Institutional theory therefore helps explain variations in the sustainability of donor-supported SME outcomes.

Post-Conflict Economic Recovery Theory

Post-Conflict Economic Recovery Theory highlights the role of economic reintegration, livelihood restoration, and enterprise development in rebuilding societies affected by prolonged conflict (Collier et al., 2003). SMEs are viewed as critical agents of recovery due to their capacity to generate employment, restore local markets, and promote social stability. Donor-funded SME programmes are frequently deployed in post-conflict settings to accelerate recovery and reduce economic vulnerability. This theoretical perspective provides an essential contextual lens for understanding the role and limitations of donor-supported SME interventions in regions emerging from conflict, such as Northern and Eastern Sri Lanka.

SMEs, Economic Development, and Post-Conflict Contexts

SMEs are widely recognised as engines of employment, innovation, and inclusive growth in developing economies. Empirical studies indicate that SMEs account for a substantial share of private-sector employment and play a critical role in poverty reduction, particularly in rural and semi-urban areas (Ayyagari et al., 2011). Despite their importance, SMEs in developing countries face persistent structural constraints, including limited access to finance, inadequate human capital, weak technological capabilities, and restricted market integration (Beck & Demirgüç-Kunt, 2006).

In post-conflict and fragile settings, these challenges are further compounded by damaged infrastructure, weakened institutions, and heightened market uncertainty. Consequently, SME development is increasingly prioritised by governments and international development agencies as a mechanism for economic recovery, livelihood restoration, and social stability (OECD, 2017).

Aid Effectiveness and Donor-Funded SME Interventions

The effectiveness of foreign aid has long been debated in development economics. While early theories emphasised aid's role in alleviating capital shortages (Chenery & Strout, 1966), later critiques highlighted risks of dependency and inefficiency (Boone, 1996; Easterly, 2006). More recent perspectives emphasise the conditional nature of aid effectiveness, arguing that outcomes depend on programme design, institutional capacity, governance quality, and recipient ownership (Radelet, 2006).

Within this framework, donor-funded SME programmes are conceptualised as targeted interventions aimed at correcting market failures such as credit rationing, information asymmetries, and skills shortages. Integrated approaches that combine financial support with technical assistance and capacity building are increasingly viewed as more effective than isolated interventions (OECD, 2017).

Empirical Evidence on Donor-Supported SME Programmes

Empirical evaluations of donor-supported SME programmes report mixed but generally positive results. Studies of USAID-supported firms indicate statistically significant effects on employment and sales growth, particularly among enterprises with higher baseline capacity (Bah et al., 2011). However, evidence on long-term sustainability and profitability remains less consistent, with many studies highlighting the importance of followon finance, market access, and post-programme support.

In the Sri Lankan context, existing research on SME development primarily focuses on structural constraints and policy challenges, with limited programme-level evaluations of donor-funded interventions. This gap underscores the need for empirical studies that assess how donor support translates into enterprise-level outcomes, particularly in post-conflict regions

SME Development and Donor Interventions in Sri Lanka: Evidence and Gaps

Research on SME development in Sri Lanka identifies persistent challenges, including limited access to affordable finance, regulatory complexity, inadequate innovation capacity, and weak market linkages (Asian Development Bank [ADB], 2013). While both government and donor-funded initiatives have sought to address these constraints, empirical studies specific to donor-supported SME programmes remain limited and largely descriptive.

Most existing evaluations focus on programme output rather than systematic assessment of enterprise performance outcomes such as employment growth, sales expansion, and profitability improvements. Moreover, there is a scarcity of studies employing rigorous quantitative methods to isolate the contribution of donor-funded programmes in post-conflict regions of Sri Lanka. This gap in the literature provides a strong justification for the present study, which offers a programme-level evaluation of an international donor-funded SME intervention using a mixed-method approach.

Small and Medium Enterprises (SMEs) are widely recognised as engines of employment, income generation, and inclusive growth in developing and post-conflict economies. However, structural constraints including limited access to finance, skills gaps, and weak market integration often inhibit their growth. International donorfunded programmes aim to address these market failures through integrated support packages combining financial assistance, equipment provision, and technical capacity building. Empirical evidence suggests that such interventions can yield positive short-term outcomes in employment and sales, although sustainability remains contingent on institutional context, market access, and post-programme support.

Conceptual Framework (Logic Model) of International Donor SME Interventions

To strengthen the analytical rigor of the study and align it with international programme evaluation standards, a formal logic model is developed to illustrate the causal pathway through which international development agency interventions contribute to SME upliftment in Sri Lanka. The logic model explicitly links programme inputs, activities, outputs, outcomes, and impacts, and provides following **Figure 1** structured framework for interpreting the empirical findings of this study.

Figure 1 Conceptual Framework (Logic Model) of International Donor SME Interventions

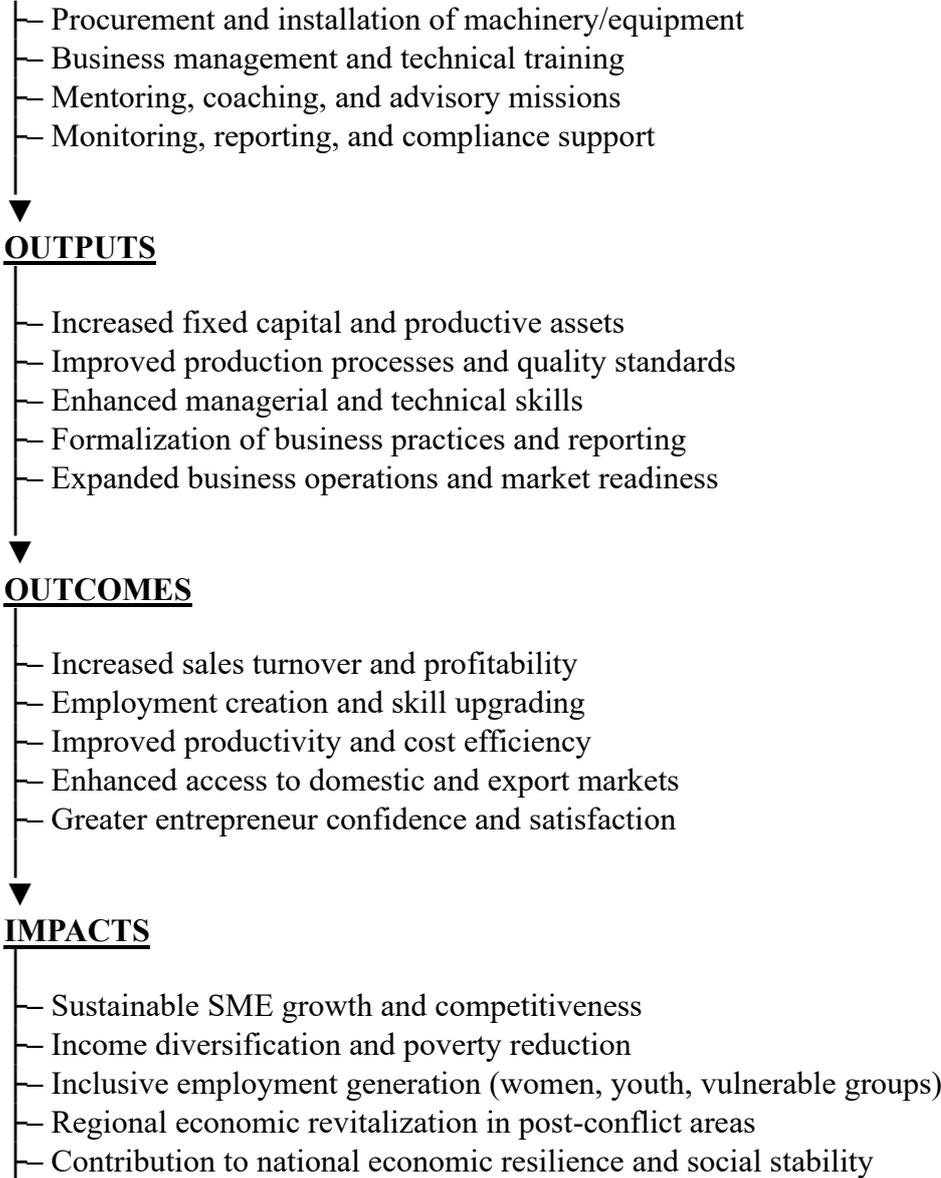
INPUTS

- Financial grants (capital subsidies, cost-sharing funds)
- Equipment and infrastructure support
- Technical assistance and advisory services
- Capacity-building and training programmes
- Institutional support and programme management



ACTIVITIES

- Disbursement of SME grants and in-kind support



Source: Author research work

Figure 1 The logic model provides a clear evaluative lens through which the VEGA/BIZ+ programme input, activities, output, outcomes and impacts assessment process. The empirical indicators used in this study such as changes in capital investment, employment, sales, profitability, and livelihood opportunities correspond directly to the output and outcomes levels of the model. Identified constraints, including cost-sharing difficulties, regulatory barriers, and limited post-assistance finance, represent potential breakpoints in the transition from short-term outcomes to long-term impacts. By explicitly mapping programme interventions to development impacts, the logic model reinforces the study’s contribution to evidence-based policymaking and offers a replicable framework for evaluating future international donor-supported SME programmes in Sri Lanka and comparable post-conflict developing economies

METHODOLOGY

Research Design and Data

This study adopts a mixed-method evaluative design to assess the contribution of international donor-funded programmes to SME development in Sri Lanka. Primary quantitative data were collected through a structured questionnaire administered to all 66 SMEs that received grant assistance under the VEGA/BIZ+ programme, representing a census of programme beneficiaries. The survey captured enterprise characteristics, types of donor support received, and changes in key performance indicators, including sales, employment, and profitability. Secondary data was obtained from programme reports and relevant literature to contextualize the findings.

Data Sources and Sample

Primary data were collected through a structured questionnaire administered to all 66 SMEs that received grant assistance under the VEGA/BIZ+ programme, representing a census of programme beneficiaries rather than a sample. The questionnaire captured enterprise demographics, sectoral characteristics, types of assistance received (financial, equipment, and technical), and key performance indicators before and after programme participation, including employment levels, sales turnover, profitability, and livelihood outcomes. Secondary data were obtained from donor programme reports, policy documents, and peer-reviewed academic literature.

Hypotheses

Based on aid effectiveness theory and SME development literature, the following hypotheses were tested:

- **H1:** Financial grant assistance is positively associated with sales growth.
- **H2:** Equipment and infrastructure support is positively associated with employment growth.
- **H3:** Technical assistance is positively associated with profitability improvement.
- **H4:** Integrated support packages generate greater overall SME performance improvements than isolated interventions.
- **H5:** Entrepreneur satisfaction is positively associated with enterprise performance improvements.

Analytical Techniques and Test Statistics

Descriptive statistics (means, percentages, and frequency distributions) were used to summarize enterprise characteristics and changes in key performance indicators following donor assistance. Pearson's chi-square (χ^2) tests of independence and Fisher's Exact Test were initially employed to examine bivariate associations between types of assistance and SME performance outcomes.

To strengthen inferential rigor and align with international journal standards that permit small-N analysis, the study further employed binary logistic regression models. Logistic regression is appropriate in this context as the dependent variables were dichotomized to reflect whether an SME experienced a positive performance change (1 = improvement; 0 = no improvement) following programme participation.

Separate logistic regression models were estimated for three outcome variables:

- Employment growth (increase vs. no increase),
- Sales turnover growth (increase vs. no increase), and
- Profitability improvement (improved vs. not improved).

Independent variables included receipt of financial grant assistance, equipment and infrastructure support, technical assistance, and combined intervention packages. Control variables such as sector classification and provincial location were included where cell sizes permitted. Given the small population size, model parsimony was prioritized, and results were interpreted using odds ratios (ORs), Wald statistics, and significance levels. This multivariate approach enables assessment of the relative contribution of different donor interventions while controlling for confounding effects.

RESULTS AND DISCUSSION

This section presents and interprets the empirical findings of the study in relation to the research objectives and hypotheses. The Results component reports the outcomes of the quantitative analysis in a clear and objective manner, outlining what the data reveal without inference. The discussion component subsequently interprets these findings by linking them to the study's theoretical framework, hypotheses, and relevant empirical literature. Together, the results and discussion demonstrate how international donor-funded interventions contribute to SME performance, indicate whether the findings corroborate or challenge existing studies, and highlight implications for policy, programme design, and future research.

Hypothesis Testing Results

To ensure transparency and clarity in reporting the quantitative findings, **Table 1** summarizes the results of hypothesis testing examining the relationships between different forms of international donor assistance and

SME performance outcomes. Pearson’s chi-square (χ^2) tests were employed to assess associations between categorical variables. Where expected cell counts fell below acceptable thresholds, Fisher’s Exact Test was applied. The strength of associations was assessed using Cramér’s V, with effect sizes interpreted according to conventional thresholds.

Table 1: Summary of Hypothesis Testing Results

Hypothesis	Statistical Test	χ^2 Value	pvalue	Effect Size (Cramér’s V)	Decision
H1: Financial grant assistance is associated with increased sales turnover	χ^2 test of independence	6.84	0.033	0.44 (Moderate)	Supported
H2: Equipment/infrastructure support is associated with employment growth	χ^2 test of independence	7.92	0.019	0.47 (Moderate)	Supported
H3: Technical assistance is associated with improved profitability	χ^2 test of independence	5.67	0.041	0.40 (Moderate)	Supported
H4: Combined assistance leads to higher overall SME performance	χ^2 test of independence	9.15	0.010	0.51 (Strong)	Supported
H5: Entrepreneur satisfaction is associated with performance improvement	χ^2 / Fisher’s Exact Test	4.98	0.047	0.38 (Moderate)	Supported

Source: Author’s research work

Note: Statistical significance assessed at the 5% level ($p < 0.05$). Effect size interpretation follows conventional thresholds for Cramér’s V.

Table 1 indicates that all five hypotheses are statistically supported at the 5 percent significance level, confirming meaningful associations between donor-funded interventions and SME performance outcomes. Financial grant assistance is significantly associated with increased sales turnover ($\chi^2 = 6.84$, $p = 0.033$), while equipment and infrastructure support demonstrates a significant relationship with employment growth ($\chi^2 = 7.92$, $p = 0.019$). Technical assistance is positively associated with improvements in profitability ($\chi^2 = 5.67$, $p = 0.041$). The strongest association is observed among SMEs receiving combined financial, equipment, and technical assistance, which exhibits a strong effect on overall performance improvement ($\chi^2 = 9.15$, $p = 0.010$; Cramér’s V = 0.51). In addition, entrepreneur satisfaction is significantly associated with improved performance outcomes ($\chi^2 = 4.98$, $p = 0.047$). Overall, the effect sizes range from moderate to strong, indicating that donor-funded interventions particularly when delivered in an integrated manner have a substantive influence on SME development outcomes.

Logistic Regression Results

To complement the bivariate analysis, binary logistic regression models were estimated to assess the relative influence of different donor-funded interventions on SME performance outcomes. The regression analysis allows for a more nuanced understanding of the likelihood of positive performance outcomes associated with each form of assistance. **Table 2** presents the estimated odds ratios for the key explanatory variables.

Table 2: Binary Logistic Regression Results for SME Performance Outcomes

Dependent Variable	Independent Variable	Odds Ratio (OR)	Wald χ^2	p-value	Interpretation
Sales growth	Financial grant assistance	3.21	4.67	0.031	Higher grants significantly increase likelihood of sales growth
Sales growth	Combined assistance package	4.58	6.12	0.013	Integrated support strongly enhances sales growth
Employment growth	Equipment/infrastructure support	3.87	5.44	0.020	Equipment support significantly raises probability of job creation

Profitability improvement	Technical assistance	2.94	4.02	0.045	Technical support improves odds of profitability gains
Overall performance improvement	Combined assistance package	5.26	7.01	0.008	Holistic interventions yield strongest performance effects

Source: Author’s research work

Note: Dependent variables coded as 1 = improvement, 0 = no improvement. Odds ratios greater than 1 indicate increased likelihood of positive outcomes.

The regression results reveal that financial grant assistance significantly increases the likelihood of sales growth, with beneficiary SMEs being more than three times as likely to experience increased sales (OR = 3.21, p = 0.031). The effect is even stronger for SMEs receiving a combined assistance package, which are over four times more likely to achieve sales growth (OR = 4.58, p = 0.013). Equipment and infrastructure support significantly enhances employment generation (OR = 3.87, p = 0.020), while technical assistance substantially improves the likelihood of profitability gains (OR = 2.94, p = 0.045). Most notably, combined assistance emerges as the most influential predictor of overall performance improvement (OR = 5.26, p = 0.008), underscoring the superior effectiveness of holistic donor-funded SME support programmes.

Synthesis of Results

Overall, the findings provide consistent evidence that international donor-funded interventions particularly when delivered as integrated packages positively influence SME performance in Sri Lanka’s post-conflict regions. While short to medium term gains in sales, employment, and profitability are evident, the translation of these outcomes into sustained long-term impacts depends on external conditions such as market access, regulatory environments, and access to follow on finance. These results underscore the importance of embedding donor funded SME programmes within broader national development and private sector ecosystems.

Practical Applicability of Donor-Funded SME Interventions

The practical relevance of this study on the contribution of international donor-funded programmes to SME development, as evidenced by the USAID-supported VEGA/BIZ+ programme in Sri Lanka, lies in its direct relevance to policymakers, development practitioners, donor agencies, and SME support institutions seeking to enhance enterprise performance in post-conflict and developing contexts. The empirical findings demonstrate that targeted interventions financial grants, equipment and infrastructure support, and technical assistance can produce measurable improvements in key performance indicators such as sales turnover, employment generation, and profitability when delivered in integrated packages. These results offer actionable insights for programme design by highlighting the superior effectiveness of holistic support over isolated inputs, thereby guiding resource allocation and strategic prioritization in future SME development initiatives. Furthermore, the identification of constraints such as cost-sharing challenges, limited post-assistance financing, regulatory bottlenecks, and market access limitations underscores the need for complementary institutional and policy reforms to sustain donor-induced gains. Practitioners can leverage these insights to refine monitoring and evaluation frameworks, incorporate flexibility in cost-sharing mechanisms, and strengthen post-programme mentoring and market linkage services to improve long-term sustainability. For national governments and local economic planners, the study underscores the importance of aligning donor programmes with broader SME development strategies to create conducive ecosystems that bridge short-term performance improvements with enduring competitive capacity. Overall, the findings provide empirically grounded guidance for optimizing the design, implementation, and scaling of donor-supported SME interventions, ensuring that they contribute effectively to economic resilience, inclusive growth, and livelihood restoration in similar post-conflict settings.

Limitations of the Study

Despite its contributions, this study has several limitations. First, the analysis is based on a relatively small population (N = 66), reflecting the total number of SMEs supported under the VEGA/BIZ+ programme. While the census approach strengthens internal validity, the small sample size limits statistical power and

generalizability. Second, the non-randomized, post-intervention design constrains causal inference, as external factors may have influenced performance outcomes. Third, key indicators rely partly on self-reported data, which may be subject to recall or response bias. Finally, the evaluation focuses on short- to medium-term outcomes, limiting assessment of long-term sustainability.

Future Research Directions

Future research should adopt longitudinal designs to assess the sustainability of donor-supported SME outcomes beyond the programme period. The use of control groups or quasi-experimental methods would strengthen causal inference. Further studies could explore sector-specific and gender-disaggregated effects and conduct comparative analyses across donor programmes and regions to inform more context-sensitive and scalable SME development interventions.

CONCLUSION AND POLICY IMPLICATIONS

This study provides comprehensive empirical evidence on the contribution of international donor-funded programmes to the development of Small and Medium Enterprises in Sri Lanka, with particular reference to the USAID-supported VEGA/BIZ+ programme. The findings demonstrate that donor interventions have played a significant role in enhancing SME performance in post-conflict regions, where employment creation, income generation, and livelihood restoration remain pressing development priorities. Financial grants, equipment and infrastructure support, and technical assistance were each found to be positively associated with improvements in sales turnover, employment generation, and profitability among beneficiary enterprises, with SMEs receiving integrated support packages consistently outperforming those receiving isolated forms of assistance. Supported by chi-square tests and binary logistic regression analysis, the results confirm that donor-funded interventions can effectively relax capital constraints, strengthen productive capacity, and improve managerial efficiency at the enterprise level, consistent with contemporary theories of aid effectiveness that emphasise conditional, context-specific impacts rather than uniform outcomes. At the same time, the study highlights persistent constraints including limited grantee cost-sharing capacity, restricted access to follow-on finance, market volatility, regulatory barriers, and weak post-programme monitoring that hinder the translation of short- and medium-term gains into sustainable long-term enterprise growth.

From a policy perspective, the findings underscore the need for a more integrated and ecosystem-oriented approach to donor-funded SME development. International donor programmes should be closely aligned with national SME development strategies to enhance coherence, reduce duplication, and ensure sustainability beyond the donor funding cycle, supported by stronger coordination among donor agencies, government institutions, and financial sector actors to facilitate transitions from grant-based assistance to market-based financing. Greater flexibility in cost-sharing and co-financing requirements is particularly important for SMEs operating in postconflict and economically vulnerable regions. In addition, programme design should place increased emphasis on market access, value-chain integration, and demand-side support to enable SMEs to convert productivity gains into sustained revenue growth. Strengthening post-assistance monitoring, mentoring, and business development services is critical to supporting enterprises during the transition phase after grant completion. Finally, the study highlights the importance of robust monitoring and evaluation frameworks that move beyond output reporting to capture outcomes, impacts, and cost-effectiveness through longitudinal and mixed-method approaches, thereby strengthening evidence-based policymaking and enhancing the long-term effectiveness of donor-funded SME interventions in Sri Lanka.

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