



**International
Labour
Organization**

**Improving the local business environment through dialogue;
a story from Sri Lanka**

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Enterprise for Pro-poor Growth project, ILO Sri Lanka**

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Executive summary

Enterprise for Pro-poor Growth in Sri Lanka, Enter-Growth for short, is a project of the ILO, Sida and the Ministry of Enterprise Development and Investment Promotion that started in June 2005. Its goal is micro and small enterprise growth for poverty reduction and decent work, and its main strategy is to improve the sub-national business environment, in North-West and North-Central province (four Districts). Its work falls under three major themes, which address key constraints on business development in these poor and largely rural provinces:

- Improving **service markets**, to enable enterprises to improve their productivity and quality, become more market-led, and increase access to larger markets.
- Improving the **policy and regulatory environment**, through better public-private dialogue, rooted in stronger organisation of MSMEs.
- Promoting **enterprise culture**, i.e. the way people value business and entrepreneurship.

Promoting dialogue has become central to the project's strategy. At the local level the project applies LOCA (called PACA outside Sri Lanka)¹, a participatory planning and implementation tool to bring MSEs, the public sector and NGOs together to identify common objectives and come to joint action. A similar tool has been designed for value chain development. When appropriate, local issues are taken up with District-level MSE Forums that are facilitated by the project. These are dialogue forums for business environment improvement and MSE development, which address issues especially with regard to service markets and the policy and regulatory environment at the sub-national level. Issues that cannot be solved there are referred to a national level forum for Enterprise and Export Development, which has been set up by the Ministry independently from the project.

Concrete improvements in the business environment have been realized in this manner. Most important, in the project's view, is that public-private dialogue has become a reality in the four Districts, and is tackling an increasing range of private sector development issues.

Challenges concern the sustainability of this mechanism, linked to funding and the lack of legal status of the Forums. The direct participation of MSEs and the poor in dialogue at the District level needs to be strengthened, though they do play the lead role in the LOCAs. The project's experience of a little over a year does indicate, though, that an approach that initially emphasizes joint action, to build trust, can lay the basis for a dialogue that eventually proceeds to more major and contentious issues. It also indicates that such dialogue can be productive and result in business environment improvements that are of direct benefit to local MSEs.

¹ PACA stands for Participatory Appraisal of Competitive Advantage and is a product of Mesopartner, www.mesopartner.com.

Acknowledgements

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Specifically with regard to the text, Chapter 2 and 3 draw on the work of Lars Rylander, consultant. The table in Annex 1 was prepared by Elisabet Rydberg from the project. The paper benefited from critical review by Gemunu Wijesena, the project's deputy manager, and Christine Gaignebet, of the ILO.

List of acronyms

ADB	Asian Development Bank
ILO	International Labour Organisation
LOCA	Local Competitive Advantage
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium-size Enterprises
PACA	Participatory Appraisal of Competitive Advantage

Contents

Page	Chapter	Title
5	1	Introduction
6	2	Country context
7	3	The MSE sector
10	4	The project concept
12	5	Promoting dialogue
12	5.1	Dialogue at two levels
12	5.2	Improving policies and regulations through dialogue
15	5.3	Improving service markets through dialogue
17	5.4	Local dialogue in North-West and North-Central provinces: the way forward?
20	6	Challenges and lessons
23	7	References
24	Annex 1	Doing Business in Sri Lanka 2007 compared to three other countries

Diagrams and boxes

Page		Title
5	Diagram 1	The project area with population in millions
11	Box 1	Promoting enterprise culture
13	Diagram 2	The role of LOCA and the MSE Forums in addressing policy and regulatory issues
14	Box 2	Revitalising the anthurium sub-sector in Kurunegala
15	Diagram 3	The role of LOCA and the MSE Forums in developing service markets
17	Box 3	Business Service Fairs
18	Box 4	The “biggest surprise” of one year MSE Forums

1. Introduction

The project Enterprise for Pro-poor Growth in Sri Lanka, Enter-Growth for short, started in June 2005. It was the result of a careful identification and formulation effort by Sida and the ILO, in consultation with the Government, which was initiated in August 2003. This included stakeholder consultations which were fundamental to the project design. These were held in Anuradhapura, Polonnaruwa, Puttalam and Kurunegala, the four Districts that make up North-Central and North-West province, which is the geographical focus of the project.

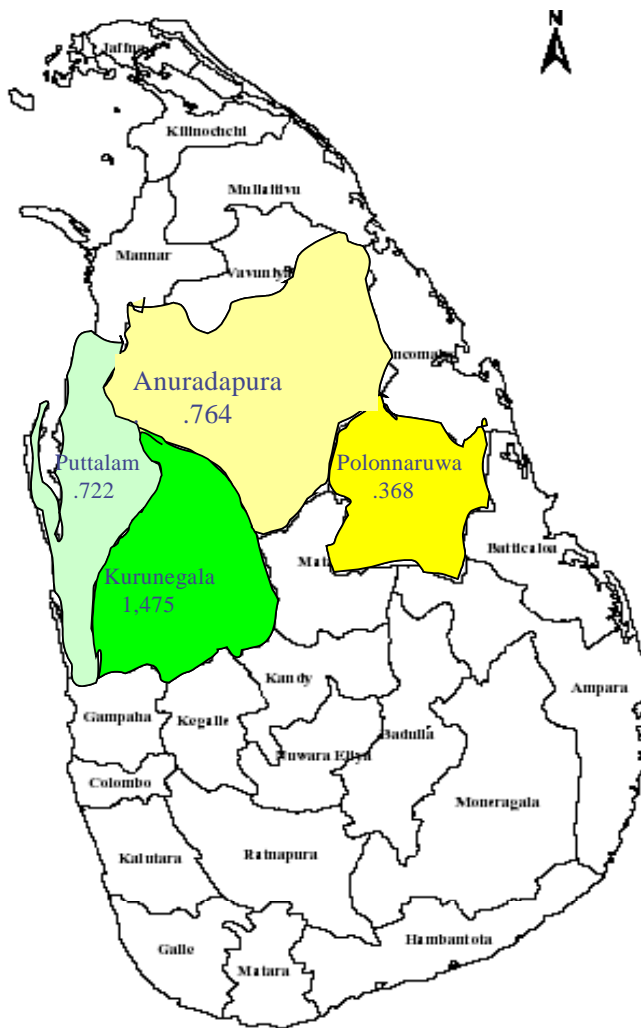


Diagram 1 – the project area with population in millions

Enter-Growth aims to “contribute to the generation of pro-poor economic growth and quality employment for women and men, through an integrated programme for the development of micro and small enterprises that focuses on the North-West and North-Central provinces” (International Labour Office 2004b). It takes a participative and inclusive approach to planning and developing its specific interventions, to ensure a high degree of relevance and ownership. It does not offer a range of pre-determined tools to

its stakeholders, but rather tries to facilitate the development of tailor-made solutions to be implemented with local resources. Its strategy is to improve the local business environment for MSE growth, which should result in local economic development and poverty reduction. The target areas are among the poorest in the country apart from the conflict-affected Northeast.

Although the project started only recently, some interesting experience has been gained, in particular with regard to the identification of needs for improvement of the business environment and the facilitation of local dialogue. This is the focus of this brief paper. It includes a presentation of the project concept and starts with a review of the context in which the project functions and the MSE sector.

2. Country context

Sri Lanka started the liberalization of its economy in the late '70s, promoting growth of the private sector, and more openness to the global economy. Successive Governments implemented measures to promote export, and divested public sector ownership in a range of sectors. More liberal investment policies contributed to a rapid increase in private sector investment. Productivity grew at more than 9 percent per year between 1977 and 1998, and unemployment declined from some 20 to 8 percent. Since 1997, Sri Lanka's economy grew by on average about 5 percent per year, in spite of the armed conflict between the Sri Lankan Government and the Liberation Tigers of Tamil Elam (LTTE) in the Northeast. The year 2000 saw a much lower rate, and 2001 a contraction by 1 percent, due to the global downturn in tourism and an attack on Colombo airport. However, since the Cease Fire Agreement reached in 2002 real GDP growth has been between 5 and 6 percent (Central Bank of Sri Lanka 2005). The forecast for 2006 is similar, although the country was severely affected by the tsunami of December 2004, and the conflict in the Northeast has resumed.

Yet, poverty has not decreased, and perhaps increased, over the past decade, with in 1996 some 25 percent of the population suffering from chronic and an additional 15 percent from transitory consumption poverty. Poverty in Sri Lanka is a mostly rural phenomenon, with nearly 90 percent of the poor living in rural areas. It is also, and partly by extension, a region-specific phenomenon. Much of past and current growth has favoured greater Colombo and the Western Province, and to a lesser extent the Southern Region. The more rural provinces are still characterised by largely subsistence agricultural economies that have benefited little from the development of the private sector in the urban centres and the areas immediately around them. The World Bank recently spoke of an "alarming" rise in regional inequalities (Daily Mirror 2006). The Northeast is heavily affected by the conflict.

Most of the poor are working poor and their dependents. They include subsistence farmers and agricultural workers, workers in the fisheries or livestock sector, the self-employed and those who operate or work in micro and small enterprises (MSEs)². Their productivity is low, and many are underemployed. A significant and perhaps growing share of the poor is unemployed, in particular among youth and women. With regard to youth this is partly the result of a mismatch between supply and demand. The education

² In what follows MSEs and MSMEs will generally be meant to include self-employment, and such enterprises in the formal as well as the informal economy.

system does not provide the skills required by the private sector, and most educated youth prefer public sector jobs. Women face disadvantages in terms of traditional attitudes, education, and opportunities to engage in business. The unemployment rate among women has consistently remained double that among men and women's participation in the labour force is low (Department of Census and Statistics 2004).

Government policy statements recognize the urgency of addressing these issues, in particular the failure of growth to benefit the poor and the need to increase employment. Lasting peace is a proclaimed key national objective, whose achievement would have a tremendous impact, including strengthening economic growth, especially in the poorest regions. In reality there are few signs that genuine peace talks will resume in the near future. In addition to peace, private sector development is seen as the key to more growth. While the Government of the United National Party (until 2005) pursued policies to move the economy further towards an open market economy, the present Government takes a more welfare oriented approach, with more subsidies for inputs, soft loans through new public banks, state employment schemes and welfare payments for the poor. The tax burden on the private sector has increased (World Bank, 2007). Policies are said to favour MSMEs for their potential to contribute to development in poor regions and income increases for the poor (see for instance Mahinda Chinthana 2005, Ministry of Labour Relations and Foreign Employment 2006). An SME Bank has been established, as well as, recently, an Enterprise Development Authority, which will focus on MSMEs. In practice, however, it is large investors who benefit from tax breaks and other incentives, putting MSMEs at a disadvantage in the market.

The administrative structure in Sri Lanka is very complex, largely as the result of an incomplete decentralization process and a political system that favours the establishment of new ministries and agencies to attract political support. At the local level, District Secretaries and their staff represent the Central Government, followed one level lower by Divisional Secretaries and further down by Grama Niladharis. Central Government agencies may or may not have representatives at the District level. Provinces are made up of several Districts and are governed by an elected Provincial Council, with its own administration and decentralized budget but no say over the District administration. Elected Municipal councils and Pradesha Sabhas report to the Provincial Councils. There are thus two parallel and partly overlapping Government structures. Some "subjects" (such as local roads) are devolved, while others are not. Some are shared. This includes enterprise development generally and MSME development in particular, with the result that a large number of agencies engage in enterprise promotion activities at the local level, in competition rather than coordination. Given in addition the tendency of ministries to multiply, the institutional framework for private sector development is complex. On the side of the private sector, there are a number of Chambers and an Employers Federation at the national level, while most District Chambers of Commerce and Industry and local level business associations are still weak.

3. The MSE sector

The actual size of the small enterprise sector in Sri Lanka is not known, as a variety of definitions are in use and much of the sector is part of the informal economy and therefore not reflected in the statistics. Formal small and medium size enterprises account for some 90 percent of industrial establishments, and some estimates set the

contribution of such enterprises to employment in manufacturing at 70 percent. Informal enterprise especially has grown rapidly over the past decade, in particular outside the greater Colombo area and the Western Province. Registered small enterprise is also far less concentrated in the West than large and medium size. As recognized by the Government as well as development agencies, expanding this base of small enterprise in the provinces is likely to benefit the poor directly as well as indirectly, by contributing to stronger region-based economic growth.

There have been numerous analyses of the problems and issues facing the country's MSE sector. One of the most significant was undertaken by the Task Force that prepared a White Paper on SME Development (Task Force for Small & Medium Enterprise Sector Development Program, 2002). In formulating the Enter-Growth programme, the ILO undertook further analysis and consultations with stakeholders – micro and small entrepreneurs, business associations and chambers of commerce and industry, service providers, provincial and district authorities – in North-West and North-Central province. A small survey of some 200 rural micro enterprises was carried out, to ensure that this less vocal group was heard. The analysis below also reflects further research and experience of the project.

One of the root causes for poverty and unemployment outside the Western part of the country is that MSEs generally operate at low profitability, few of them grow and the start-up rate is limited. Six major clusters of causes can be identified.

With regard to the **policy and regulatory environment**, Sri Lanka ranks 89 in the 2007 Doing Business report, better than India (134) or China (93 – see Annex 1), but leaving much room for improvement (World Bank 2006). There is, however, no concerted and coordinate policy to enhance the regulatory and institutional environment. Some 15 Central Government Ministries are concerned, in addition to 50 statutory bodies, Provincial Councils, at least 300 business development services providers (including NGOs), a large number of national level Chambers of Commerce and Industry in addition to District Chambers, and some 7 major development agencies (not counting those working in tsunami affected areas). At the District or Provincial level, there is no priority for MSE development. Improving the environment for MSEs is generally not part of development planning or day-to-day decision-making. Officers who implement regulations are interested in control rather than facilitation. Although, according to a recent World Bank/ ADB report, less than 8 percent of firms mention licensing and operating permits as a constraint to doing business, Enter-Growth found that this may be due to the large majority (between 70 to 80 percent in the project area) functioning without registration or license (World Bank, ADB 2004; TNS Lanka 2006).

The unfavourable environment is partly due to the lack of dialogue between provincial and district authorities on the one hand and the private sector on the other. There is no platform for regular consultations around MSE issues. Officials are often ill informed about issues relating to the business environment and strategies to address them. On the other hand, chambers of commerce have been slow to include MSEs and to offer them benefits. Business Associations are weak and often function as welfare societies. There is little awareness that closer cooperation and better organisation would be beneficial to the local economy.

A second cluster of causes concerns MSEs' **lack of market access**, due to their weak networks and lack of integration in value chains or with business service providers.

Linkages between rural MSEs on the one hand, and urban centres and markets beyond those are weak. The use of subcontracting is limited and there are few manufacturing clusters.

Thirdly, on the supply side, MSEs potential to break into larger markets is constrained by **low productivity and quality**. Most have established their business on rudimentary skills, and use simple technologies. Low productivity is also linked to low quality of employment, especially in terms of occupational safety and health, job security, health insurance, and quality of human resources management. Market liberalisation has meant that products have to compete with imported goods that are often cheaper and of higher quality.

The business services that could help MSEs address these constraints are in low demand. MSEs are not aware of them, or of their significance. If they are, they expect them to be free or nearly free, since this has been the case over the past decades. Conventional service providers market themselves to donor or Government programmes in order to meet these expectations. They end up being more supply than demand-driven, and their services are mostly only partly relevant. This, of course, further depresses the level of demand. The result is a weak service market for MSEs.

Finance, which can also help MSEs address issues of productivity and quality, is of course in much better demand. Entrepreneurs complain of lack of access, high interest rates and security requirements. However, a recent CGAP report concluded that microfinance outreach was “impressive” and noted problems especially at the institutional and policy levels. Subsidized credit is available from a variety of sources and access to larger loans is improving. One of the main constraints is the requirement for conventional collateral, land title deeds in particular, which many businesses are not able to meet due to a complex land ownership situation. Non-conventional collateral is, however, increasingly accepted, and legislation is being revised to make allowance for this.

A fourth major cluster of causes concerns norms, values and attitudes as they relate to business, i.e. **enterprise culture**. A range of studies have found a strong cultural bias in favour of public sector employment (see for instance, Hettige, S.T. and M. Mayer (Eds.) 2002, Hettige, S.T., Mayer, M and M Salih. Eds. 2004, Ibarguen, C. 2005, ILO 2004). If this cannot be obtained, other white collar employment, or farming, are preferred over business, which is seen as an option of last resort. “Influencers”, such as parents and teachers, orient young people to public sector employment, and the education system does not encourage entrepreneurial attitudes. An Enter-Growth study found that the following factors lie at the root of attitudes that do not favour business (Reinprecht, K., Weeratunga, N. 2006):

- Dependency – most expect to receive things from the Government and others rather than having to improve their lives through their own efforts.
- Comfort – most feel comfortable and satisfied to do familiar things rather than looking for new challenges and opportunities.
- Fear – most seek security, do not want to take risks, and are afraid to be ridiculed if they fail. They fear to be thought of as greedy and selfish, and to be envied if they are successful.

- Stress – many seek “a peaceful mind” or a “trouble-free life” and think enterprise does not provide that.
- No respect – people seek to be respected, but business people often are not. Many see business as exploitative, for personal profit, not contributing to the community.
- Conformity – most prefer to conform to community ideas about good livelihood options and biases against business rather than challenge these.

Gender biases are significant, although not always immediately obvious. Women are generally discouraged from starting a business, or are expected to keep it small, especially in more rural areas. In addition, and partly as a result, they encounter both strategic obstacles, such as lack of social and family support, responsibility for child rearing, and practical obstacles: the lack of security for loans and the expectation that they do not travel beyond their own community and at night, for instance (Reinprecht, K., Weeratunga, N. 2006).

Weak infrastructure (poor roads, frequent power cuts, weak communications) **and poor access to infrastructure**, form a final major cluster of constraints. This causes production stops and disturbances and has a negative effect on markets access, access to inputs and to information. This is a complex problem in a country where major infrastructure projects require a consensus among a large number of parties and where plans once agreed on are routinely cancelled when the political constellation changes.

4. The project concept

Based on the above the ILO, Sida and the GoSL decided on a programme with a geographical focus on poor areas, as this had the better chance of contributing directly to poverty reduction and reduce regional disparities than one at the national level. Puttalam, Kurunegala, Anuradhapura and Polonnaruwa Districts were selected as they are among the poorest in the country, apart from the conflict-affected Northeast. Though predominantly agricultural, they have some base of enterprise, and offer good potential for expansion in a variety of sub-sectors. They are also among the least assisted by donors programmes. They were not tsunami affected, but border on the conflict areas and have recently seen bomb attacks and a new influx of displaced persons.

The project focuses on MSEs for their potential for employment and income generation in areas where capital for investment is limited and purchasing power is low. It does not, however, exclude working with medium or large-scale enterprises, especially for upgrading of value chains and increasing market access.

Within this framework, the project’s work falls under three main themes:

- Improving **service markets**, to enable enterprises to improve their productivity and quality, become more market-led, and increase access to larger markets.
- Improving the **policy and regulatory environment**, through better public-private dialogue, rooted in stronger organisation of MSEs.
- Promoting **enterprise culture**, i.e. the way people value business and entrepreneurship.

It is not expected that a project of Enter-Growth's size can significantly improve infrastructure, though local decisions could be affected by better dialogue. With regard to financial services, there is such donor activity in this sector, at the policy as well as at the institutional and capital levels, that this is not a priority for Enter-Growth.

The project considers each of the above three themes essential aspects of the business environment. Enterprise culture is perhaps the most basic factor that underlies private sector development, though it is much neglected by those who believe that Western market economics are somehow natural to the human species. It may also seem the most intractable aspect of the business environment. Yet, cultures change continuously, through internal as well as external processes and pressures, and where such processes are taking place already, a project can legitimately support them.

Box 1 – Promoting enterprise culture

Rather than promoting a view of business that goes against deeply rooted values, Enter-Growth invites people in its target areas to reconsider their biases in terms of these values. It proposes that enterprise:

- Offers a better life, security, independence and comfort to people and their families
- Gives people the chance to do work they like, to learn, grow, create, and find fulfillment in what they do
- Provides valuable services and products to the community, as well as contributing to its cultural and social life
- Creates new job opportunities and stimulates growth

The project does not do so through one-way communication but using Forum Theatre, which is a form of theatre which invites the audience to participate and change the action and the outcome. In addition, Enter-Growth is engaged in support to the National Institute of Education to include Entrepreneurial Studies in the secondary school curriculum, and in introducing the ILO's Know About Business programme in vocational and technical schools.

Service markets in the project area need to be addressed on the demand as well as the supply side. On the one hand enterprises lack information about services that are on offer, while on the other service providers do not know for which services there is a demand. Developing new services and the capacity to provide them is another major need. However, the distortion of the market by the high level of subsidies imposes limitations on what can be expected in terms of achieving a commercial service market.

Better access to information is an aspect of improving the regulatory and policy environment as well. Other critical issues are strengthening MSE organisation and voice, and the improvement of specific regulations or policies at the local level.

Promoting dialogue has become central to the project's overall strategy for the three themes. It has a role in facilitating service markets as well as improving regulation, and, in a different way, is basic to the project's approach to promoting enterprise culture (see Box 1). The next Chapter describes how this strategy is translated into action.

5. Promoting dialogue

5.1 Dialogue at two levels

The project uses LOCA (Local Competitive Advantage) as its basic approach to dialogue and participation at the local level, i.e. in Divisions (the administrative unit below Districts) and sub-sectors. LOCA (called PACA – for Participatory Appraisal of Competitive Advantage – outside Sri Lanka) is a product of the consultancy firm Mesopartner and is being used in some 20 countries³. It is a structured approach of research, workshops and interviews that enables MSEs, the private sector in general, Government and NGOs to assess the competitive advantages of a locality and develop and implement ways to strengthen them. LOCA makes use of local resources and initiative, with the project playing a facilitating role. The LOCAs are conducted by facilitators from service providers in the Districts, trained by the project. Since a LOCA requires several facilitators, service providers are collaborating to implement them, often for the first time. They team up with stakeholders in the Divisions to form the LOCA Team that is responsible for a specific exercise. The project has designed a value chain development methodology that draws on this approach.

At the District level, the project has facilitated the establishment of MSE Forums (four in total), which bring together representatives of the District Secretariat and Provincial Government, the private sector, and NGO and Government service providers. They were established following a number of half-day workshops with each of the three sectors separately, which addressed issues of collaboration and cooperation, to generate support for dialogue. Representatives for the Forums were elected at the end of the workshops. Their mandate is, broadly, to facilitate “local economic development through MSE development” in their Districts, and function as a forum for dialogue. They also guide and support project implementation.

The way the LOCA exercises (including those for value chains) and MSE Forums are linked to each other and to the project themes of improving regulation and service markets, is illustrated by the diagrams below. LOCAs serve to:

- Bring stakeholders from different sectors together in a joint activity, often for the first time. It is thus an excellent mechanism to promote dialogue, and mutual understanding and trust.
- Help stakeholders, MSEs in particular, define their needs, develop solutions and implement them.

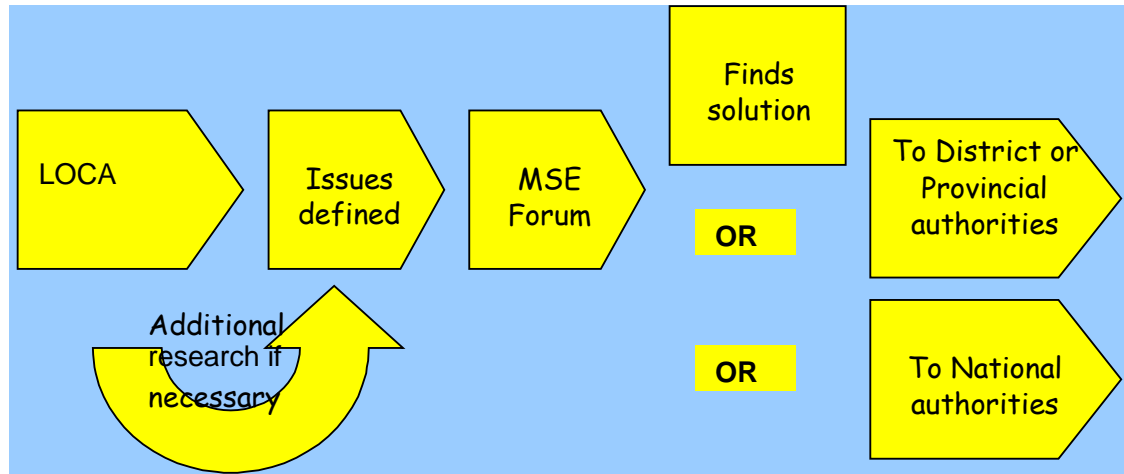
5.2 Improving policies and regulations through local dialogue

Specifically in relation to **policies and regulations**, the LOCAs result in the identification of concrete policy and regulatory issues, which are taken up with the MSE Forums in order to find solutions. If the issues cannot be solved by those represented on the Forums, they are passed on and discussed with relevant District or Provincial authorities, or raised at the national level Enterprise and Expert Development Forum. This Forum was set up by the Ministry of Enterprise Development and Investment

³ See www.mesopartner.com

Promotion independently from the project. It is chaired by the Minister and includes, or can co-opt, Government Ministries and Agencies relevant to economic development.

Diagram 2: The role of LOCA and the MSE Forums in addressing policy and regulatory issues



This strategy has proven effective, as improvements have been realized. The following are some concrete examples:

- In Puttalam District, there is a regulation against mining clay, aimed at avoiding environmental problems due to large-scale mining for bricks and tiles production. Following a LOCA the District Secretary has made an exception for small-scale traditional pottery producers, so they can continue their craft. They are allowed to mine two cubic meters a month, which has little impact on the environment.
- In a Division in Polonnaruwa District (and elsewhere in the country) the shortage of high yield cattle breeds is the main cause of low milk production, while demand is very high. This is linked to a de facto Government monopoly on the import of semen and artificial insemination. Government vets can serve only a few. The LOCA contributed to a decision to train local people on artificial insemination and allow them to provide this service for a fee.
- In Polonnaruwa District, irrigation water was not being made available for ornamental fish breeding, which is a fast expanding sector. The relevant authority has agreed to provide water now, and is considering how this can also be done during the off-season, when canals are being repaired.

Issues that were brought to the national Enterprise and Export Development Forum included:

- The validity of tickets for archeological sites in Sri Lanka's "cultural triangle" is just one day, discouraging tourists from staying longer. The Cultural Triangle Authority has now extended this to three days.

- A traders association in a Division of Anuradhapura District that resorts under the Mahaweli Authority (a Government agency which administrates the country's largest irrigation scheme) complained of double taxation (the usual taxes, plus those of the Mahaweli Authority), and inability to access loans because land title deeds have a validity of one year only. The association was for the first time given the opportunity to discuss this with the relevant agencies, which have made a commitment to address these issues.

LOCAs also contribute to the development of public-private sector dialogue by leading to the **development of small business associations**, or to collaboration between existing associations. A LOCA exercise brings together MSEs from the same sub-sector to identify competitive advantages and constraints, often for the first time. They develop proposals to address these together, and often come naturally to the conclusion that implementing them together, as an association, is the best way forward. Associations are thus formed around a common cause, without financial incentives from donors or others.

Box 2 – Revitalising the anthurium sub-sector in Kurunegala

Anthurium (a tropical flower) growers in Kurunegala district were in decline. They did not manage to grow in sufficient quantity and quality for export and the Export Development Board was focusing its assistance on other Districts. The three growers associations inspired by three different service providers were ineffective and did not collaborate.

A LOCA of the anthurium value chain changed this. It brought public and private stakeholders together and had them agree on a strategy to promote the sector. Enter-Growth funded a technical study to assess needs and potential, which helped convince the Export Development Board to include the North-Western province, of which Kurunegala is part, in its assistance programme. The three service providers are now collaborating with each other instead of competing. Assistance has so far included:

- Creating awareness on export market requirements
- Technical support to improve quality
- Preparation of promotional material
- Dispatching samples to get export orders
- Facilitation of access to credit
- Setting up of new growers to increase quantity.

The enthusiasm generated by the LOCA has revitalized the three associations, which have joined together to set up a joint flower collection and sales mechanism, and to market locally flowers rejected for export. A new company has been formed, based in Colombo, for import of anthurium growing inputs and export of the flowers. The increased bargaining power of the growers has resulted in an increase of the price of the flowers from on average 17 to 22 Rs each.

The project is following this through with development of a capacity in the Districts to provide an association strengthening service. The need for such a service was identified through the LOCA exercises, which found that existing associations were weak organizationally and often lacked a sense of purpose, although potentially they could greatly benefit their members. Demand was confirmed by conducting a pilot programme

with service providers and associations. A training manual has now been developed on the basis of an ILO product. Initial interest from associations is very strong.

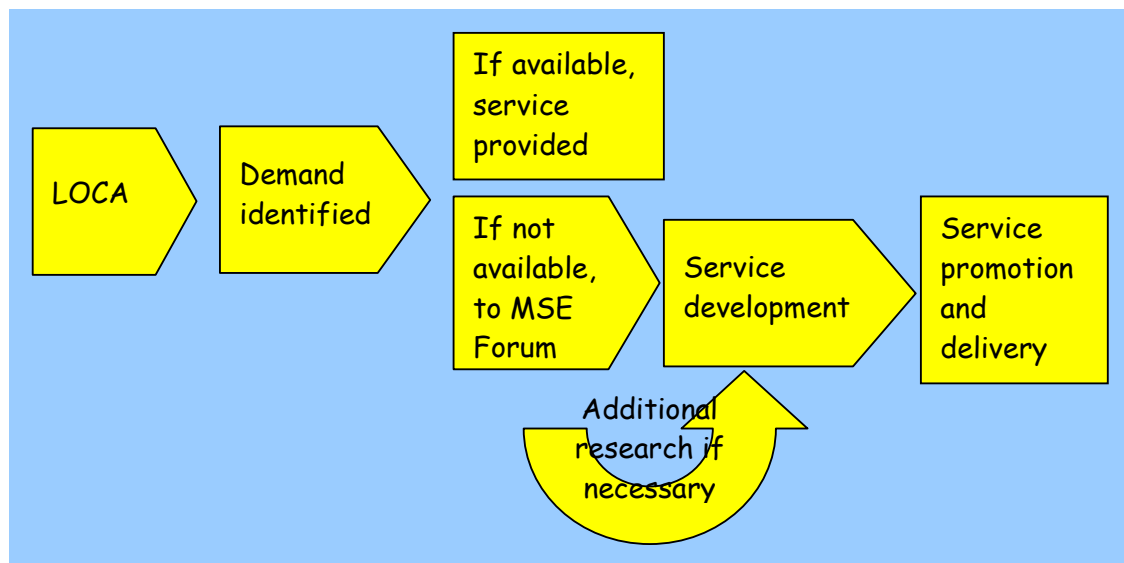
5.3 Improving service markets through local dialogue

In relation to **service development**, solutions for issues identified through LOCAs can consist of:

- Linking the identified demand to an existing supplier of a service that addresses a constraint.
- Improving the quality or quantity of a service so that it meets the identified demand.
- Developing a service if there is none that meets the demand.

The project only funds service improvement and development, including capacity development, and promotion. Service delivery is never funded by the project, but by the providers and the clients.

Diagram 3: The role of LOCA and the MSE Forums in facilitating service market development



Some examples of the first type of intervention are:

- In a Division in Puttalam the LOCA process helped attract an investor to set up a coir curl fiber processing factory. It adds one step to local coir processing and coir is supplied by local growers and processors, increasing local value added and employment.

- Garage owners from Anuradhapura received training from a large company in Colombo, to increase their productivity and quality.
- Inadequacies in providing information, instructions, certification and seeds to seed paddy farmers in a division in Polonnaruwa were addressed by the Ministry of Agriculture.

Enter-Growth brought together representatives from service providers on the four MSE Forums to consider what had come out of the LOCAs, and other assessments done by service providers, that indicated the need for new service development. A range of possible services were identified. The project is now working with service providers on the following:

- Information and training on packaging, for better marketing and longer shelf life, involving providers of packaging equipment and materials as well as conventional service providers.
- Training to improve the design and quality of locally made garments, by upgrading private sector training providers.
- Improving business ethics, by development of VCDs for commercial distribution, that integrate business ethics issues into entertaining stories.
- Productivity improvement training – currently a demand assessment is being designed.
- E-commerce – promoting the development of web-based “metamarkets”, which bring together many similar businesses, by private sector organizations.

LOCAs have in this way functioned as a participatory market research tool, resulting in delivery of services where they are needed or in identifying demand for new services. As one service provider explained, “For us, a LOCA is a certificate that proves there is a real demand for something”.

On the service demand side, the MSE Forums have played a key role in the organization of Business Service Fairs in each of the Districts (see box). This was the first major joint activity of the Forums, which established their credibility and built trust among the stakeholders. It was therefore critical in the development of local dialogue.

Information provision is also the objective of the development of Provincial knowledge bases with detailed information on business regulation, services, and large suppliers and buyers. This was identified as a priority by each of the MSE Forums, as well as through the LOCAs. The knowledge bases will not “sit” in an office of one Government department, but will be placed on the Internet as well as widely distributed on CD-Rom to Government Agencies, private sector organizations and service providers. The latter will include the many “communication centres” in rural towns and villages that have a computer, phone, fax, and sometimes Internet facilities. Service providers will be able to charge for the information. Enter-Growth will promote their service. The knowledge bases, which are currently under development, will be owned by public-private partnerships. The information will also be provided to the Government Information Centre, a recently established call center where the public can get answers to questions on Government services and regulations.

Box 3 – Business Service Fairs

The concept of the fairs was to attract large numbers of people, many of whom might in the first instance come for entertainment, but would be informed about services to MSEs “by the way”, while others would specifically come for such information. This was therefore different from a fair that offers information only and target a narrow group of MSEs. The project’s starting point was that business services and enterprise are relevant to a much larger audience than this.

The fairs were widely promoted, by banners, posters, and on radio and TV. The events included:

- 100 to 120 stalls, of which 75% were of service providers
- Daily ceremonial opening by a chief guest
- Radio / TV coverage
- Workshops, seminars, lectures on themes relevant to MSE development (including e-commerce workshops)
- Publicity and information
- Street theatre, cultural shows, music
- Food and drink stalls
- Merry go rounds and similar entertainment for children
- Raffles

Funding was from the project, fees for stalls, sponsors and entry tickets.

In total some 120,000 people visited the fairs. The main conclusions of an independent assessment were that:

- The large majority of stallholders was satisfied and expects to participate in future.
- About half the visitors came to be informed and educated rather than for the entertainment.
- The large majority of visitors was satisfied with the range of services presented and nearly all would visit a next fair.
- The service stalls rather than the trade stalls were most appreciated.
- Most visitors learned about services they did not know of before.

The Provincial Ministry of Agriculture in Kurunegala recently organized an agricultural services fair which used the same concept and made use of the lessons learned and contacts developed by the project.

5.4 Local dialogue in the North-West and North-Central provinces: the way forward?

Recently the project organized an “experience-sharing event” among the four MSE Forums. The box below gives some of the reactions participants offered to the question what the “biggest surprise” had been of one year MSE Forums that relate to dialogue. There was a lot of appreciation for the way the Forums have been functioning and contribute to the development of public-private dialogue and collaboration among agencies. However, of course there is variation in the way the Forums are developing. One of the Forums is expanding its membership and considering options to formalize its status. Others have not yet reached this stage, although all are increasing their scope

and moving towards the inclusion of broader and more contentious dialogue issues, such as, for instance, land ownership.

Box 4 – The “biggest surprise” of one year MSE Forums (Metaplan cards written by MSE Forum members)

- Building a relationship among several stakeholders
- Working together for a common goal
- Although it was perceived that integrating private sector is a challenge, the effort gained success
- Unity of institutions
- Public – Private partnership
- Good relationship among institutions
- Integration and unity among different institutions
- Integration of government, non-government and private sectors
- Mutual understanding of institutions
- Significant stakeholder interaction
- Building up of an integrated coalition for business development
- How greater is the achievement if we all work together!
- People from different backgrounds (village folk and big officials) work together
- To build up a interrelationship among business development service providers
- Establishment of a District Industrial Development Committee – Puttalam

Enter-Growth and the Forums have identified the following issues critical to the Forums' success:

- Leadership – Forums that are chaired by a motivated and effective chairperson are clearly more successful. Where chairpersons take a hierarchical, administrative approach, dialogue and joint activities take longer to get off the ground, and require more and longer Enter-Growth involvement.
- Building appropriate knowledge, skills, attitudes – Running a successful Forum requires skills in managing meetings, planning, budgeting, how to advocate a cause effectively, and approaches to private sector development. The project is addressing this through on-the-job guidance, brief training sessions, and study visits.
- Building trust through action – Successful joint activities, such as the Business Service Fairs, contribute to building the level of trust that is the basis for effective dialogue.
- Balancing the interests of parallel administrative structures – As explained above, the Central Government structure runs parallel to a decentralised Provincial structure. Rivalry between them often makes it difficult to involve both optimally. The project is addressing this by having meetings on “neutral” ground and balancing competing demands.
- Commitment of the Central Government and national corporations – Many Forum members represent Central Government agencies or national level corporations (such as banks). They and the project need to generate at least some level of interest in Colombo to provide them with the necessary freedom of action.

- Providing recognition to the work of the Forum members, for instance through media coverage and training. This is important since Enter-Growth does not, like most other development organizations, offer financial incentives. It believes the Forums facilitate the work of the organizations involved, which should be sufficient compensation for participation. It also feels that members whose participation depends on financial compensation are unlikely to be effective.

Some of the factors critical to the effectiveness of LOCAs in promoting public-private dialogue include:

- Active involvement of the right stakeholders – This includes MSEs, their associations, local authorities, and service providers, but also larger private sector firms, buyers and suppliers. The last are critical when it comes to upgrading productivity and linking MSEs to larger markets. The teams that implement LOCAs approach them individually before the LOCA exercises to make a case for their participation, and involve them at several stages of the exercises themselves.
- Developing solutions to local problems that are grounded in local perceptions and realities – Proposals that come out of LOCAs may be technically sound, but if they do not take into account local realities and the aspirations and limitations of local stakeholders, MSEs in particular, they have little chance of being implemented. They will remain the wishful thinking of “development workers”.
- A focus on short-term successes while not ignoring long-term solutions – LOCA exercises often focus on joint development and implementation of “quick win” proposals. However, they also provide information on issues that require more work and longer-term solutions. These can often be addressed through service development or by the MSE Forums.
- Finding pro-poor solutions to conflicts of interest – For instance, large corporations sometimes see local value addition as against their interest. E.g. large dairy products producers argue against local sale of fresh milk since it is in their interest to buy and pack milk, or turn it into powder and sell it back to the producing areas. The project tries to facilitate development of win-win interventions, but of course this is not always possible.

Funding is a critical factor as well. Some Forum members consider the fact that the project does not fund service delivery itself, so that most resources have to be mobilized locally, a constraint. This holds true for proposals that come out of LOCAs as well. This is, however, fully in line with the project’s approach and mandate: It facilitates the improvement in the business environment rather than funding “tangible” things like training of entrepreneurs or providing them with new equipment. It also does not fund ad hoc proposals from Forum members or other stakeholders. Proposals need to have come out of LOCA exercises or the joint work of the MSE Forums in order to attract project support. They need to contribute to business environment improvement rather than being of benefit to a few enterprises or an individual organization.

Depending on local resources means that implementation is often delayed and sometimes cancelled. Generally, though, when stakeholders consider a proposal important, resources can be mobilized from other sources than the project.

The MSE Forums have started to address issues that come directly from private sector organizations or individual companies, dealing, for instance, with supply of electricity and other basic services. As the Forums mature, the range of issues they consider and the avenues by which they reach them is likely to broaden further. On the one hand this will strengthen their effectiveness and increase the scope of their dialogue. On the other hand, the validation of issues by the LOCA process will be partly lost and the Forums will become more open to particularist interests and lobbying. This is probably inevitable in public-private dialogue platforms.

The project's experience of one year has been sufficiently meaningful for the Federation of Chambers of Commerce and Industry of Sri Lanka, which supports the District level chambers, to ask the project to provide technical support to the establishment of Forums outside the project area. This has recently been initiated. A second training of LOCA facilitators is planned for December and is heavily over-subscribed due to the strong interest of service providers.

6. Challenges and lessons

Several of the challenges Enter-Growth has encountered in facilitating public private dialogue in the four Districts in which it is active relate to the sustainability of the mechanism that has been put in place. The LOCA exercises are successfully bringing together business service providers, officials and the private sector to develop proposals to strengthen local economies. Although their cost is low, they do need to be financed. So far the project has been doing so (i.e. funding the exercises, not the implementation of the proposals that result from them). It has advocated, at the District and central level, that the organizations involved set aside funds from their own budgets in the coming year, and several have made this commitment.

The functioning of the MSE Forums costs little, but they have been able to work with Enter-Growth funds to achieve some of their successes, such as the business service fairs. However, many interventions that result in improvements in the business environment do not require much funding, and may actually realize savings. Also, the Forum members have been able to mobilize other funds. The chance that they will survive the end of the project may therefore be good.

Another issue that relates to sustainability, but to effectiveness as well, is the fact that the Forums do not have an official, legal status. In the ILO/Government of Ghana Decent Work Pilot Programme for instance, which among other things also aimed at improvements in the local business environment, there were legal provisions for District Assemblies to establish Sub-Committees for Productive and Gainful Employment, with private as well as public sector representation (International Labour Office 2005). No such provisions exist in Sri Lanka. There is a provision for sectoral coordination committees at the District level, but these comprise the public sector only (one has been initiated in Puttalam at the request of the MSE Forum). This means, for instance, that the decisions of the Forums have no legal status and are not binding. Whether they are implemented depends on the authority of the District Secretary or Provincial authorities, and the goodwill of the NGOs and private sector organisations involved. So far this has been working well, but in the longer-term some legal status for the Forums may need to be considered.

Enter-Growth and its partner have been successful at involving MSEs in direct dialogue through the LOCA exercises. The formation of associations as a result of LOCAs strengthens MSEs potential for involvement in dialogue. The project is now developing approaches to give such associations a stronger voice at the District level as well, through the organization of larger-scale dialogue events organized by the Forums, or special Forum-association meetings.

The poor, for whose benefit the project is facilitating business environment improvements, have also been successfully involved in the LOCA exercises, and thus can make their voices heard at that level. Direct involvement in dialogue at the District level needs to be strengthened, though, by ensuring that it is not only the wealthier MSEs whose voices are heard. This is important because the scope for conflicts of interest in improving the business environment is strong, notwithstanding the “win-win” mythology of market economics. Sides need to be chosen, sometimes. Fortunately, Enter-Growth finds that the involvement of Government agencies and NGOs, however ineffective they may seem at times, does give some level of guarantee the interests of MSEs and the poor are prioritized.

In spite of these challenges, Enter-Growth’s experience indicates that public-private dialogue at the local level is possible and can lead to improvements in the business environment. The conditions in Sri Lanka are far from ideal due to the low degree of effective decentralization, which limits the scope for action at the local level. In addition, there is much skepticism in the private sector with regard to the willingness of the Government to participate in dialogue and take action on its basis. In fact, for some MSE Forum members the “biggest surprise” of a year of Forums was that they were still functioning! The project has chosen an approach that initially emphasizes joint action, to build trust and generate commitment, proceeding to relatively minor and eventually more contentious issues. This has proven successful.

The experience so far also demonstrates that it is possible to mobilize local initiative and resources once some level of confidence and trust has been realized. In a country like Sri Lanka, which is relatively well-off, donor projects do not necessarily have to fund every aspect of business environment improvement. They can and should focus on facilitation, research and development rather than reinforcing a culture of dependency.

The project’s approach also confirms that MSEs are likely to naturally form associations once they have identified issues of common concern and realized that collective action is an effective means of addressing them. Such associations probably require guidance and counseling to achieve their full potential in public-private dialogue. There does not, however, seem to be a need to offer direct financial incentives for groups to form and remain together.

Not only MSEs can come to the conclusion that collaboration is in their interest. Service providers do so as well. The LOCA exercises and the MSE Forums have resulted in providers of rival ministries and NGOs joining together to address locally relevant issues. The project has found that the scope for such collaboration is much greater at the local than at the national level. At the local level LOCA brings providers close to their clients and brings out the issues right in front of them. At the national level, “policies” and politics are often more important.

Finally, and not surprisingly, the project has come to the conclusion that interventions that promote business environment improvement take time to have an impact in terms of such long-term goals as poverty reduction and employment generation. The cumulative effect of a number of pro-private sector decisions that result from better dialogue will eventually become “measurable”. Meanwhile those involved may need to find satisfaction in statements such as the one by the Secretary of a District Chambers of Commerce and Industry that “before Enter-Growth came there was NO dialogue between the public and the private sector, while now I can pick up the phone and discuss something with the District Secretary”.

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Annex 1 Doing business in Sri Lanka 2007 compared to three other countries⁴

Indicator	Sri Lanka	India	China	Denmark
Ease of doing business (rank)	89	134	93	7
Starting a business (rank)	44	88	128	14
Number of procedures	8	11	13	3
Time (days)	50	35	35	5
Cost (% of income per capita)	9.2	73.7	9.3	0
Minimum capital (% of income per capita)	0	0	213.1	44.6
Dealing with licenses (rank)	71	155	153	6
Number of procedures	17	20	29	7
Time (days)	167	270	367	70
Cost (% of income per capita)	151	606	84	67.8
Hiring and firing employees (rank)	98	112	78	15
Difficulty of Hiring Index (0-100)	0	33	11	0
Rigidity of Hours Index (0-100)	20	20	20	40
Difficulty of Firing Index (0-100)	60	70	40	10
Rigidity of Employment Index (0-100)	27	41	24	17
Firing costs (weeks of salary)	178	56	91	10
Registering property (rank)	125	110	21	36
Number of procedures	8	6	3	6
Time (days)	63	62	32	42
Cost (% of property value)	5.1	7.8	3.1	0.6
Getting credit (rank)	101	65	101	13
Strength of legal rights index (0-10)	3	5	2	8
Credit Information Index (0-6)	3	3	4	4

⁴ Based on World Bank 2006

Public credit registry coverage (% of adults)	0	0	10.2	0
Private bureau coverage (% of adults)	3.1	6.1	0	11.5
Protecting investors (rank)	60	33	83	19
Disclosure index (0-10)	4	7	10	7
Director liability index (0-10)	5	4	1	5
Ease of shareholder suits index (0-10)	7	7	4	7
Strength of investor protection index (0-10)	5.3	6	5	6.3
Paying taxes (ranks)	157	158	168	15
Payments (number per year)	61	59	44	18
Time (hours per year)	256	264	872	135
Total tax rate (% of profit)	74.9	81.1	77.1	31.5
Trading across borders (rank)	99	139	38	3
Documents to export (number)	8	10	6	3
Time to export (days)	25	27	18	5
Cost to export (US\$ per container)	797	864	335	540
Documents to import (number)	13	15	12	3
Time to import (days)	27	41	22	5
Cost to import (US\$ per container)	789	1244	375	540
Enforcing contracts (rank)	90	173	63	1
Procedures (number)	20	56	31	15
Time (days)	837	1420	292	190
Cost (% of claim)	21.3	35.7	26.8	6.5
Closing a business (rank)	59	133	75	20
Time (years)	2.2	10	2.4	3
Cost (% of estate)	18	9	22	4
Recovery rate (cents on the dollar)	35.6	13	31.5	70.5