



## ILO Enter-Growth

Report of the LOCA exercise conducted in the Nachchaduwa DS Division  
in Anuradhapura



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### Abbreviations used in this report

DS	Division Secretary
EDB	Export Development Board
GA	Government Agent (also District Secretary, highest government official in the District)
GN	Grama Niladhari – lowest government level official in the District
ILO	International Labour Organization
IDB	Industrial Development Bureau
IFAD	International Fund for Agricultural Development
LOCA	Local Competitive Advantage
MSEs	Micro and Small Enterprises
Rs	Rupees (Sri Lanka currency)

## 1. Background

One of the key tools utilized by the ILO Enter-Growth project to stimulate local economic development is the LOCA exercise. LOCA<sup>1</sup> stands for Local Competitive Advantage; a method to assess opportunities and constraints for small enterprise development in a local economy. LOCA can be applied to a geographical area such as a district or in a smaller part of a district, a division. In May 2007 a Divisional LOCA was conducted in the Nachchaduwa Division of Anuradhapura District with the following objectives:

1. Find the competitive business sectors in the division
2. Formulate marketable proposals to strengthen them
3. Find actors who can take the ownership of the proposals.

The exercise was carried out by Irritech Pvt Ltd., Anuradhapura, with facilitators from other business development organizations and guidance from Enter-Growth. Through workshops, LOCA facilitators identified many business sectors, including dairy, light engineering, fruits and vegetables, carpentry, repair shops and paddy cultivation. After this initial identification, three sectors were further prioritized. Firstly the **fruit and vegetable** sector was selected because it has potential and because of the many youths working in it. Secondly, the facilitators prioritized the cut **foliage / floriculture / plants** sector, because they wanted to target women and thirdly, the **carpentry sector** involving 70 families, of which often more than one member is carpenter (father and sons) was prioritized because there was scope for expansion but the sector was not regularized.

Through the LOCA exercise, which included workshops and interviews, the actors from these 3 sectors identified the following problems:

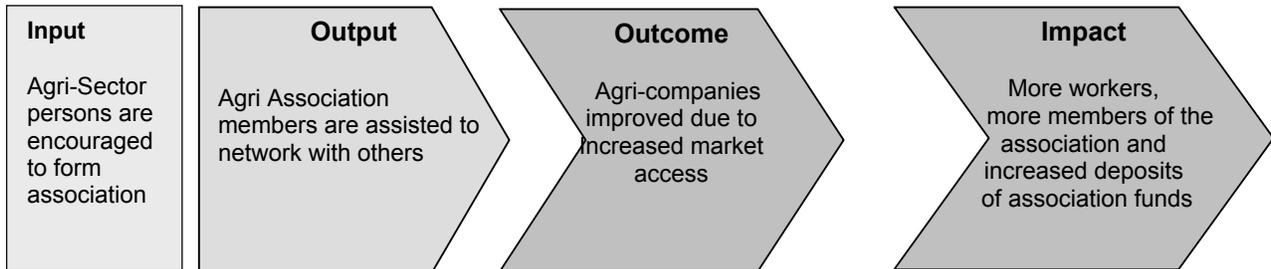
Sector	Problems
Fruit and vegetable sector	<ul style="list-style-type: none"> <li>• They are only selling locally and to Dambulla Economic Centre in same district.</li> <li>• They do not know how to enter other markets</li> <li>• They have to compete with the paddy farmers for water subsidies</li> <li>• Fertilizers are more expensive for them than for paddy farmers (subsidized)</li> <li>• Most farmers don't want to go for organic fertilizers</li> <li>• Papaya and banana sectors have been abandoned because of low prices and highly expensive inputs.</li> </ul>
Foliage	<ul style="list-style-type: none"> <li>• Low variety of plants</li> <li>• No proper packaging</li> <li>• Lack of new varieties for new markets</li> <li>• Existing varieties have low market acceptance</li> </ul>
Carpentry	<ul style="list-style-type: none"> <li>• They have to pay bribes to the officers of the forest department to obtain timber transport permits because their businesses are not officially licensed</li> <li>• There is no (consistent) electricity supply which means they cannot use their machines</li> <li>• Many enterprises do not have a license because they don't have land ownership</li> <li>• They are unable to obtain permanent land as they have not enough funds and they claim that they be asked for more bribes by the police and forestry officers</li> <li>• Because they have no business license, they cannot issue invoices and they cannot transport their products to other than nearby markets</li> <li>• As a result, they obtain low prices for their products</li> </ul>

<sup>1</sup> LOCA is worldwide known as PACA – Participatory appraisal of Competitive Advantage. It is a product of Mesopartners. For more information see: [www.mesopartner.com](http://www.mesopartner.com)

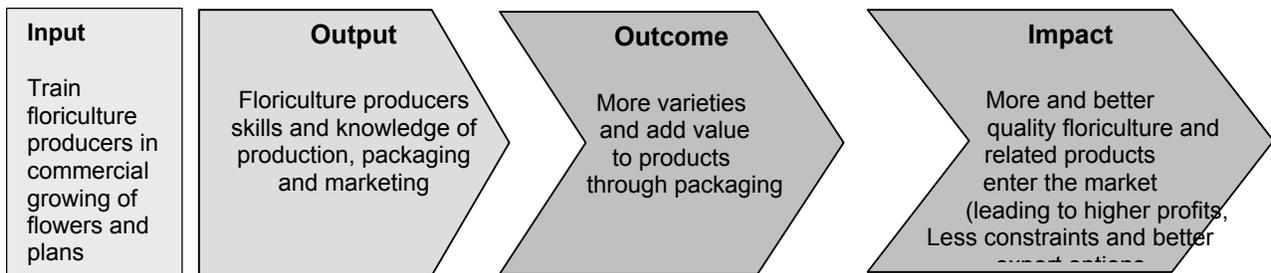
## 2. Enter-Growth plan

The ILO Enter-Growth plan was to implement activities related to overcoming the problems that the stakeholders identified through the LOCA exercise. The illustrations below show the inputs as well as outputs and outcomes that are expected from these inputs.

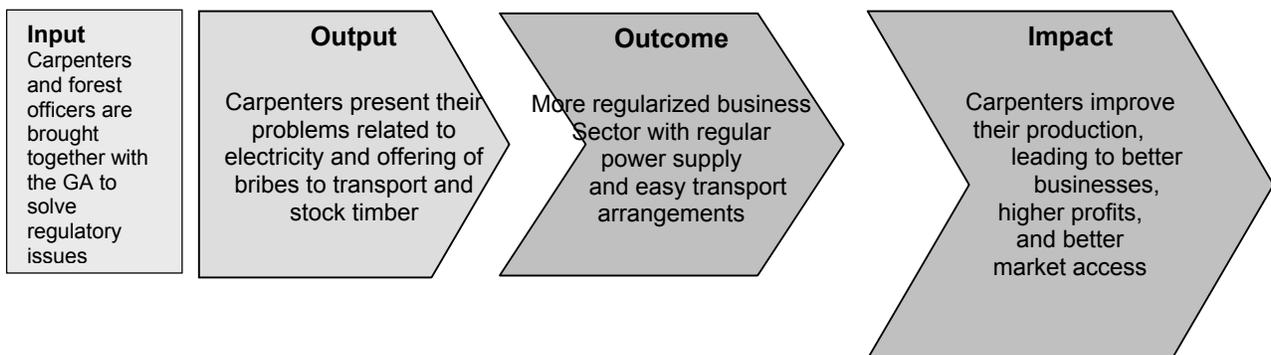
### Influence or Results Chain - fruits and vegetable sectors



### Floriculture sector



### Carpentry sector



### 3. What actually happened

#### **Fruits and vegetable sector**

In 2007, the United Agriculture Development Association was founded and strengthened. They received some funds from USAID to set up a vegetable selling company selling locally to the Dambulla Economic Centre. However, they are at the moment not involved in fruit and vegetable cultivation as the inputs are expensive and the members say they are unable to compete with other fruit farmers in the district. Instead, the association is shifting into paddy cultivation. A total of 115 members have deposited money in the account of the association and they now have Rs 215,000 with which they aim to produce paddy seed for the next season.

The association members have received assistance to network with external organizations promoting agriculture. The members were also trained in marketing and leadership, including confidence building and how to face challenges regarding entrepreneurship. Moreover, they have received benefits from government organizations such as agriculture awareness and post harvesting programs through Gannoruwa agriculture research institute. They also managed to foster linkages with the Dambulla Economic Centre and the Central bank office in Anuradhapura.

#### **Floriculture**

In 2007, an active business woman started the Pubudu Floriculture association with 15 members, which now counts 45 members. Under the guidance of another donor-supported business development project (PEACE-project), the members have started a home garden where they grow flowers such as anthurium, orchid, and ornamental plants. They also participated in several training programs including:

- A 1-day training program on anthurium cultivation
- Two 1-day training program on orchid cultivation at the Peradeniya gardens.
- Two day program on making flower bouquets for brides conducted by the Industrial Development Board Anuradhapura
- Several 1-day awareness program on entrepreneurship at the central bank Anuradhapura
- A training program on export conducted by a large exporter through the Export Development Board (with sessions on packaging plants and creating forward sales contracts)

In addition, the members of the association went on an exposure visit to see and learn how to plan a flower exhibition at the Viharamahe Devi park in Colombo. The most significant networking activity is the linkage with a Japan-funded development project in the district, named PEACE project. This projects implements two loan schemes to the total value of Rs 100 million through existing development banks in the district. Through this project, the women have received technical advice as well as some equipment such as pots and shading nets.

### **Carpentry**

During the LOCA exercise, the carpentry families got together and formed a group. The ILO Enter-Growth project linked the group to the Industrial Development Board, of which it had trained a facilitator on association building. With this association building support, the group became the Suhada Carpenters Association. They held regular meetings to discuss and identify problems and undertook joint activities such as religious programs. At the moment there are about 30 active members, most of whom (20) have applied for business licenses from the local authorities. They have all received a temporary license while their permanent licenses are pending. These will only be issues once certain investment requirements have been fulfilled (see below).

More importantly, with the support of the Enter-Growth project and the Anuradhapura MSE Forum they managed to encourage the government officials such as the Government Agent (GA), Police, Forestry Department, to participate in the meetings to help find solutions to problems pertaining to electricity supply and bribes. The GA intervened directly by providing temporary licenses and spoke to the forestry department to undo the negative influence. The problems created by the police and the forest officers have at least temporarily stopped.

The group also increased the purchase (purchase on loan basis from shop) of machines; now almost 90 families are using machines, including multi duty machines, grinders, drills, an electric saw routers and electric hand saws. A total of 50 multi duty machines and 250 smaller machines are used by the members.

Other activities the association undertook include:

- Discussion with the department of small scale industries on the establishment of a common service centre with machines (but not materialized yet)
- Discussion with officers from the vocational training authority about participating in technical training, and as a result, carpenters have received training on painting furnishes
- The carpenters disseminated information about them and their association in Anuradhapura and surrounding villages

## 4. First signs of impact

To see early impacts of this divisional LOCA exercise, a total of 12 persons were interviewed, seven entrepreneurs from the 3 sectors (including the associations' chairpersons), three from the community and two key informants, i.e. the Grama Niladhari and representative of the PEACE project.

### Fruit and Vegetable Sector

The setting up of the United Agricultural Development Association in itself has been successful. As the chairperson reports: *"it is a strong organization with skills in marketing and leadership". The association has also been connected to a few government organizations from which we obtained support*".

However, the field visits have also shown that the original idea of upgrading the fruit and vegetables sector has not materialized. The association members reported that they are currently not into this business as they cannot compete with others in the area. Instead, they intend to shift to rice cultivation. They have deposited money for paddy seed in the association and are waiting for the rice season to start. It is too soon to see signs of impact on that.

### Floriculture Sector

After the LOCA exercise, the Pubudu Floriculture association has been strengthened and its membership has tripled from 15 to 45. Members have participated in several training programs and field visits leading to exposure to the higher potentials of the industry. As a result, the following signs of impact were found:

- A shift from 'hobby-based' production of plants to more business style, commercial cultivation of anthurium, orchid and other plants
- 15 members have gradually increased their number of plants to 200, they send about 60 anthurium plants to the market each week.
- Some of the members are now also making value added products like flower vases leading to better marketing because flowers last longer.
- The association supplies 20 flower vases every Monday morning to the private sector at the rate of Rs 50/- a vase of which Rs 25/- is profit. They hope to increase this number each week.
- As a result of training in export with the support of the EDB, 4 people are now preparing soil to cultivate 20 acres of masengiyani plants suitable for export.
- Through the linkages created with the PEACE project, some association members have obtained loans as well as assets for their businesses. Five members now have net houses to grow their plants, protecting them from strong sun and insects which has resulted in better plants
- Overall profits reported are modest, around 500 Rs per week for some, less for others, yet all increase in profits is a bonus because before most women were not earning anything.

*We should plant things other than anthuriums like fruit and vegetable plants. It's good if we can get trained in making bags, handicrafts related to flowers.*



### Carpenters

Through the set-up of the association and the meetings, carpenters became aware of their situation and how they can influence their business environment. Also, the community reported in the interviews that their perception of the carpenters as a corrupt industry has reduced and there is more credibility among the villagers and consumers.

Since the LOCA exercises, the carpenters have been able to get rid of the major obstacle of having to bribe the forest officers. Although the carpenters were helped by this direct intervention of the GA, the solution is not permanent. They are now no longer harassed by forestry (who, some say, now go elsewhere to 'earn' their extra income). Yet, the carpenters have not yet acquired official registration of the businesses because they have not fulfilled all required conditions of land ownership and construction of proper permanent premises with a separate building with a roof and wire. Until recently they had not done so and they stated financial difficulty for their inability to do this. They also indicated to be afraid that once they have a permanent workshop and a business license, the influence from the police and forest department would increase.



*The project has made things better for us, please continue to support us to obtain license and to gain new technology.*

At the moment, most carpentry families are not working for themselves full-time. They work at their homes for 5 - 10 days and outside for 10 - 15 days. One of the interviewed carpenters said: *"It is difficult to maintain the workshop at home; we go out to work on construction sites as casual labourer. Because when the timber is found by the officials they take it away and we have to spend money on court cases, or the timber is taken by the officers. We earn around 5,000 Rs per month but our income could be as high as 7,000 Rs per week if we did not have to pay others"*.

Another problem related the fact the carpenters are not registered was reported as follows: *"At the moment we cannot issue invoices. So what we do is get an invoice from another company and transport based on that invoice. For this we pay Rs 1500 - 4000 depending on the product"*.

All in all, the short-term situation for the carpenters has improved on a small scale yet longer term, larger scale benefits such as improved business performance or effects on workforce have not been found in this study, mainly because the sector is still not regularized and business registration is pending. Most carpenters are not yet fulfilling business registration requirements of having permanent business premises with proper roof and wiring and seem to have insufficient funds to invest in their premises to upgrade these. However, they can continue to operate because of the temporary licenses. Moreover, more recent reports indicate that a few carpenters have now constructed permanent workshops with the assistance of funding from IFAD (International Fund for Agricultural Development) and that as a result, they have obtained business registration.

## 5. Overall conclusions and learning

Based on the interviews and findings presented above, we can draw the following conclusions regarding the Nachchaduwa LOCA exercise.

Everyone interviewed in the agriculture, floriculture and carpentry sectors agrees that LOCA workshops and consequently the interventions have been beneficial to them. Summarizing the benefits:

### **More awareness and better networking**

Encouraging entrepreneurs from the same sector to form a group or association is a successful strategy. Sometimes it takes a lot of persuasion to convince entrepreneurs to get together to discuss common problems and solutions but in the end it is worthwhile. Bringing them together is for many an eye opener to see that others have the same problems. This builds confidence that together, they can do something to tackle the issues.

### **Awareness on the need for business registration**

Being a registered business in Sri Lanka has advantages as the carpentry example shows. It is not easy to convince entrepreneurs to request registration as there is fear and mistrust between enterprises and authorities (see learning below). The fact that 20 of the carpentry business have requested registration is an accomplishment in itself.

### **Increased recognition**

Being recognized as a group or association is good thing because communities (hence, clients) seem to have more faith in a sector than in individual businesses. Also, the mere fact that the sectors are associated to ILO and other organizations has helped improve their image. In Sri Lanka, entrepreneurship in general does not have a good reputation and businesses need to do everything to install faith from customers.

### **More training and other services**

Getting together as a group opens doors to business services such as training and micro-credit. Both governmental (Vocational Training Authority, Small Enterprise Development Division, Industrial Development Board and Export Development Board) and non-government projects have played a role in strengthening the 3 sectors in Nachchaduwa.

### **Better marketing**

The floriculture example shows how grouping of entrepreneurs can improve their marketing, where together they can supply more and better products, even up to export level potentially.

### **Know-how on rules and regulations**

As a group, it is easier to have access to government officials to obtain information and services, such as transportation permits.

## **Learning**

### **Temporary solutions do not always lead to permanent solutions**

Direct interventions made by government officials on behalf of a certain business sector can lead to temporary business improvements, as the carpentry example clearly shows. Yet for longer term solution to take effect, entrepreneurs must have a long breath because real changes in policies or regulation may take years.

### **The importance of business registration**

The carpentry example makes a good showcase on the importance of registration for micro and small enterprises. Informal sector businesses are unable to make official invoices and cannot obtain (transportation) permits directly. The access to raw materials is limited and risky because stocks risk to be taken away by authorities. They have to rely on other businesses and pay them to get these kinds of goods and services. This results in high costs. Moreover, because of their informal character they are unable to access wider markets to give them higher prices. So, lower income coupled with higher costs keeps this business in a marginal position.

### **Business registration vicious cycle**

Because businesses are not registered, they are threatened with bribes and subject to illegal payment to ease off authorities. So why are many businesses not registered? There are hard requirements and long procedures on the one hand, but on the other hand, small business owners fear that once they are registered they have to pay (more) to the authorities. This withholds them from wanting to obtain registration. This is a vicious circle (down-ward spiral) scenario which can only be broken by continuous dialogue and trust-building among entrepreneurs and between entrepreneurs and local authorities.

### **Market distortion through subsidies**

The case of the vegetable and fruit sellers illustrates what can happen if business inputs are subsidized. Unexpectedly, this sector shifted from fruits and vegetables to paddy culture, merely because of subsidies. Whether this new 'choice' of business sector has been a wise choice remains to be seen, but it generally it illustrates the volatility of MSE sector in Sri Lanka and there is no doubt that business expertise and experience can not be built properly when businesses change sector over night.

### **Next steps**

The Enter-Growth project and the Anuradhapura MSE Forum can continue to support the carpentry sector and their efforts to obtain registration and business licenses. The strategy to bring together groups and establish associations of entrepreneurs and then link them to local officials to encourage dialogue and search for solutions is effective and should be implemented in other divisions.

Facilitating access to micro-finance and other assistance would help the carpenters to find the necessary capital to invest in their improving their premises as required for business registration. The assistance provided to the floriculture and plants sector by the Japan-project also shows how this can help in strengthening a sector. Efforts to link up with other BDS provides existing service providers for training, marketing support and loans is successful and sustainable way to improve small business sectors should be continued.

More focus can be given to linking MSEs to larger businesses in the private sector and invite such larger businesses to participate in association meetings to get their inputs and ask their assistance in seeking solutions.