



Enterprise for Pro-poor Growth

Second project progress report
and self-evaluation
20 November 2005 to 7 July 2006

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Table of contents

	Page	
1.	Introduction	3
2.	Project Design and Strategy	4
3.	Results	10
	Output 1.1	10
	Output 1.2	15
	Output 1.3	18
	Output 2.1	18
	Output 2.2	20
	Output 2.3	21
	Output 2.4	22
	Output 3.1	23
	Output 3.2	23
	Output 4.1	27
	Output 4.2	28
	Output 4.3	28
	Output 4.4	29
4.	Impact Assessment	30
5.	Cross Cutting Issues	31
5.1	Peace and conflict	31
5.2	Gender	32
5.3	HIV/AIDS	32
6.	Sustainability	33
7.	Project Management	34
7.1	Staff	34
7.2	Consultants	34
7.3	Work planning, monitoring and reporting	34
7.4	Budget	35
7.5	Communication	35
7.6	Collaboration with other agencies and projects	35
7.7	Backstopping and national level support	36
8.	Conclusions and Issues	36
Annex 1	Review of action taken on issues raised in the previous progress report	40
Annex 2	Global work plan	42

1. Introduction

The project Micro and Small Enterprise Development for Pro-poor Growth, Enter-Growth for short, started on 1 June 2005, immediately following the completion of the GOSL/ILO/Sida Start and Improve Your Business project. It was the result of a careful identification and formulation effort by Sida and ILO, in consultation with the Government, which started in August 2003. This included stakeholder consultations in the four project districts, which were fundamental to the project design. The project has a three-year duration.

The project 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. The reduction in poverty and unemployment will indirectly contribute to the sustainability of peace and reconciliation*” (project goal). The project takes a participative and inclusive approach to planning and developing its specific interventions, to ensure a high degree of relevance and ownership. Its work covers three thematic areas. The primary entry point is expanding the access of micro and small enterprises to markets for their products and services. Here, the project supports activities that will lead to a more dynamic and effective market for business services that enable enterprises to improve their productivity, become more market-led, and develop linkages to new markets.

Strengthening enterprise culture is the project’s second entry point. The project strategy includes a social marketing campaign that promotes enterprise as a valued option for employment, and support to the introduction of entrepreneurship training in vocational schools.

Improving the local policy and regulatory environment is the project’s third entry point. The project will strengthen organisation of micro and small enterprises, facilitate the development of a dialogue between them and the authorities, support specific policy and regulatory improvements, and strengthen the authorities’ capacity to develop and maintain an enabling environment.

At the national level the experience gained in the Districts will be shared with national level stakeholders and representatives from other provinces. The project also continues support to the Start and Improve Your Business programme, with the objective of full sustainability. In addition, commercial mass media programmes will be developed that provide small businesses with information and a public platform for debate.

The project is being implemented under the Ministry of Enterprise Development and Investment Promotion. The SIYB Association of Sri Lanka is the national partner for support to the SIYB programme. At the District level, the District Secretaries and Micro and Small Enterprise Forums established with project support are the project’s direct partners.

The project’s first six months, covered in the previous progress report, had a focus on:

- Setting up the project team and infrastructure.
- Establishing the project with the District level stakeholders.

- Further development and operationalisation of the project strategy.

Work over the current reporting period focused on setting the project strategy in motion, while further developing the project's participative approach. This meant:

- Conducting participative needs identification and planning exercises, and follow-up to them.
- Organising and conducting Business Service Fairs.
- Identification of new business services to be developed.
- Conceptualising and preparing the social marketing campaign and other enterprise culture interventions.
- Initiating the work on the policy and regulatory environment
- Promotion and training for small business radio and TV programmes.
- Capacity building in relation to the above.

This report reviews:

- The relevance and adequacy of project design and strategy
- Progress under each of the four immediate objectives and outputs
- Crosscutting themes
- Potential for sustainability

The report concludes with a summary of issues and lessons learned.

2. Project Design and Strategy

The project design has proven valid, overall. The development objective is highly relevant to the four selected Districts, as indicated by the strong interest of MSEs and other stakeholders. Poverty levels in the target areas are high and MSEs constitute the main sector with potential for growth.

The project document identifies market access, regulation, and values and norms in relation to enterprise as the main factors limiting MSE growth, and includes immediate objectives in relation to each. This has proven largely correct. The project has adopted a participatory approach to identifying and addressing needs, called LOCA (Local Competitive Advantage). LOCA exercises demonstrate that issues relating to **market access**, and linked to that skills, knowledge and exposure that affect price, quality and design, are the priority constraint, especially in the view of the enterprises themselves.

The **policy and regulatory environment**, on the other hand, is not as strong a concern as had been expected. The LOCA exercises have identified only few issues in this area. As this could have been due to participants prioritizing other, more immediate constraints, the project designed and undertook one exercise that specifically aimed to identify regulatory issues. Significant issues were identified in several sub-sectors, but in some others regulation did not prove to be a concern at all. Overall, the project's conclusion was that there is scope for improvement, but that for most MSEs the regulatory environment is not an obvious constraint. This is confirmed by the baseline survey undertaken for the impact assessment, which found that a small majority of entrepreneurs who interact with Government is satisfied.

Several reasons account for this. In the first place, generic regulation (regulation that applies to all businesses) is relatively good. Business registration, for instance, is a relatively simple procedure. Getting a license is simple for many (but not all) sub-sectors. Secondly, MSEs may not prioritise regulatory constraints because they are not aware of them. In spite of registration being simple, the large majority (75% in the baseline survey) is not registered, in spite of this being compulsory. Most enterprises simply do not interact with Government, and therefore do not experience problems.

Generally speaking MSEs seem to not interact with the Government because they do not see the need. It may expose them to taxation, without getting anything in return. In addition, the registration and licensing requirement is not strictly enforced, so de facto there are no penalties either. A further factor is that most are ill informed about registration and other regulations.

One could conclude that the business environment is “liberal”, since most enterprises do not experience Government interference. This does mean, though, that there is a large informal economy. Informal MSEs are unable to benefit from certain services, cannot sign legally binding contracts, and are likely to provide jobs of lower quality. This limits their potential to grow. Moreover, considered from the Government’s point of view, they operate outside the law and do not contribute to tax revenues, which limits their contribution to the development of the country. Informality therefore points to an environment that cannot be considered enabling, in spite of the relatively few concrete problems identified by entrepreneurs themselves. The project therefore continues to consider it a relevant and important area for improvement.

The project’s **enterprise culture** assessment has without a doubt established the relevance of promoting enterprise culture in the project area. This is in addition to other studies that demonstrate its importance nation-wide, especially for young people. People consider business as an option of last resort, after white-collar jobs and other wage employment, and farming. Business is “too risky”, failure exposes one to ridicule, business “exploits” rather than contributes to the community, and business success exposes one to envy, to mention just a few of the study’s findings. This restricts the number of people who start or grow a business, which affects economic and social development.

With regard to the way the project pursues these objectives, i.e. **project strategy**, the experience over the past year has resulted in a number of adaptations while leaving the overall framework in place. The project does not carry a “tool box” with ready-made solutions for predetermined issues. Instead, it uses participative approaches to identify opportunities and constraints, and facilitates their being addressed as much as possible by local stakeholders themselves, using local resources. Where necessary, this facilitation includes providing support to development of new services and capacity and resolving policy and regulatory issues. This is the overall structure. Within that structure, **LOCA** has become the basic participatory approach 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 countries¹. 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 or

¹ See www.mesopartner.com

sub-sector and develop and implement ways to strengthen them. In principle LOCA makes use of local resources and initiative, with the project playing a facilitating role. LOCA has replaced the more event-driven approach in the original project strategy, which was to serve the same purpose. The project team believes that it brings the project approach closer to MSEs at the local level, and the private sector in general. It also enables project stakeholders, who are conducting the LOCAs, to take a more in-depth view of local economies than one-off workshops and events would have done.

The original project strategy foresaw that market access and regulatory issues would need to be identified and addressed separately, given the numerous stakeholders at the provincial and district level and the complexity of relations between them. LOCA, on the other hand, is designed to identify issues that affect businesses' competitive position in any sphere of action. With its adoption, separate "streams" of activities for identifying issues in and improving the regulatory environment and market access became unnecessary in principle. The project nevertheless pursued this possibility, as the initial LOCAs brought out few regulatory issues. An approach was designed to specifically identify these, and tested in Kurunegala, in collaboration with Swisscontact, which works in this district as well. Again, few regulatory constraints were found, apart from a low level of registration and licensing, and the findings did not justify continuing with more such separate exercises. Instead, the project decided to modify the LOCA approach to ensure that if there were regulatory barriers, they would indeed be found. This is now being practiced.

Following an internal review of project strategy with regard to the policy and regulatory environment in June, it was agreed, though, that one more attempt should be made to identify regulatory issues specifically and comprehensively and specifically, since the number of LOCAs that can be conducted is limited by the time and effort this takes. The project therefore tentatively plans a pilot exercise in one District in which an inventory is made of permits and documents issued at Provincial, District and lower administrative levels. This will be followed by interviews or discussions with entrepreneurs on what problems they encounter in obtaining these. The exercise will be designed and planned in September.

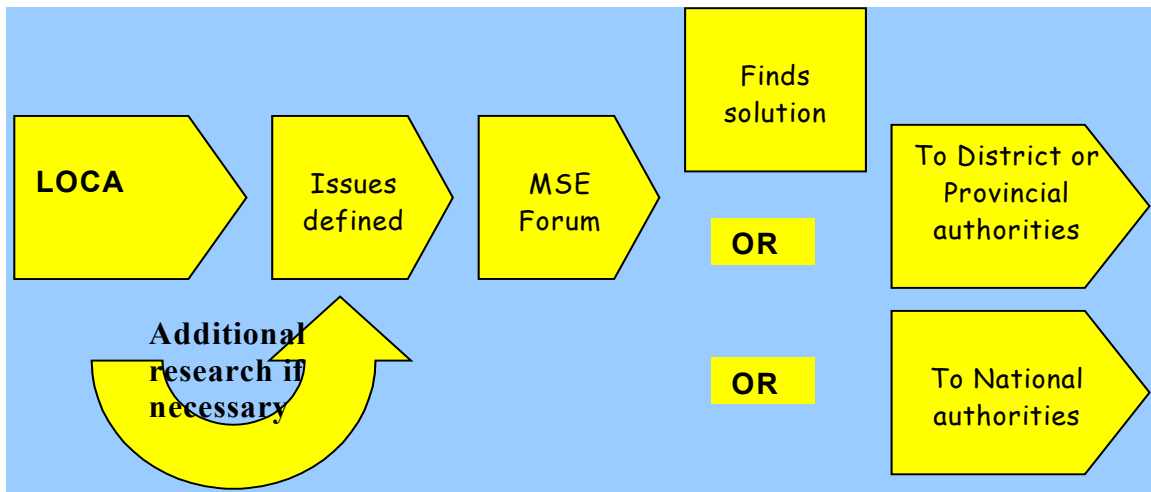
In principle LOCA could bring up cultural constraints on growth as well, and in some cases this has occurred, when business development organizations claimed, for instance, that their target groups were not interested in developing their income generating activities into businesses. An acceptance of dependency on welfare and charity has also proved detrimental to the success of some activities based on LOCAs. However, in general cultural constraints are largely unconscious or implicit, and therefore need another approach. The project has followed the original strategy laid down in the project document, with an in-depth qualitative assessment to identify the values and norms that lie at the root of a weak enterprise culture, and the design of interventions on the basis of the findings. Thus far this has proved effective.

In addition to LOCA, and in line with its emphasis on linking MSEs in the Districts to larger markets, the project is now developing a **value chain development** approach that draws on LOCA, the ILO's value chain development guide, as well as the methodology and experience of the GTZ Value Chain project in Sri Lanka. This is being undertaken in collaboration with that project. LOCA exercises often result in the identification of prominent value chains that hold promise for further development in several Divisions. LOCA can be used to analyse such a value chain separately, and the project has done

this with anthurium growers in Kurunegala. The experience was not satisfactory, though, since the interventions remained focused on the local level rather than on the relations in the chain. The project is therefore modifying the LOCA methodology to suit the development of value chains, and has linked up with the GTZ project, which works at the national level.

The project has supported the establishment of **MSE Forums** in each district, which bring together representatives of the Government, the private sector and NGOs. They are playing the key role foreseen in the original project document, guiding and supporting project implementation, and more broadly facilitating “local economic development through MSE development” in their District. All four forums have developed their own action plan (with project facilitation), earlier than foreseen in the project document. Some of the planned activities have been started. Policy and regulatory issues that are identified through the LOCAs are brought to the Forums’ attention and addressed if possible. The Forums should also function as the main channel for bringing issues to the national level, but this has not yet been adequately realized.

Diagram 1: The Role of the MSE Forum in addressing policy and regulatory issues



The two diagrams below represent first the strategy set forward in the project document, and second the strategy as it has evolved so far.

Diagram 2: Original project strategy flow chart

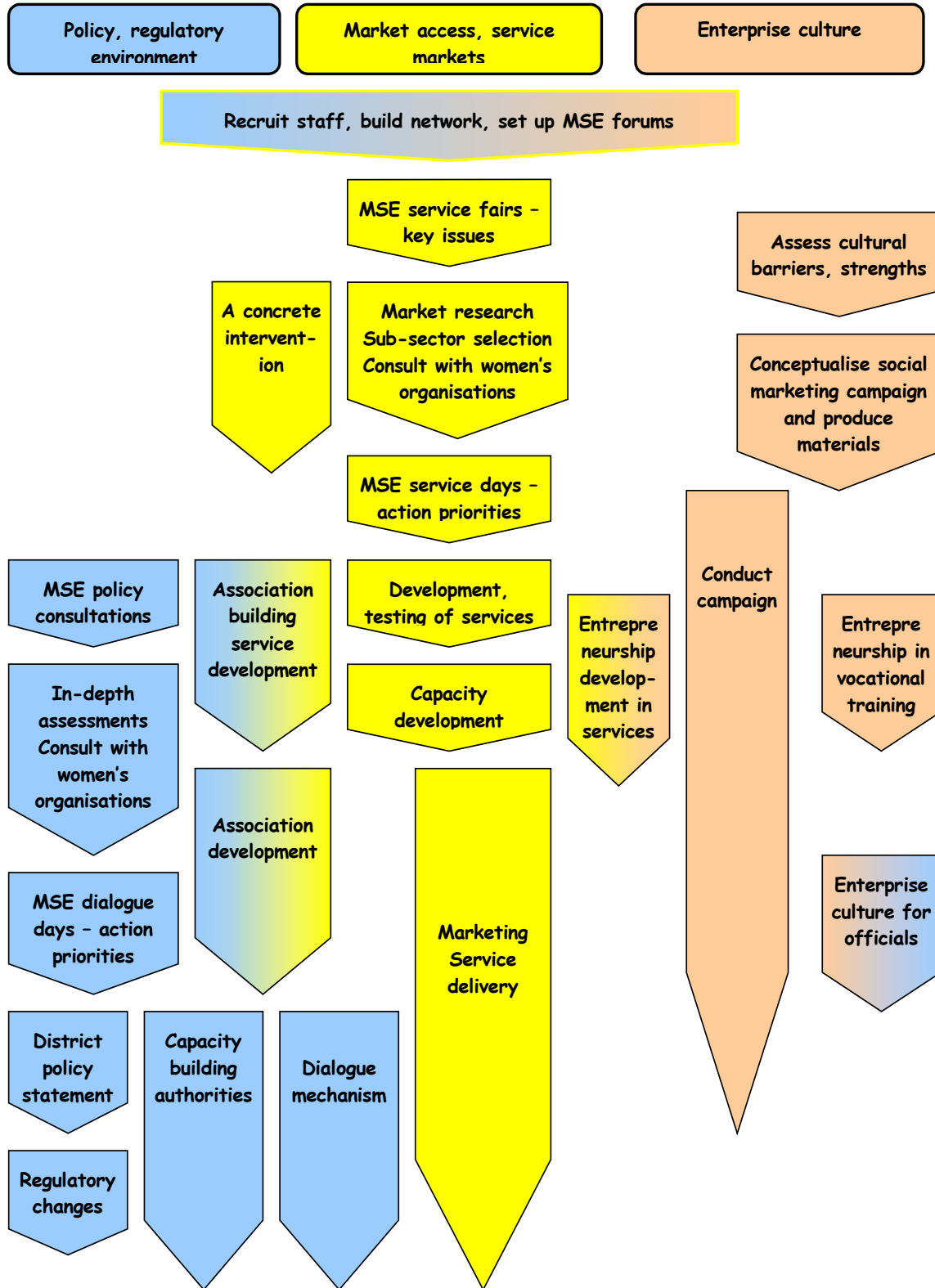
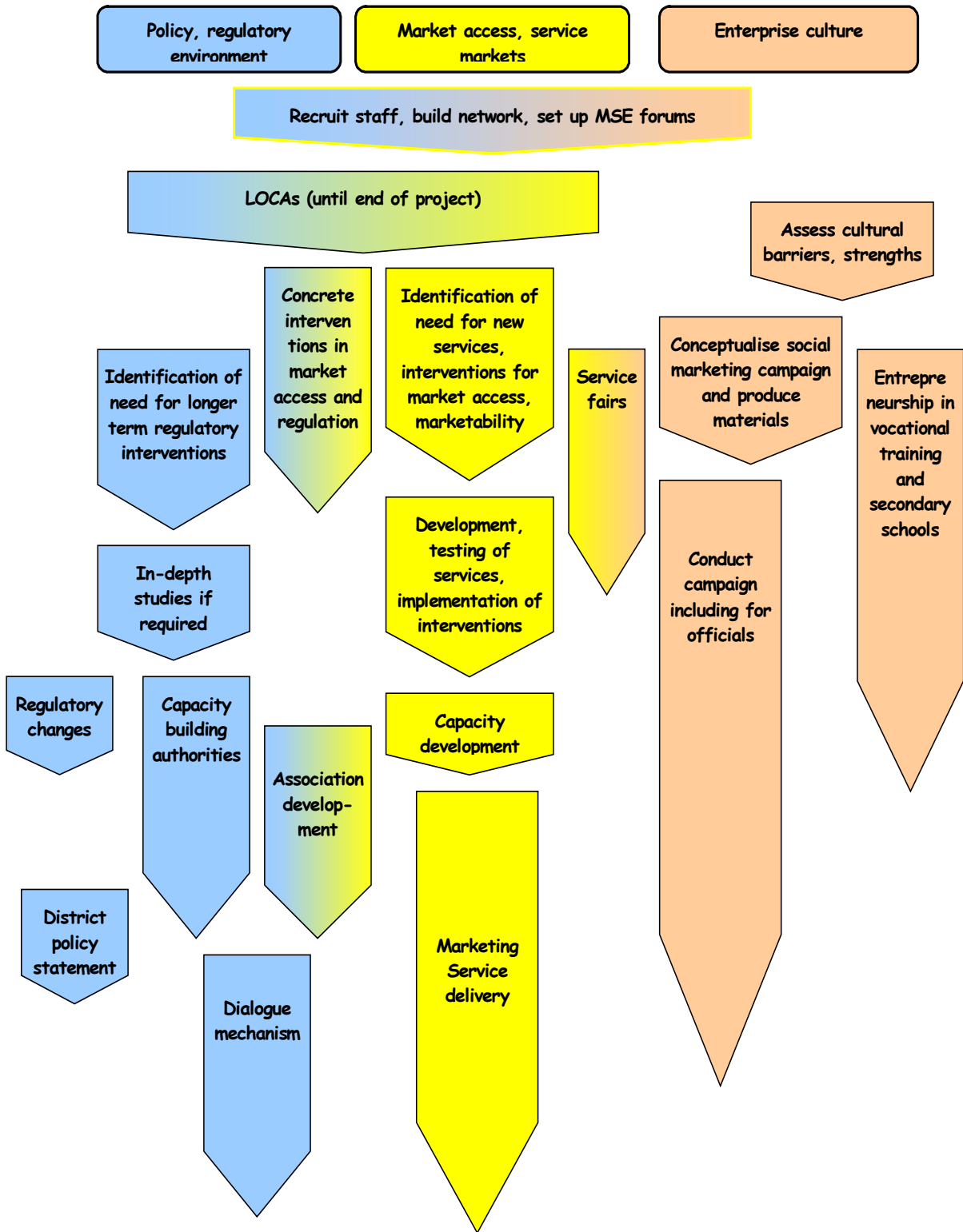


Diagram 3: Revised project strategy flow chart



3. Results

This Chapter reports on project progress against planned outputs. It is too early to judge progress against immediate objectives.

District level - Immediate objective 1

Expanded markets for services and products of micro and small enterprises of women and men in the North-West and North-Central provinces, through increased productivity and competitiveness, a stronger demand orientation, and better market linkages.

Output 1.1

The supply strengthened of business services and skills training that enable women and men in MSEs to increase their productivity, offer more market-led products and services, and develop market linkages.

Progress:

In the previous reporting period, the project trained 25 staff from various organisations, including in the private sector, other agencies (Swisscontact, and an AusAid project), and the project, in the LOCA approach. In the present reporting period, a refresher training was held after the facilitators had run one or two LOCAs. The training also served to exchange experience and review difficulties encountered.

The main organizations that now have trained LOCA facilitators are:

- SEEDS (NGO)
- Industrial Development Board (Government)
- Small Enterprise Development Division (Government)
- Provincial Ministry of Agriculture, Livestock and Fisheries
- Vocational Training Authority of Sri Lanka
- Chamber of Commerce
- Irritech (private sector)

Eight LOCAs were carried out so far, with two ongoing at the time of writing. Two to three more exercises per district are planned for this year,

The project does not consider LOCA as a business development service provided to MSEs. LOCA is an approach to Local Economic Development and it functions at the level of local economies rather than that of individual enterprises, although enterprises may benefit directly from a LOCA exercise. What does LOCA do then, in the project's experience?

- It brings 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.
- It helps stakeholders define their needs, develop solutions and implement them.

In relation to enhancing market access, productivity and quality, such solutions can:

- Be immediate interventions that address very concrete constraints.
- Consist of linking the identified demand to a supplier of a service that addresses a constraint.
- Consist of improving the quality or quantity of a service so that it meets the identified demand.
- Consist of developing a service if there is none that meets the demand.

The following are examples of these, drawn from the first five LOCAs.

Immediate interventions for concrete constraints

Successes:

- Light engineering workshops in Nagensahira Nuwaragam Palatha had no access to discarded leaf springs of Government busses and trucks, which are a cheap source of metal. Such springs could not be sold. This has been solved through intervention of the Industrial Development Board.
- In Hingurakgoda the Minneriya tank was being depleted of fish because young fish were being caught prematurely. The catch was no longer sufficient to sustain the livelihoods of the fishermen around the tank. The fishermen agreed to all use nets with a larger mesh size, so that only mature fish would be caught. This was successfully implemented.
- Seed paddy growers in Hingurakgoda are trying to improve their sales by packaging and branding their produce.
- In Pallama the LOCA process itself and the Industrial Development Board helped attract an investor to set up a coir curl fiber processing factory. The factory is expected to be opened by the end of July. It adds one step to local coir processing and will be supplied by Pallama coir processors, thus increasing local value added. It will employ 14 people.

Not or partially succeeded:

- In Pallama a cashew processing and sales cooperative raised funds locally to open a sales center. So far, though, the funds raised were not sufficient.
- Ornamental flowers and plants growers in Hingurakgoda decided to set up a joint market in Polonnaruwa town, but did not proceed once they realized that they were reaching their markets without one.

Linking demand and supply of services

- In Pallama, access to a working capital loan was facilitated for a cashew processing and sales cooperative.
- Also in Pallama, access to credit was facilitated for the investor in coir curl fiber processing.
- In Kurunegala, anthurium growers do not produce in sufficient quantities to export directly. As a result of the LOCA, the Export Development Board and the

Botanical Gardens supported a study on how to expand capacity of existing growers for export and improve quality and capacity of growers who have been producing for the local market so far. The EDB is discussing linking these groups to two buyers

- The LOCA in Hingurangoda made the Chamber of Commerce realize the extent of the market for ornamental plants and flowers, which are sold through wholesalers and retailers in other parts of the country. They are now promoting this as a business opportunity to others in the District.
- In Hingurangoda the Chamber of Commerce arranged two training workshops for ornamental fish breeders, another good opportunity in this District. A bank has agreed to provide loans to breeders who have formed a new Association.
- There were inadequacies in providing information, instructions, certification and seeds to seed paddy farmers in Hingurangoda. The Ministry of Agriculture in Polonnaruwa has addressed this.
- The Ministry of Tourism of North-Central Province is working together with the Chamber of Commerce and the Hotel and Tourism Association to develop a new tourist map for Anuradhapura. They have also nearly finalized a website.
- With the help of the Industrial Development Board, an entrepreneur in Nagensahira Nuwaragam Palatha is setting up a poultry feed production facility using local materials.
- Garage owners from Nagensahira Nuwaragam Palatha received upgrading training from the Industrial Development Board, with private sector sponsorship.
- Potters from Arachikuttawa received upgrading training, including on new products, from the Industrial Development Board.

Not or partially succeeded:

- The need for technical training was identified in several sub-sectors in addition to those above (coir, garments, handicrafts), and NGO and Government organizations committed themselves to providing the training. In some cases, however, they did not proceed due to lack of funds, or because it is not in their interest to change the status quo.
- In Pallama cashew processors needed loans to upgrade their machinery, but banks were not interested to venture that far from their branch office, and microfinance providers work with “their own” groups of clients, i.e. MSEs that have received other services as well.
- The Industrial Development Board is making efforts to develop a milk processing center under a Rs. 2.5 million “milk village” project in Pallama, but the farmers are not sufficiently interested.

Improving service quality and developing new services

The line between developing new services and improving existing services is quite thin. A service may exist but be inappropriate to such an extent that it needs to be redesigned

completely. Or a service may exist in one District but not in another, or be in insufficient supply.

In accordance with the strategy formulated in the project document, the project sought an early opportunity to start development of at least one service. It found that few MSEs were aware of the benefits of **e-commerce**, be it for promotion and business linkages or for actually selling through the Internet. Some development organizations in Colombo have started to use e-commerce, but access for MSEs has been very limited and the result in terms of sales seems to have been small generally speaking. The LOCA in Anuradhapura found that the Hotel and Tourism Association wanted to set up a website that would promote local hotels and allow bookings to be made. The project saw this as an opportunity to initiate the development of e-commerce for MSEs as a business service in the four Districts. The expectation was that IT and business services providers could be interested in offering setting up low-cost websites for MSEs, and some service providers did indeed express support. The project engaged an NGO based in the US, Peoplink², to introduce its free source software, CatGen into Sri Lanka. Workshops and trainings were held in the four Districts as well as Colombo. Initial interest was very strong. However, the results have been unexpected, and have shown that introducing e-commerce is a national level rather than a District activity. Results include:

- Two national consultants have become fully conversant with CatGen and champion its promotion.
- Ten businesses have set up websites, mostly outside the project area.
- The Sri Lanka Fair Trade Forum will use CatGen and be linked to eBay through CatGen.
- The Information and Communication Technology Agency (ICTA) has expressed serious interest in offering CatGen-based e-commerce as a service in its Nenasala Internet centers across the island, and is piloting this in Hambantota. Nenasala operators were trained on using the software. One thousand centers will be set up under the e-Sri Lanka project, and some are operational already on the project area.
- Other agencies that have received training and expressed serious interest include the Export Development Board, the Spice Council, the National Chamber of Commerce and the Palmyrah Board, which sources much of its produce from Puttalam. The GTZ value chain project has been instrumental in some of these contacts.

However, the uptake among private sector IT providers and other of e-commerce development as a service has not materialized, apart from the two national consultants. In addition, the initiative with the Hotel and Tourism Association in Anuradhapura took a different direction when the Provincial Ministry of Tourism got involved. The strategy now is to push onward with the above organizations, and through them get more MSEs on the Internet. Apart from linking them to new markets this may also stimulate demand for e-commerce services generally.

Based on demand identified through LOCAs, the project has also initiated the development of **association building** training. This will be considered under Immediate Objective 2.

² See www.peoplinc.org and www.catgen.com. For an evaluation of CatGen in Nepal, see <http://sdnhq.undp.org/e-gov/e-comm/nepal-artisans-research-report.pdf>

Also based on the experience with LOCA, the project is proceeding with the development of a **value chain** approach that is based on LOCA and the methodology used by the GTZ Value Chain project, as well as the ILO's new value chain development manual. The project considers this an economic development approach rather than a business service, since it targets a sub-sector of the economy rather than individual enterprises. However, it is a key approach for linking MSEs to bigger markets and therefore fully in line with the project's first immediate objective. In May, Enter-Growth and the VC project held a joint workshop to introduce the value chain approach to the national level business development organizations that have the potential to use it. Interest was very strong, including from some private sector consultancy firms. A full training programme is planned for the end of July, and may be followed by another programme in the project area. The approach is meanwhile being developed through practice, with exercises in Kurunegala, Anuradhapura and Puttalam.

In late June 2007, the project brought together representatives from service providers on the four MSE forums for a one-day structured workshop, to consider what had come out of the LOCAs, the Service fairs and other assessments done by service providers that indicated the need for service development. A range of possible services were identified. The following were prioritized:

- Information and training on packaging, for better marketing and longer shelf life
- Private veterinary services for artificial insemination
- Productivity improvement training
- Training to improve the design and quality of garments
- Improving business ethics
- Market research
- Local quality certification (currently available in Colombo only)
- Secretarial services to help MSEs communicate with larger markets
- Association building
- Information provision on buyers, suppliers, services

The project is already working on the last two (see Output 1.2 for information provision and 2.2 for association building). It is at present considering how to proceed with some of the other services.

Assessment

LOCA fulfils its function well. It results in immediate needs being addressed, and enables the project and other stakeholders to identify needs for new services that enhance market access. Although not a business development service, it is an important service that is likely to contribute to achievement of Immediate objective one. Progress on this output is on target.

However, a large share (about two-thirds) of the proposals that have been developed during the first LOCAs has failed because the MSEs and organizations that committed themselves to their implementation do not proceed. This needs to be addressed, although in any LOCA a significant share of proposals remains unimplemented. The project and LOCA facilitators have learned a number of lessons about how LOCA can be more effective which are now being applied. They are:

- LOCAs need to focus more on competitive sub-sectors. Many sub-sectors are dependent on continuous and apparently interminable “development assistance” and subsidies. There is little incentive for MSEs in these sectors to take matters in their own hands. They are used to be, and will be, “helped”.
- LOCAs need to include more medium size and large enterprises for greater impact. Linkages need to be forged between the smallest, largely informal enterprises and the more dynamic larger businesses.
- Government and NGO service providers can often not be relied on to implement the action plans they have committed themselves to, mostly because of inadequate funding. The project considers the private sector, especially large companies in value chains, but also small service providers such as communication centers and private training centers as the “default option” when looking for solutions, but it proves difficult to change the conventional way of thinking of most of the stakeholders, MSEs included.
- For many stakeholders a “training programme” is the answer to any problem. The project needs to stimulate less conventional ways of thinking, and involve stakeholders in the Government and NGO sectors as facilitators of new solutions rather than as providers.

Output 1.2

The demand strengthened for business services and skills training that enable MSEs to increase their productivity, offer more market-led products and services, and develop market linkages.

Progress

The **Business Services Fairs** have been the project’s main intervention to promote services, provide information on them, and so strengthen demand. The fairs were held over four consecutive weeks in March 2006, and lasted 3 to 4 days depending on the location.

The fairs were organized under the guidance of and, in three of the locations, with close involvement of, the MSE Forums. They played a major role in deciding on the content of the fair and facilitating its organization. They also selected the organizers which were contracted by the project. These were Chambers of Commerce in Anuradhapura and Polonnaruwa, the SME Association in Puttalam, and a commercial event organizer in Kurunegala.

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 drama, cultural shows, music
- Food and drink stalls
- Merry go rounds and similar entertainment for children
- Raffles (in some locations)

Since the project was not yet ready with the preparations for the campaign to promote enterprise culture, the drama and cultural shows were largely unrelated to MSE development. However, by the third fair posters and banners with pro-enterprise messages had been developed, and in the final fair, in Polonnaruwa, the District Manager had managed to have theatre performances around business themes.

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

In total some 120,000 people visited the fairs. This included organized visits by school children. As expected, for many the main interest appeared to be the entertainment. Though many visited the stalls as well, the project noted that stallholders were not proactive in trying to attract them. The District Managers therefore had individual discussions with stallholders and provided them with written suggestions to attract more visitors. At the final fair, leaflets were distributed at the entrance to motivate visitors to go to the stalls, and there was a raffle for those who correctly answered questions about them. These interventions had an immediate positive effect.

The project contracted an independent organization (SEEDS) to conduct interviews with stallholders as well as visitors. The main conclusions:

- The large majority of stallholders was satisfied with the fair and expects to participate in a future one.
- About half the visitors actually 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 about before.

The evaluation also indicated inadequacies with regard to advertising and promotion and logistics, which would have to be addressed in any future fairs.

In addition to their likely effect on awareness of services, the fairs also galvanized the MSE Forums in Polonnaruwa and Puttalam, and to a lesser extent Anuradhapura and Kurunegala. In the first two locations these were the biggest events to be organized for years. The organizers and MSE Forums benefited in terms of increased profile, and organizations worked together to achieve common goals. All organizers made a small profit, except the Anuradhapura Chamber, where a lack of internal control systems resulted in significant over-expenditure. Unfortunately the Chamber is in serious financial difficulties now, which is compounded by the phasing out of the subsidy by the

Federation of Chambers of Commerce and Industry. Although the profile of the Chamber was significantly enhanced, it has not capitalized on this through a membership drive, while membership of the Polonnaruwa Chambers did increase.

The project is also engaged in the development of provincial **databases and a strategy to disseminate information contained in them**. The need for this was identified through LOCAs as well as the MSE Forum action plans. The databases are planned to include information on:

- Buyers and suppliers
- Services (financial and non-financial)
- Government regulations (e.g. on registration and licensing, but sub-sectoral as well)

Development of these databases will therefore contribute to better market linkages, more demand for services, as well as a better regulatory environment.

The project is still in discussion with relevant stakeholders in the two provinces. Both Provincial Governments are keen to be involved. The project is promoting:

- Local, and public- private ownership of the databases.
- Generating an income from sale of the database to those who will market information to the public, so that there is some funding for regular updates, in addition to a possible allocation of the Provincial Government.
- Widespread dissemination of the information through Government channels, service providers, private sector organizations and commercial communication centers in villages and towns. These could decide themselves whether to charge for the information or not. The communication centres would definitely do so, and would be trained on how to use the database.

Work on data collection is planned to start in July. The project has started discussions with the Information and Communication Technology Agency to see how this initiative can be linked to the Government information Centre that the Agency is establishing.

Assessment

Work on this output is on course.

It is likely that the project will commission the organization of business service fairs again next year, and the team has done an assessment of what should be different next time. Lessons include:

- More preparation time is required.
- There is a need for more advertising and promotion.
- Local stakeholders such as Chambers are more effective than a professional event organizer.
- Trade stalls should be limited to locally produced goods.
- The fairs provide a great opportunity to promote enterprise culture.

Output 1.3

MSEs' and MSE starters' access to financial services improved through the development of linkages between representative organisations and service providers on the one hand and financial institutions on the other.

Progress

The LOCAs fulfill the function of identifying the need for (better) financial services as well. In some cases banks were linked to clients, as demonstrated by some of the examples above. The workshop to identify new services to be developed suggested some financial services as well, but these were not prioritized.

The project has not yet decided whether further action should be taken and if so, what it should be. As stated in CGAP's "Country-Level Effectiveness and Accountability Review" (February 2006), "virtually all rural areas have access to financial services" (page 9). Even in the Districts with the lowest point-of-service density, there is one such point per about 2,000 inhabitants. Liquidity and funding for microfinance seem not to be a problem. Most service providers included in the project's baseline study have linkages with credit providers, and those that do not were not particularly interested. Some 65% of MSEs surveyed in the project's baseline study had obtained loans over the past two years. Nevertheless, entrepreneurs' view is that credit is a constraint. Microfinance is often not sufficient for investment and banks require immobile collateral, while most people do not have land title deeds. An upcoming Act on mobile security may address this, and a pilot initiative in some divisions to issue land certificates that can be used as security holds great promise as well. The project suggests that it re-visits its role and strategy with regard to financial services towards the beginning of next year, when the development of new non-financial services is well underway, while meanwhile continuing to collect relevant information through LOCAs. This review should include discussions with national-level projects and organisations in this field.

Assessment

The project has not yet addressed this issue and will reconsider its involvement in early 2007.

District level – Immediate objective 2

A policy, legislative and regulatory environment in North-West and North-Central province that is conducive to the growth of micro and small enterprises by women and men, and will bring more of them into the formal economy.

Output 2.1

A dialogue established and sustained between provincial, district and local authorities, MSEs, and business service providers

Progress

The project is contributing to the development of dialogue in various ways. The **MSE Forums** develop dialogue at the District level, with a link to the Provincial level. The Forums comprise representatives of the District and/or Provincial Government, NGO and

Government service providers and the private sector (Chambers and/or Associations). They have met regularly, every 6 or 7 weeks on average, since their establishment in August/September last year. Meetings are structured around an agenda that largely focuses on Enter-Growth activities, but provides space for others as well. In Kurunegala Swisscontact is represented and contributes agenda items.

LOCA results are presented to the Forums and are discussed and addressed if possible. Joint activities are planned and supported by Forum members. For the Service Fairs, for instance, the Forums set up subcommittees that played a key role in their organization. Similar groups are contributing to the work on business service development. Such joint action contributes to increasing the understanding and trust among the represented organizations and institutions, and should result in longer-term relationships and collaboration.

The development of the **Forum Action Plans**, through structured workshops of one day, has resulted in the identification of shared priorities. These included:

- Development of a database and information provision to MSEs.
- Developing capacity among service providers.
- Development of packaging training.
- Better coordination among Government agencies.
- Increasing membership of Chambers and Associations.
- Strengthening entrepreneurial attitudes through schools.

As will have been seen from the previous section on market access and will be seen from the present and next section, these priorities fall squarely in the project's mandate and it is collaborating with stakeholders on addressing several of them. Better coordination has been addressed by the District Secretary in Puttalam, where an Industrial Development Committee is now functioning. What is important here is that the development and implementation of the action plans is another vehicle for promoting better understanding and dialogue.

The different Forums have a different level of activity, with the one in Polonnaruwa having developed into the prime local economic development body. All, however, have a large core of committed members keen to carry the work forward, and are chaired by the District and/or Chief Secretary. The project is planning to bring together all Forums in July, for an exchange of experience.

In January/February the project supported the MSE Forums to organise a **briefing and discussion** on the progress of their work **for all relevant stakeholders** in the Districts. Although unfortunately in some Districts this turned more into a briefing on Enter-Growth's work, overall the level of participation was good and in some cases there was a lively debate on issues relevant to local economic development. The project intends to hold such events more regularly and plan them better to have a less strong focus on its own activities.

The **LOCAs** provide a mechanism for dialogue at the divisional or value chain level. Representatives of the Government, the private sector and service providers participate and contribute to the main events of a LOCA, and agree on priorities to be addressed and develop action plans for doing so together. Implementation of the action plans often

requires joint action and coordination between agencies. For instance, activities for the development of the tourism sector that came out of a LOCA brought together the Chamber of Commerce, the Hotel and Tourism Association and the provincial Tourism Ministry, which before were not collaborating. The implementation of the LOCA exercises themselves, by “LOCA teams”, brings together facilitators from organizations that usually do not collaborate, with local team members who represent local Government, NGOs and businesses.

At this stage the project is not considering conducting the business climate surveys foreseen in the project document, as the LOCAs provide more in-depth information on regulatory issues, and are based more on dialogue than surveys are. As explained in Chapter 2, the project is considering development and testing of another approach to identify regulatory issues more comprehensively.

Assessment

Work towards this output is on course. Although some of the tools the project is using are different than those foreseen in the project document, they serve the same purpose, i.e. the promotion of dialogue.

Output 2.2

Representative organisations of female and male-owned MSEs developed and strengthened to enable them to participate effectively in a dialogue with the authorities and to facilitate their members’ access to services and markets.

Progress

Developing representative organizations, or Small Business Associations (SBAs) was identified as a priority by the MSE Forums as well as through LOCAs. In December the project reviewed the ILO guides developed for this purpose, and decided to test the simplest.

The pilot test took place in Anuradhapura, in January, with the support of the Enterprise Development Specialist of the ILO Delhi office and several local service providers. It was agreed that it was largely appropriate, and the need for specific changes and additions was established. These are currently being carried out, in consultation with the Anuradhapura service providers involved in the piloting. This includes collection of Sri Lankan case studies for the Reader that goes with the guide. It is expected that this will be finalized in August and that a training of facilitators can be conducted in August or September. Interest from relevant support organizations is strong, and so is demand from informal business groups and associations.

LOCA is also contributing directly to this output. A number of Associations were formed by MSEs that were brought together by LOCA exercises: the Association of Hingurakgoda Colour Fish Growers, the Association of Hingurakgoda Seed Paddy Growers, a Poultry Association in Nagensahira Nuwaragam Palatha, a cooperative of leafy vegetable growers in Arachikuttawa, and associations of light engineering enterprises, home-based garment producers and brick makers in Lankapura. In Pollonaruwa, the Chamber plays a role in this. In Kurunegala, three separate

Associations of anthurium growers joined forces in the project to expand production of these flowers for direct export.

The project has considered using the “Nucleus” approach being promoted by several GTZ projects, whereby MSEs are provided with funds for joint activities if they form groups, and Chambers are capacitated (and funded) to facilitate this. It is the intention (and often happens) that such groups become member of the Chamber. It was decided not to adopt this approach since it appears to be very subsidy-driven. Even if many groups survive the phasing out of subsidies, the project believes that associations forming because of shared interests and problems rather than for funds is more in line with local economic development principles and has a better chance to help local MSEs break out of a culture of dependency. In addition, the project would not have the funds to support a nucleus approach!

Assessment

Association building has proven to be a need, and the project is taking steps to address it. This is on schedule.

The project has not yet worked out what the precise role of the District Chambers can be in this process. Chambers have expressed interest in development of “mini-chambers” on the basis of associations, but this would need to be fully funded by the project, since the Chambers do not have the staff. In addition, the Chambers in Kurunegala has no CEO and in Puttalam a Chambers still has to be established. On the other hand, in Polonnaruwa the Chambers plays an active role in supporting associations without project funding. This issue needs to be reviewed. If the country-wide nucleus project that is being formulated by the Federation of Chambers of Commerce and Industry is funded, the role of the District Chambers will be clear, but the project will have to review its own role.

Output 2.3

The capacity of provincial, district and local authorities strengthened to create and maintain an enabling policy, legislative and regulatory environment for MSE development by women and men, within the framework of national policies for poverty reduction and MSE promotion.

Progress

Activities specifically developed for this output have not yet started. However, the project’s work with the MSE Forums is likely to contribute to this output. In addition, two District Secretaries participated in a Local Economic Development study visit to GTZ and ILO projects in Viet Nam, organized by the GTZ ESSP project in Central Province.

Planning for this output will start in August. At present it appears that training of officials responsible for business registration and licensing may be the first priority.

Assessment

Little has so far been achieved towards this output, but this is according to plan.

Output 2.4

Concrete improvements in the policy, legislative and regulatory environment realised benefiting women and men.

Progress

The LOCAs result in the identification of concrete policy and regulatory issues, which are taken up with the MSE Forums. Below are some examples of successes.

- In Pallama, there is a regulation against mining clay, aimed at protecting this scarce resource, which is being depleted by bricks and tiles production. Following a LOCA the District Secretary has made an exception for small-scale traditional potters, so they can continue their craft. They are allowed to mine two cubic meters a month, which has little impact on the environment.
- In Hingurangoda (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 the Government having a 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 to allow them to provide this service for a fee.
- In North-Central province the Provincial Government turned down requests to convert paddy land into tanks for ornamental fish breeding. Now the Chief Secretary has agreed to consider such requests case by case on their individual merits.

Many issues remain unresolved, though. The project has prioritized the following to be addressed, as issues that are important have a reasonable chance to be resolved:

- 75% of businesses are unregistered and unlicensed, due to lack of awareness and lack of obvious benefits.
- Uneven implementation of regulations, the result of officials not always being well informed.
- Lack of information about regulations in some sub-sectors (like food processing)
- Inefficient procedures in some sub-sectors like food processing.
- Apparent Government monopoly on artificial insemination.
- Limitations on clay mining for small pottery producers.
- One-day duration of tickets to archeological sites, which results in shorter tourist stays.
- Inconsistencies in timber permits, including import of equipment
- Limitations on the use of credit cards in e-commerce (Paypal cannot be used from Sri Lanka).
- Procedures for obtaining land title deeds in Polonnaruwa and Anuradhapura, which include some 84 different step – this is likely to be an intractable issue but since it is such an important obstacle to development the project decided to include it.

Most of these need further investigation. Some have been solved in one District but not in others. Some will need to be brought to the national level. This has recently been

initiated by the project supporting District Chambers from Anuradhapura and Polonnaruwa to raise issues identified through LOCAs at a Business Problem Solving Forum (Samatha Piyasa) of the Export Development Board (under the Ministry of Enterprise Development and Investment Promotion), and the Chambers of Polonnaruwa and project staff participating in an Export and Enterprise Development Forum in Colombo (under the same Ministry). This Forum is held on a regular basis and could be an important channel to bring District level issues to the national level.

A comprehensive strategy to the above and other long-term issues will be developed in August/September.

Assessment

Significant progress is already being made. Addressing further issues from the second half of 2006 onwards is according to plan.

District level – Immediate objective 3

Authorities and communities in which the poor predominate regard starting and growing micro and small enterprises by women and men as a socially and economically attractive activity.

Output 3.1

Appreciation strengthened among local, district and provincial level government staff of the importance of MSEs for local economic development and poverty reduction, with specific emphasis on MSEs owned by women.

Progress

Apart from the project's work with the MSE Forums and meetings with Government stakeholders, no activities have yet been undertaken towards this output. Training for officials will be planned later in the year, and this may include content on the importance of the MSE sector. Officials will also be targeted by the social marketing campaign.

Assessment

This was planned for later in the project.

Output 3.2

Appreciation and confidence developed in poor communities with regard to women and men starting and growing MSEs.

Progress

At present, three main activities contribute to this output:

- Introduction of the Know About Business (KAB) business awareness and entrepreneurship package in vocational and technical training.
- Introduction of Entrepreneurial Studies in secondary schools.
- The "Palama" social marketing campaign.

Each of these is grounded in the enterprise culture assessment that was carried out in the project area in late 2005. The comprehensive report was completed in February. Some of the main findings have been mentioned in Chapter 2.

Know About Business is being progressively introduced in vocational and technical schools in the project area. Since project start, 38 trainers were trained in the four Districts. One institution has started to use KAB, six will do so in August, while one has lost its trainer. The Vocational Training Authority has requested project support to introduce the package in all its institutes in the country. A further training of trainers is therefore planned for August. KAB trainers were also trained for the World University Service of Canada, through the SIYB Association. The total number of KAB trainers nationally is now 100. More KAB training of trainers in the project area is planned for late in the year. Four additional KAB Master Trainers are being trained at the International Training Centre in Turin, at the time of writing, with a substantial financial contribution arranged by the Centre.

Following a number of meetings late last year, in January the project received an official request from the National Institute of Education to assist with the development of **entrepreneurship curricula for secondary schools**, to be introduced in 2007. Although not included in the project document, the project considered this an exceptional opportunity to promote enterprise culture on a large scale. It met the NIE to define the scope of the work, and was fortunate in obtaining the services of one of the co-authors of the ILO's Know About Business package, with wide experience in introducing entrepreneurship in educational systems.

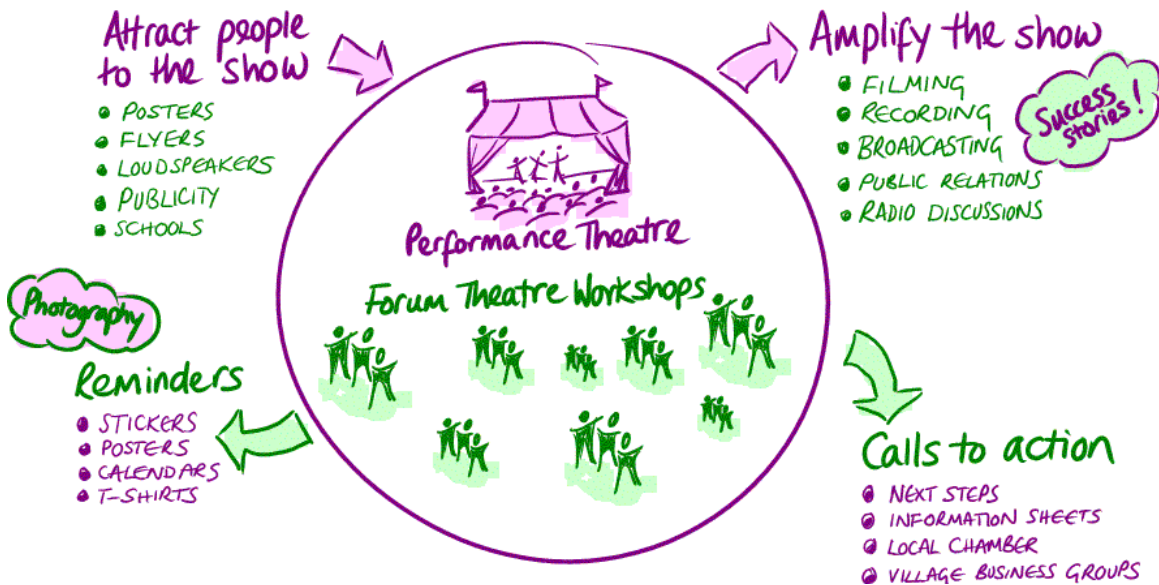
The work on the curricula was carried out by a team of varying composition, including NIE staff, the Enter-Growth team, and Sri Lankan consultants hired by the NIE. Ideas about what the curricula should comprise diverged substantially, large numbers of people were involved, and progress was not always smooth. In particular the extent to which the curriculum would draw on Know About Business was unclear at times. Eventually, however, the project believes that good results were produced. The following are now available:

- A curriculum and material to teach entrepreneurship in grade 6.
- A curriculum and materials for teaching Entrepreneurial Studies as an elective in grade 10.
- A curriculum for teaching entrepreneurship in grade 11.

This is to be followed later by material for grades 7 to 9, 11, and 12 to 13. The first two items above are to be introduced in 2007.

Some 40 teachers were trained to pilot teaching activities included in the grade 10 curriculum. The pilot is ongoing at the time of writing. Feedback and revisions will take place in July, followed by training of some 150 Master Teachers, who, over the remainder of the year, are expected to train five to seven thousand teachers on the use of this curriculum. The project will support the training of the Master Teachers, but is not involved in the training of the teachers and has not been requested for support. The overall design of the **social marketing campaign** was completed in March, by a team comprising Sri Lankan and international social marketing and advertising specialists, complemented by the enterprise culture researcher. The core of the

campaign consists of performance and forum theatre. Forum theatre is a form of theatre in which, after an initial performance of a short play, the audience is invited to intervene in the story, and to take over the lead and perhaps other roles in order to change the story's tragic ending. This enables the audience to examine and explore their own motivations and environment. The technique was created in Brazil and is now being used all over the world, in developed as well as less developed countries. Over the next nearly two years, some 82 regular performances and 2,400 forum theatre events are planned to be held. An expected 100,000 people will be involved directly. The theatre will be supported by media such as posters and stickers, and "amplified" through mass media, with recordings of performances, discussions and regular coverage. It is expected that eventually most people in the four Districts will have become aware of the campaign and its messages, and that there will be significant exposure at the national level as well.



Building on the findings of the enterprise culture assessment, the campaign is "branded" "Palama", which means bridge in Sinhale (Palem in Tamil), with "Your business, our future" as motto. It presents enterprise as a bridge from poverty to prosperity, which can be crossed together rather than by the individual (since individual wealth-seeking is not appreciated). The vision of enterprise that will be promoted is that it:

- 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 fulfilment in what they do;
- Provides valuable services and products;
- Creates new job opportunities and stimulates growth in the community.

Values that will be encouraged are:

- Respect for business as a livelihood option
- Respect for women in business
- Innovation and creativity, looking for new opportunities
- Respect for failure and learning by doing
- Information seeking
- Planning
- Self-confidence
- Capital building, borrowing and saving

The campaign will be conducted under the auspices of the Ministry of Enterprise Development and Investment Promotion and the Federation of Chambers of Commerce and Industry. Because the duration of the campaign and the extent to which its message can be reinforced and amplified by other media than theatre are critical to its success, the project has been seeking corporate sponsorship. A sponsors' information pack was developed, and some 25 meetings conducted with chairpersons and CEOs of some of the country's most important corporations. Although several expressed tentative interest, most have their own corporate social responsibility programmes and advertising campaigns in place. No commitments were made so far, although with some discussions are still ongoing. The project is also exploring collaboration with other donors or projects. Partnership with the UNDP Access to Justice project seems a possibility at this stage.

The project intends to keep potential sponsors informed of progress on the campaign and maintain regular contact, so that a renewed sponsorship drive early next year will have a better chance of success.

A campaign director with media and communication experience has been recruited, who has overall responsibility for the management of the campaign. The theatre group Jana Karaliya has been selected as the project's partner for the theatre component. This is the only group with a capacity to carry out this work, although further training on forum theatre techniques will be required. A start has already been made with this, in June. Future training will be undertaken in collaboration with the British Council, which has played an important role in introducing forum theatre into Sri Lanka.

Some media coverage of the campaign and other enterprise culture work has already take place. The theatre will start off in Polonnaruwa, with the recruitment and training of actors, in July. This will be followed by the other districts at intervals of 3 months. Accompanying launching events are being planned at the time of writing. These are expected to include an enterprise bus with a photo exhibition and a poster competition in schools.

Assessment

Good progress has been made towards this output. The work with the NIE is an unforeseen opportunity which the project has been able to respond to in an appropriate manner. The project has so far failed to secure sponsorship for the Palama campaign. The time and effort invested in this may eventually pay off when sponsors see the campaign happening.

National level – Immediate objective 4

Greater access countrywide to market-led, sustainable business services for micro and small enterprises owned by women and men.

Output 4.1

The SIYB Association enabled to technically fulfil all its mandated functions with regard to sustaining the national SIYB programme.

Progress

The Association is functioning fully independently from the project. In May the secretariat moved to its own office. The only ongoing support the project provides is participation in the Executive Council meetings and advice on recruitment of staff.

In the project's opinion the Association is doing well, and some earlier problems, such as the relationship between members and the Secretariat, are being addressed, although more may need to be done. The Executive Council does committed and professional work. The Secretariat performs the ongoing coordination of the programme, and has managed to facilitate inclusion of SIYB in several projects, including the large Back to Business programme for tsunami-affected areas. Training figures for 2005 were slightly under those for 2004, but still well over 3,000 trainees.

The activities identified in the project document do not appear to be priorities at present and have not been identified as such by the Association. Instead, the project has facilitated implementation of action plans that came out of an organizational strengthening workshop the project facilitated in the last reporting period. Most of the action plans have been implemented. This includes:

- Revision of the business plan that was drawn up before the organization's establishment. Some of the assumptions on which the plan was based have changed, and a document grounded in experience needed to be developed. A draft has been completed.
- Implementation of trainer development programmes that are free for Association members – two programmes have been conducted and a trainer upgrading programme has been planned.
- Establishment of a Master Trainer Forum – at a MT refresher training in July MTs decided to have half yearly meetings.

Little concrete action was undertaken to improve communication between the Secretariat and the members. However, to improve the team spirit among Association

members, which had also been identified as a weakness, the project supported a team-building workshop in Kandy. This was well-attended and much appreciated. The project has transferred responsibility for the coordination of the Know About Business Programme, which it initially managed itself. This still required close collaboration and support from the project.

The project is going ahead with funding an additional staff member at the Secretariat, suggested in the previous progress report. This person will focus on marketing Expand Your Business rather than a more general function as had been considered originally. Recruitment was delayed due to difficulties in finding a suitable person. This has now been solved.

Assessment

There has been little progress with activities originally planned, as at this stage they do not seem to be among the Association's priorities. These activities will be revisited at a later stage, but at present the project intends to proceed with support that is actually requested.

Output 4.2

The SIYB Association and Partner Organisations supported in marketing the SIYB programme in the North and East of Sri Lanka.

Progress

Training of Tamil medium trainers and Master Trainers, most of them based in the North and East, was already supported in the previous reporting period. Additional training of trainers was conducted this year (two programmes). Trainers were also brought together to review their experience so far. There are now six Tamil medium Master Trainers and 84 trainers. Partner Organizations in the North and East number 13.

The Association's records show an increase in the delivery of SIYB in the North and East over the past year, in spite of deteriorating security in the past six months. From July 2004 to June 2005, 10 SIYB trainings were conducted, for 186 trainees. From July 2005 to June 2006, 31 programmes were conducted, for 576 trainees.

Assessment

This output can be formally considered completed. However, the project will continue to monitor training delivery, to see whether further support is required.

Output 4.3

A commercially, technically and institutionally sustainable EYB programme under the national SIYB programme.

Progress

No further Expand Your Business training has been conducted. The total number of fast-growth entrepreneurs trained therefore still numbers 100. However, two more

programmes are planned for the next two months. It is clear, though, that the goal of a commercially viable programme is not any closer, especially since training continues to be subsidized by 50%.

The EYB marketing strategy was reviewed already in late 2004, under the SIYB project. One of the recommendations was to explore collaboration with a well-recognized management training institute. Following discussions with the project the Association has attempted to interest the National Institute of Business Management. Collaboration was agreed on for a pilot training, but since the NIBM did not want to play a role in the marketing, which was the reason for involving it, this was not successful. The project also supported the Association in conducting promotional seminars in its four target Districts as well as elsewhere. This was done in collaboration with Chambers of Commerce. This resulted in applications that were sufficient for just one course.

Although the market for EYB is small compared to SIYB, it is definitely larger than what is currently being realized. In particular, there has been no training in Colombo and the Western Region, where most growth-oriented entrepreneurs can be found. The project is therefore supporting the Association to re-launch the programme and carry out a branding campaign. This was designed in the present reporting period, and will be carried out over the next six months. The Association is currently recruiting an EYB marketing manager who will be responsible for this effort.

The EYB Tamil translation has been completed but not yet printed. Training of further EYB trainers will be considered when demand increases.

Assessment

Progress on this output is still unsatisfactory. The project expects better results over the next six months.

Output 4.4

Commercial small business radio and/or television programmes established that provide information, offer a forum for discussion, and strengthen the demand for business services.

Progress

In January the project sponsored audience research that demonstrated a strong demand for small business radio and television programmes and indicated dissatisfaction with current business programming which focuses on the corporate sector and often reads like company press releases and advertisements. The project also sponsored media monitoring of radio and television stations, which demonstrated that business coverage in general is low, while coverage of small business issues is minimal.

The project presented this research and the concept of programmes for small business at a workshop for media representatives and advertising agencies, in March. This was followed by meetings with individual stations to promote the concept and gauge their interest. Six potential partners were identified.

The next step was collaboration with the Sri Lanka College of Journalism (under the SL Press Institute) to conduct a mid-career course for business journalists and

programming staff, mostly from the interested stations. The one-week course was developed and conducted by an international trainer, supported by national consultants, in the College's state of the art facilities. The 16 trainees were exposed to a wide range of programme formats and techniques. Much of the training was practical, with trainees producing short documentaries for radio and television. The programme was highly appreciated and was said to break new ground in many respects. The project's national consultant on small business programmes has reported that she has already seen some of the impact on ongoing business programmes. Sessions on small business programming were also conducted for the College's regular diploma course students. The international trainer has left behind a wealth of materials in terms of programme formats and the course manual.

At present the project is holding follow-up meetings with the interested stations. Two appear to be ready to start small business programmes. These are stations with a small reach, but if their programmes are successful more are likely to follow. The project is also assessing what further support may be required.

Assessment

Progress on this output is good. The next six months are critical to see whether stations that have started small business coverage will attract an audience and sponsors.

4. Impact Assessment

The project's approach to impact assessment was designed in the previous reporting period. The baseline assessment was carried out in the first quarter of 2006. This comprised:

- A survey of 150 MSEs in one division in each of the four Districts, i.e. 600 enterprises in total.
- A survey of 50 business service providers.
- A survey of 25 Small Business Associations.

The reports of these studies have been completed. They provide a deeper level of analysis than had been expected, and can play a role in the assessment of needs as well as being the project's baseline. Some salient findings:

- The level of poverty among MSEs reflects the high level of poverty in the project's target Districts.
- Business confidence and optimism about growth appear to be high.
- Few entrepreneurs are members of Associations of Chambers (8%).
- Nearly half the Associations have no elected leadership.
- Only 24% of businesses are registered and 21% licensed.
- Nearly half have no opinion about regulations and a third are not concerned about officials' attitudes – they seldom interact with them.
- The majority of entrepreneurs who expressed an opinion is satisfied with several aspects of the regulatory environment, but the minority that is not satisfied is significant.
- 65% obtained a loan over the past two years, i.e. access to credit seems good.

- 40% used business services over the past two years, most usually vocational training (29%).
- Less than half the business service providers charge a fee.
- Few gender differences were found in any of the indicators. Membership of Associations (fewer women) is an important exception.
- Variation by District is strong on many indicators, including business size and growth, access to services, and interaction with the Government.

Research on secondary sources is still ongoing.

5. Cross-cutting Issues

5.1 Peace and conflict

A Peace and Conflict Impact Assessment was conducted in the previous reporting period. This helped the project to be more aware of this dimension of its work.

The assessment resulted in a number of recommendations, of which the most important are reproduced below. The situation is largely the same as six months ago, with the exception of staff recruitment.

Recommendation	Action
Create more awareness and capacity among staff and partner organizations to include the peace and conflict perspective and promote an inclusive, “working together” business culture.	The assessment itself contributed to developing awareness and capacity in the project team. Awareness raising in the MSE forums and BDS providers may be considered when more concrete results have been delivered. Where ethnic issues are prominent (Puttalam) awareness seems to be high already.
Recruit more Tamil and Muslim staff.	In the previous reporting period a Tamil speaking Muslim was recruited to assist the District Manager in Puttalam. In the present reporting period a Tamil speaking Muslim assistant was recruited in Polonnaruwa. These are the two Districts with the highest share of Tamils. Ethnic group and language continue to be taken into account in capacity building exercises. Tamil translation and interpretation is done when necessary, when the project has control over this.
Assign the responsibility of monitoring the peace and conflict perspective to a particular team member.	Has been assigned to the Deputy Programme Manager. In practice, though, the District Managers play an important role in ensuring ethnic balance and equity.

Build up a network on the national level of cooperation partners for supporting conflict sensitive development.	No action yet, and not yet planned. This would require significant time and effort and project management doubts whether anyone on the team has the time.
Include conflict sensitive monitoring indicators and develop an appropriate monitoring system and checklist.	An attempt was made at the impact assessment workshop to include relevant indicators. They have been part of the baseline assessment. A “social objectives” checklist was developed for the LOCA exercises which includes relevant questions. LOCAs have been held in divisions with ethnic diversity.
Develop transparent selection criteria for partner organizations.	Transparent criteria were developed for the composition of the MSE Forums, selection of divisions for LOCA, selection of facilitators. Capacity building assistance is available to all stakeholders.
Strengthen multi-ethnic institutions.	Most institutions except the Government and national NGOs seem to be not multi-ethnic. Associations appear to be largely of one ethnic group, and have no desired to change this, according toll the baseline study The project will consider whether this can be addressed in the Association building training.

For now, the project continuing its strategy set out in the previous progress report to keep the conflict dimension in mind in order to “do no harm”, and be as equitable and transparent as it can. A more pro-active approach could be considered if and when this appears justified by the conditions in the communities the project works with and if it contributes to the project’s main goal.

5.2 Gender

The project continues to encourage participation of women in its activities and to monitor the extent to which this is successful. In implementation of LOCAs, care is taken to invite women entrepreneurs and representatives of organizations, and to include sub-sectors that are dominated by women. The project estimates that overall about half the participants are women. Since these are events with large numbers of people there is no “counting heads”. About a third of the active LOCA facilitators are women.

The membership of the MSE Forums is still largely male, in spite of efforts to redress the imbalance.

Composition of the project team is unbalanced as well, but has improved over this reporting period. Three of the twelve professional staff are women, compared to none in

December 2006. The majority of the consultants the project has worked with are women as well.

The gender dimension has been included in the analysis of the baseline assessment and the enterprise culture study. The latter found that:

- Men are thought to be better businesspersons than women, though the difference is not strong.
- Women face problems of mobility which form a constraint on their business success.
- Women are less organized in associations.

So far no gender-specific interventions have been designed, although some of the activities that came out of LOCAs benefited mainly women. The Palama campaign aims to make people more aware of constraints on women and to have respect for women entrepreneurs. The association building service will need to have a specific focus on women entrepreneurs.

5.3 HIV/AIDS

This has not yet come up as a priority. The project has been in contact with the ILO HIV/AIDS project for possible collaboration, but nothing definite was agreed. The most likely area of intervention is inclusion of HIV/AIDS issues in SIYB training.

6. Sustainability

The project has just completed its first year, and little can therefore be said about the sustainability of its approaches, let alone of its impact.

Prospects appear to be relatively good, though. The MSE Forums are functioning well and meet regularly, without financial support from the project. In Pollonaruwa it has been suggested to register it as an NGO or Association, so it will have legal status. There is a possibility that the Forums will eventually evolve into the sustainable dialogue mechanisms the project is to support the development of.

Three of the service providers that are involved in the implementation of LOCA exercises have informally agreed to include LOCA in their regular work plans. For the current financial year the project is still covering the direct costs of the LOCAs. However, to foster independent management and implementation, the project now contracts a provider to conduct a LOCA in collaboration with other organisations, rather than the project taking the lead. Several LOCAs have been successfully carried out in this manner. The project is still involved in a technical support function.

There is no reason to expect that some of the concrete improvements achieved as the result of LOCA exercises will not prove sustainable, but this is better assessed at a later stage.

Much of the impact and sustainability of the project's achievements depends, naturally, on the security situation in the country and in the four Districts in particular. Over the past few months there have been significant security incidents in Puttalam, Anuradhapura and to a lesser extent Polonnaruwa. So far there has been no noticeable effect on the project's work, but obviously if this continues or worsens the prospects for local economic development in these areas will become dimmer. One of the assumptions in the project's logical framework matrix is that there is no return to the armed conflict. This underlies the goal, the programme objective, as well as the immediate objectives.

7. Project Management

7.1 Staff

The Chief Technical Adviser considers that the project has an excellent team. Over the past year it has demonstrated very strong commitment, a capacity to innovate, learn fast and work hard and under high pressure, and a wide range of complementary talents. The District Managers as well as Colombo staff are highly regarded in the Districts.

District Managers are now supported by assistants in each of the offices. Their recruitment has helped create a somewhat better gender and ethnic balance.

Staff has benefited from various training activities that were in the first place aimed at stakeholders. Due to work pressure, the project may not have done enough in this respect. In particular, more training may be required on private sector solutions to private sector issues.

In August the project will be joined by a Swedish Junior Professional Officer. She will focus on business environment issues.

7.2 Consultants

With one or two exceptions, the project has been very fortunate to obtain the services of a number of excellent consultants, national as well as international, who work at a very high professional level and with a high degree of independence. None of the results would have been possible without them.

7.3 Work planning, monitoring and reporting

The project team meets regularly to review progress and for joint work planning.

Work plans consist of a global one-year plan, which provides the framework for detailed quarterly plans, of the Colombo office and of the four District Offices. Progress is reported against these work plans.

LOCAs are reported on in a standard format, once the actual exercise is completed. Progress on LOCA implementation and follow-up is reported on in an Access database.

Work plans (in Excel) and the LOCA database are available to all project staff on the project website.

7.4 Budget

At the time of writing, 34% of the budget has been committed. Expenditure has been largely as planned. It has been necessary, though, to transfer funds between budget lines due to certain types of contracts being charged to certain types of budget lines only. There will also be cost increases due to rising rents and the SIYB Association having established its own office, taking with it the equipment that the project was leasing from it. Staff salary increases to reflect the increase in the cost of living also contribute to overall cost increases.

7.5 Communication

The previous progress report pointed out that the project was not well-known and suggested that there might be a need for a more systematic communication strategy. The business service fairs have largely addressed this. The fairs themselves and the publicity around them definitely put the project on the map in the four Districts. The project also continues with ad hoc press coverage of events as well as placement of articles. The Palama campaign has already had some television and press coverage. This will be amplified as part of the campaign itself. At present communication with the general public is therefore not a concern.

Communication with development professionals will become more relevant when the project has more achievements to report on and can present more lessons learned.

7.6 Collaboration with other agencies and projects

The BDS core group which was revived at the start of the previous reporting period has been renamed the Local and Regional Economic Development Group, and has been joined by the GTZ Value Chain project, GTZ's Micro, Small and Medium Enterprise Support Programme, and the ILO's Income Recovery Technical Assistance Programme (both the latter for tsunami affected areas). The group facilitates the exchange of experience, approaches, expertise, and the development of joint activities.

The project has continued developing its partnerships with Swisscontact and GTZ's Economic Strategy Support Programme (ESSP). In particular the collaboration with Swisscontact has become very concrete, with joint organization of the pilot exercise to identify regulatory constraints in Kurunegala and another exercise to establish market failures. Collaboration on establishing a database is ongoing. Mesopartner, the consultancy firm that developed and owns the LOCA approach is continuing to provide concerted support to the three projects. The project much appreciates this collaboration and the support that it provides.

The collaboration with the GTZ Value Chain project on developing a Sri Lankan capacity in value chain development is also very beneficial to the project, and much appreciated.

The project is maintaining close relationships with the ILO Poverty Reduction through Integrated Small Enterprise Development (PRISED) project in Viet Nam, with which it has many things in common. Two District Secretaries visited PRISED and Enter-

Growth's Deputy Manager took part in an experience sharing event between different provinces. PRISED's CTA will visit the project in July, and Enter-Growth's CTA is expected to take part in an internal review of PRISED in September.

The project meets regularly with the Youth Employment Network coordinator, JobsNet, and the responsible official at the ILO Area Office to ensure coordination and explore possible synergies.

7.7 Backstopping and national level support

The project is receiving excellent support from the ILO Area Office. Given the scope and flexible nature of its activities it is not an easy project technically or administratively, but the office has always proven ready to assist.

The temporary Enterprise Specialist in Delhi has provided a lot of excellent hands-on support to the project. He has left but will soon be replaced.

The Job Creation and Enterprise Development Department in Geneva has provided support when requested. The design of a value chain development approach has benefited from a manual developed in Geneva and the project has been fortunate to contract the main author of the manual for this work.

The project has received valuable support from the Ministry of Enterprise Development and Investment Promotion and the Federation of Chambers of Commerce and Industry whenever this was requested, e.g. for the service fairs and the Palama campaign.

8. Conclusion and Issues

The project believes that the project design is still valid and its strategy appropriate. Although at the activity level there have been changes and approaches other than had originally been foreseen are being used in some cases, the framework of goal, objectives and outputs is in place and being realized as planned. Changes in activities and approaches have been made with that framework in mind and to ensure greater local participation, especially of MSEs, and therefore greater effectiveness

Progress has been satisfactory overall, although there have been some delays, in particular with respect to marketing Expand Your Business. Weaknesses, in particular in the implementation of LOCAs, are being addressed. This should increase the success rate of the proposals that come out of LOCAs, although it should be accepted that even under the best of circumstances a significant number will fail. The Business Service Fairs suffered from weaknesses in promotion and logistics. These have been identified and will be addressed in future fairs. The project has so far failed to attract sponsorship for the Palama campaign. Further efforts will be made once the campaign has established itself.

Linkages between activities are made when possible, to ensure a concerted programme. For instance, the enterprise culture assessment has benefited work on the secondary schools curricula as well as the Palama campaign, and there is scope for synergies between the work in schools and the campaign as well. KAB trainers have supported the

work at the NIE. Disparate suggestions for databases and information centers in the different Districts have been brought together in a coherent strategy for information collection and dissemination, which is being linked to the national level.

The project therefore believes there are few issues to address. They are:

- The effectiveness of the LOCA exercises needs to be enhanced. This is already being addressed, through:
 - A greater focus more on competitive sub-sectors.
 - Inclusion of more medium size and large enterprises.
 - A greater focus on private sectors solutions.
 - More unconventional thinking about possible services.

The project should organized more experience sharing and training of LOCA facilitators to facilitate this.

- Value chain development holds great promise for linking MSEs to larger markets. The project should continue with its work on developing a capacity in this methodology.
- The project has not addressed issues related to access to finance in any systematic way. The extent to which it should, and how, should be reviewed the beginning of next year.
- The project will make another effort to develop a more efficient way to identify regulatory issues in a comprehensive manner. This will be piloted in one District and discontinued if it is not more efficient than LOCAs.
- The project needs to establish the role District Chambers can play in the development and strengthening of Associations.
- A start has been made with linking District stakeholders to the national level, in particular to address policy and regulatory issues. This should be pursued in collaboration with the Federation of Chambers of Commerce and Industry and the Ministry of Enterprise Development and Investment Promotion.
- Sponsorship for the Palama campaign has not yet been forthcoming. Although for now this is not an immediate concern, the campaign would benefit from sponsorship in the longer term. The project will therefore keep potential sponsors informed of progress and ensure good coverage in the press that targets corporate bodies. It will approach them again a few months before the end of the financial year.
- Progress on establishing Expand Your Business in the market is highly unsatisfactory. The project should hold regularly review meetings with the SIYB Association to monitor and if necessary assist the branding campaign that is now about to start.

Finally, the project document states that “depending on the extent to which the programme is proceeding as planned, an independent mid-term review and/or an end-of-project evaluation will be conducted”. The project does not consider that a conventional mid-term review would be useful at this stage or later. Rather than a comparison of outputs and activities with what is actually being achieved, the project believes it could benefit from a strategic review of its approaches by a leading enterprise development and “making markets work for the poor” specialist who has not been involved in project design and implementation, and can take an entirely fresh look at what is being done. The project suggests that this strategic review mission could take place late this year or the beginning of the next.

Annex 1 Review of action taken on issues raised in the previous progress report

Issue	Action taken
The project should consider developing a more systematic communication strategy.	Publicity generated by the business service fairs has addressed the issue of the project being insufficiently known. The Palama campaign will contribute to this as well.
It would be useful for the Job Creation and Enterprise Development Department to constitute a multi-theme backstopping team.	The project relates to individual specialists as required, which works well.
Extension or replacement by someone with similar skills and qualities of the temporary Enterprise Development Specialist in New Delhi, when he leaves in February, would ensure continued good support in the sub-region.	The Specialist is being replaced.
The project should increase the participation of Government and BDS providers in the LOCA exercises.	This has been done. Inclusion of medium and large companies is even more important and is also being achieved.
An effort needs to be made to ensure that local LOCA team members (those from the Division or sub-sector) are fully involved.	The project is generally, but not always, successful at achieving this.
Organisations that provide LOCA facilitators should play a lead role in the follow-up to the LOCAs.	This is being achieved by the project contracting organizations to conduct LOCAs including follow-up.
The project should bring these organizations together to discuss their future role in conducting LOCAs.	This was done at the national as well as District level. The organizations agreed LOCA contributes to their work and most agreed to include it in future work plans and budgets.
The project should review the results of LOCA exercises systematically to identify needs for better or new BDS, and involve BDS providers in this process.	This was done.

The project should start strengthening its relations at the national level, especially with a view to establish the legitimacy of the MSE forums vis-à-vis national bodies. Relevant bodies should be identified.	This has been initiated but should be pursued more vigorously.
Coordination should be strengthened with the YEN social communication programme. The ILO Area Office needs to take a lead role in this initially	Coordination with YEN is taking place. A follow-up to work started on a social communication programme is being formulated.
The project should continue following up its contacts with the National Institute of Education, for a possible contribution to a revision of the Secondary School curriculum.	Done successfully.
The project and the SIYB Association should meet more regularly.	There are regular meetings, but they may be insufficient. The project should give this renewed attention.
The Association should review the action plan that came out of the association management workshop, and request project support for implementation where necessary.	The project has supported reformulation of the business plan and a team building exercise for Association members. It believes the Association should do more to implement the action plans.
The project should consider supporting the Secretariat temporarily by the assignment of an additional staff member.	Done.
Ownership of EYB and KAB needs to be transferred to the Association officially.	Responsibility was transferred informally. The project is awaiting a response from Geneva on a formal transfer.
The Association should counter the move towards subsidies for EYB delivery.	It appears that in the present situation any, even subsidized, delivery of EYB should be appreciated. However, the branding campaign will re-launch EYB as a commercial service.
The Association needs to give priority to the development of a branding campaign for EYB.	The campaign will take place over the next six months.
The project should continue discussions with the Sri Lanka Press Institute on possible collaboration, and consider funding such collaboration although this is not foreseen in the project document.	The project and the Institute collaborated on the training on small business programming. The project funded the direct costs but the Institute did not charge for its support.

<p>The project should consistently provide interpretation and translation into Tamil whenever this is necessary for reasons of communication or for the way the project is being perceived.</p>	<p>This is being done where the project has control over this.</p>
<p>The project should continue its efforts to ensure a large share of women among the final target group and those who benefit from capacity building.</p>	<p>This is being done.</p>

Annex 2 - Enter-Growth, Global workplan 2006/2007

