

## Intervention Report

- LOCA: Promoting coir-based products in the Pallama division -

### 1. Background

The Pallama division in Puttalam District was selected by the district MSE forum<sup>1</sup> for a LOCA<sup>2</sup> exercise, which took place in November 2005. Apart from also looking at other sectors in the district (for example brick-making, cashew nuts, rice processing, handicraft, fresh milk production), the coir sector received special attention. The importance of the coir sector to the local economy, the relatively high number of poor labourers in the sector and the potential for producing coir-based products within the division all give enough reason for intervention. This report will focus only on the intervention made in the coir sector.

Acting upon request from the MSE forum, Enter-Growth has worked together with partner organisations to conduct a LOCA exercise in the division. The ultimate goal of a LOCA intervention is to identify and promote local sectors that have potential for growth in terms of income and employment generation for poor people. LOCA helps to identify local resources, in which the local economy has a competitive advantage.

Pallama division	Coir sector in the Pallama division
<p><b>Province:</b> North-Western</p> <p><b>District:</b> Puttalam</p> <p><b>Location:</b> between Puttalam and Chilaw; in-land</p> <p><b>Population:</b> 22,500 (Dept. of Census and Statistics)</p>	<ul style="list-style-type: none"> <li>• <b>Location:</b> within “coconut triangle” (Puttalam, Chilaw and Kurunegala)</li> <li>• <b>Share of workforce:</b> 30–40 percent work in coconut sector; 10 percent in coir sector (400–500 workers) plus transaction services (numbers estimated)</li> <li>• <b>Income:</b> Rs.500 machinist; Rs.250 labourer (per day)</li> <li>• <b>Education level:</b> low</li> <li>• <b>Workplace risks:</b> dangerous handling of machines; serious health risks also through dust</li> <li>• <b>Number of enterprises in coir production:</b> 40 – 50 (estimation)</li> <li>• <b>Number of coir mills:</b> 20 (extracting fibre from shells)</li> <li>• <b>Market demand:</b> for coir raw material high; 90 percent exported</li> <li>• <b>Contribution to divisional GDP:</b> high (after brick-making and rice farming)</li> </ul>

The coir sector is a sub-sector of the coconut sector: coir is a coarse fibre extracted from the fibrous outer shell of a coconut. It can be used to produce mattresses, car seats,

<sup>1</sup> An MSE Forum brings together the District and Provincial Government, private sector organizations and service providers.

<sup>2</sup> LOCA is known as PACA (Participatory Appraisal of Competitive Advantage) elsewhere in the world. It is a product of Mesopartner. See [www.mesopartner.com](http://www.mesopartner.com).

geo-textile, geo-nets to prevent landslides, ropes, yarn, briquettes, and many more products. The potential for value addition is therefore high. However, the local sector in Pallama only extracts the fibre from the husk in coir mills and directly sells the raw material to exporters and larger processors in other regions.

#### Main issues identified in the local coir sector

- Low value addition.
- High transportation costs to buyers.
- Unsafe working conditions.
- Insufficient access to financial resources.
- Low recognition by government and business service sector.

## 2. Enter-Growth plan

The Enter-Growth intervention consisted of two parts: a) the analysis of opportunities and weaknesses in the local economy in the form of a participatory LOCA exercise, and b) follow-up activities to implement the proposals generated by the LOCA exercise.

The LOCA exercise followed the standard procedure as designed by Mesopartner. The exercise was managed by the Enter-Growth district manager in Puttalam together with trained 'LOCA facilitators' who are all staff of local business development organisations. The following proposals were developed for the coir sector within the LOCA exercise:

Proposal	Back ground
1. Assist local entrepreneurs in finding and implementing new solutions for value-added coir-based products.	Rather than only selling the raw material (fibre) to buyers, local enterprises should 'move up' the value chain towards higher income generating activities.
2. Develop a programme and implementation plan for a factory using imported machines to produce machine twisted fibre (MTF).	MTF is produced by large companies outside the division, adding to costs (for supply transportation) and depriving local entrepreneurs of additional incomes through locally value added production.
3. Promote direct export linkages between the newly established factory and other local coir entrepreneurs and foreign buyers.	Exporters act as intermediaries that have a high profit margin, low value-addition; higher income for local entrepreneurs can be achieved through direct marketing.
4. Make banks and micro-finance institutions aware of the needs of small coir producers and facilitate linkages between them.	Insufficient access to financial resources, services and information prevents entrepreneurs from investing in new technology and products.
5. <i>Medium-term target:</i> Establish an association for entrepreneurs in the coir sector.	Lack of organisation prevents SMEs from lobbying and for their interests and achieving economies of scale through improved bargaining power.
6. <i>Long-term target:</i> Attract an (larger) investor to the division in order to set up a 'purchasing centre'.	The centre would help to achieve the necessary bulk for larger export orders by acting as a kind of collection point for products from local SMEs.

The Industrial Development Board (IDB) took over responsibility for implementing these proposals.

### 3. What actually happened

The following gives a short summary of the activities that have been conducted to implement to above-mentioned proposals:

#### Proposal 1

A one-day training was conducted by the IDB to promote coir-based and value-added products. Entrepreneurs were invited to learn about how to produce products such as coir brooms, mattresses, mats, pots and 'lingoes'. Number of participants: 20 entrepreneurs; a small fee was charged.

*Outcome:* two entrepreneurs decided to start businesses in pottery and mattresses production. The IDB assisted them to apply for bank loans in order to purchase the necessary machines and equipment. One application has been rejected – the reason is probably that the Lankaputra Bank, which is a new government institution, is not yet aware of potential in the coir sector.

#### Proposal 2

One entrepreneur expressed his interest after the LOCA results presentation to make the necessary investments for a MTF factory in his village. He decided to take a loan, import machines from India, build a factory in his village and start producing MTF.

During an individual follow-up meeting, IDB and Enter-Growth worked out an action plan together with the entrepreneur. The IDB then helped the entrepreneur in identifying suppliers of MTF machines in India, negotiate prices and conditions and enter into an agreement with them. IDB also helped the entrepreneur to design a construction plan for the factory, and applying for a bank loan at the SME Bank.

After receiving the bank loan, IDB and the Enter-Growth district manager assisted the entrepreneur in registering his business and gave him management advice. The machines were installed by the Indian supplier after the factory building had been constructed. Difficulties such as the delay of the application for a special power line at the Ceylon Electricity Board (CEB) could be solved quickly through the intervention of the District Government agent (GA, himself being the chair of the district's MSE forum) and the commitment of IDB and the Enter-Growth district manager.

IDB further assisted the entrepreneur in organising the opening ceremony of the factory, insurances and labour and environment related issues. The factory was inaugurated in October 2006 in the presence of the GA, representatives of the IDB, SME Bank, EG and local entrepreneurs and stakeholders.

#### Proposal 3

Not much has yet been done to facilitate direct export linkages to foreign buyers. The factory was set up under the assumption that there is a big market for coir-based products, and till now, the entrepreneur has had no difficulties selling his products. However, facilitating market linkages will be the main focus of the next phase, which will also be implemented by the IDB. It is planned to cooperate closely with the Export Development Board on this matter.

<b>Proposal 4</b>	<p>The IDB worked closely together with the SME Bank in providing a loan for the above-mentioned factory owner. The involvement of the SME Bank in this case has increased its awareness towards the opportunities in the coir sector.</p> <p>Further, the IDB assisted two entrepreneurs in applying for bank loans at the Lankaputra Bank after the training on coir-based products. The IDB helped the entrepreneurs writing their business proposals and submitting the necessary forms.</p>
<b>Proposal 5 (medium-term)</b>	<p>Nothing has happened yet to assist coir sector entrepreneurs to form an association. When asked, the IDB stated that it had not been their priority and since only two officers were in charge of implementing the coir sector proposals, they also lacked resources. Facilitating the establishment of the MTF factory had already occupied much of their time. However, helping entrepreneurs organise into an association would be one of their next steps.</p>
<b>Proposal 6 (long-term)</b>	<p>The same applies to the proposed purchasing centre: as this was identified as a long-term target, the implementation was not a priority.</p>

#### 4. First signs of impact

Though some of the proposals have not yet been implemented, some initial signs of impact resulting from the Enter-Growth and IDB interventions can be observed after 6 months:

<b>More jobs and higher income</b>	<p>The factory currently operates with three machines run in two shifts. The factory employs altogether 35 workers. The two senior operators who lead the shifts both earn Rs.10,000 per month – the labourers earn Rs.7,500. This is Rs.1,500 more than the usual average of Rs.6,000 (Rs.250 X 24 days) paid in the coir sector.</p>
<b>Lower costs</b>	<p>The cost benefit for the surrounding coir mills can also be seen: instead of supplying coir to large companies south of Colombo, local producers supply directly to the local factory. Especially transport costs could be reduced by 40 to 70 percent (depending on the distance to the previous buyer).</p>
<b>Awareness for value-addition</b>	<p>Local entrepreneurs are increasingly becoming aware of the market opportunities for coir-based products. They begin to understand the benefits of taking up a loan for making larger investments into machines.</p>
<b>More financial resources</b>	<p>As a result of this intervention the SME Bank has put the coir sector on its priority list, as the bank plans to provide further loans to other coir sector entrepreneurs. Further, a grant scheme by the National Chamber of Commerce (funded by the Dutch development agency) has been promoted by the IDB – the third machine ordered for the factory could be paid from this a grant.</p>

The following table contains some of the main findings of a rapid assessment that was conducted to measure the impact of the new MTF factory in the Pallama division on the local coir sector:

Coir MTF factory	Suppliers of coir fibre
<ul style="list-style-type: none"> <li>• <b>Production:</b> 2,000 to 2,300 kg/day; 3 machines produce 168 kg/h</li> <li>• <b>Price</b> per kg of MTF: Rs.33/-</li> <li>• <b>Costs</b> for labour: Rs.350/- per hour (male), Rs. 250/- (female); Costs for fibre supply: Rs. 17/kg</li> <li>• <b>Employment:</b> 35 workers; workers have been trained and are given uniforms and masks for dust protection</li> <li>• <b>Supply:</b> from 6 local fibre mills</li> <li>• <b>Plans:</b> purchase two more MTF machines (again increasing number of workers); establish own export linkages; receive management training and learn English</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Demand</b> for fibre: increased due to good market for MTF produced by new local factory</li> <li>• <b>Price:</b> 17 Rs/Kg (previous buyers paid 16 Rs/Kg)</li> <li>• <b>Costs:</b> 40-70 percent lower costs for transport (depending on distance to previous buyer);</li> <li>• <b>Employment:</b> One supplier increased from 8 to 11 workers; others still remain same employment level</li> <li>• <b>Services:</b> IDB and other BDS providers provide more services; credit facilities have improved; however not all entrepreneurs have benefited yet of improved services</li> </ul>
<p><b>Other signs of impact than the above mentioned:</b></p> <ul style="list-style-type: none"> <li>• Higher local incomes through lower costs for transport; better-paid workers; high profit margin for MTF entrepreneur</li> <li>• Other local entrepreneurs plan to invest in machines and value added production</li> <li>• Loyalty of suppliers towards local MTF producer is higher, therefore higher reliability and availability of fibre supply</li> <li>• The factory has brought more stability to the coir sector in the division</li> <li>• Bargaining power of local fibre suppliers and producers has increased</li> <li>• Fibre suppliers receive their payments more quickly</li> </ul>	

## 5. Learning, conclusion & next steps

The learning experiences of Enter-Growth can be summarised as follows:

<b>Leadership matters</b>	Personal commitment and leadership of sector stakeholders as well as the district managers and his facilitators is essential for implementing LOCA proposals.
<b>Benefit focus</b>	Proposals are more likely to be implemented if they offer direct benefits, profit earning and market opportunities to the business stakeholders.
<b>Public Private Partnership</b>	Cooperation between public and private sector stakeholders is essential in achieving targets for local economic development. The LOCA exercise was officially carried out in the name of the districts' MSE Forum. The chair of the forum, the Government Agent himself, helped to remove obstacles.

**Delegation**

EG has handed over the implementation of the coir sector proposals entirely to the IDB. The district manager remained in the background, but was actively involved in bringing together the right people (networking) and helping where obstacles occurred (e.g. in the case of the power line). The combination of actively organising and managing a LOCA exercise and subsequently handing over to local stakeholder to implement the proposals has therefore worked very well in this case.

**Business environment**

Making plans within a LOCA exercise is simple, but implementation itself is much more difficult. Especially problems in the business environment make life difficult for entrepreneurs who are willing to make investments.

**Changing by example**

Focussing on one entrepreneur, who is willing to make necessary investments and take forward his ideas, can be a way of implementing LOCA and Local-VCDF proposals. By giving other entrepreneurs in the Pallama division an example, spill over effects can be expected in future.

*Next steps:* The IDB has requested Enter-Growth's support to implement a regional value chain initiative in the "coconut triangle" (Puttalam, Chilaw and Kurunegala). The idea is to focus on the competitive advantages of the coconut triangle, link entrepreneurs to national and international markets in a better way and improve the business environment in which they operate. The regional VC project will commence in May 2007.