



ILO Enter-Growth

Report of the LOCA exercise conducted in the Madampe DS Division in
Puttalam



Intervention Report



December 2008
MDF-SA Colombo

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Abbreviations used in this report

DS	Division Secretary
EDB	Export Development Board
GA	Government Agent (also District Secretary, highest government official in the District)
ILO	International Labour Organization
IDB	Industrial Development Bureau
LOCA	Local Competitive Advantage
MSEs	Micro and Small Enterprises
NCC	National Chamber of Commerce
Rs	Rupees (Sri Lanka currency)
SEDD	Small Enterprise Development Division
SMIDA	Small and Medium Industrial Association

The following report is based upon the information provided by ILO Enter-Growth and other stakeholders of the local sector development intervention during a two day field visit to Puttalam district in December 2008 by an MDF consultant. The objective of the field visit was to: (i) evaluate the progress of proposal implementations as well as (ii) assess the impact of the intervention on the entrepreneurs (MSEs) in the relevant sectors. The consultant has assessed the current situation in Puttalam through several key informant interviews and focus group discussions with the project stakeholders and entrepreneurs in the field.

1. Background

The ILO Enter-Growth project aims to promote the small enterprise sector and stimulate local economic development through amongst others, LOCA exercises. LOCA¹ stands for Local Competitive Advantage: a method to assess strengths and weaknesses for small enterprise development in a local economy. LOCA can be applied to a geographical area such as a district or in a smaller part of a district, a division. In May 2007, a Divisional LOCA was conducted in the Madampe Division of Puttalam District with the following objectives to:

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

The exercise was carried out by Industrial Development Board, Chilaw, with facilitators from SEDD, the District and Divisional Secretariats, and an NGO, with guidance from Enter-Growth. Through the LOCA exercise, which included workshops and interviews, the LOCA facilitators identified five business sectors, including coir, dairy, copra production, floriculture and cut foliage and paddy cultivation. These five sectors were selected as they are the main sub-sectors with productive enterprises and raw material resources in the Madampe Division. Further, the floriculture and cut foliage, and coir sectors were prioritized because these are the more competitive sectors for this particular division while the other sub-sectors are still running at subsistence level (dairy, copra and paddy). The facilitators also prioritized the floriculture and cut foliage because they wanted to target women. While five sectors were selected during the LOCA exercise, only three sectors have been the focus for proposal implementations (floriculture and cut foliage, coir and paddy). No real progress has been achieved in the copra and dairy sectors due to lack of commitment and uptake amongst the stakeholders (producers, farmers and implementing agencies). Hence, for the purposes of this report, only the three sectors (floriculture, coir and paddy) will be further discusses and analyzed.

Through the LOCA workshop discussions, the actors from these 3 sectors identified the following problems and solutions:

Sector	Problems	Proposals
Flori-culture & Cut Foliage	<ul style="list-style-type: none"> • Lack of awareness about market opportunities • Growers for export market are limited in number • Lack of knowledge on business and entrepreneurship • Difficulties in purchasing nets for growing activities 	<ul style="list-style-type: none"> • Provide information on foreign market and introduce new buyers • Coordinate low interest credit scheme • Increase coordination between growers and buyers (through forward agreements) • Increase new entrants to the sector

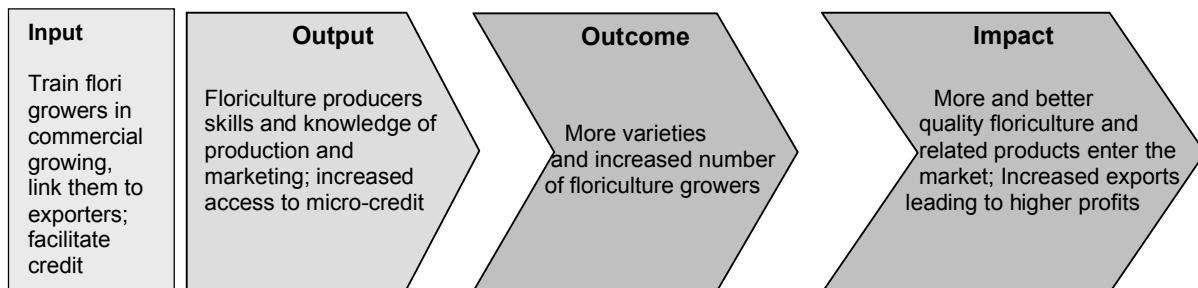
¹ LOCA is worldwide known as PACA – Participatory appraisal of Competitive Advantage. It is a product of Mesopartner. For more information see: www.mesopartner.com

	<ul style="list-style-type: none"> • Long lead time (harvesting period) to generate profits 	(awareness programs)
Coir	<ul style="list-style-type: none"> • Large capital investments required for machineries • Increasing price of raw materials • Shortage of trained and skilled labour • Lack of knowledge on how to expand market opportunities • Lack of price stability for coir products • Lack of high quality grade 1 coir • Spread of Myta infection to coconut cultivation • Threats to industry from increase in husk cutting activities due to high demand for husk chips in Europe • Lack of government assistance to develop this sector 	<ul style="list-style-type: none"> • Coordinate low interest long term financing • Provide current information and expand market opportunities • Establish centre for production of coir blocks
Paddy	<ul style="list-style-type: none"> • No stable price for paddy production • Increasing price of pesticides and fertilizers • Decreasing number of people engaged in paddy cultivation • Poor maintenance (pollution) of irrigation canals • No consistent water supply for paddy cultivation • High cost of labour 	<ul style="list-style-type: none"> • Program to grant unused land for cultivation • Establish farmer-run rice processing centre • Program to minimize environmental pollution

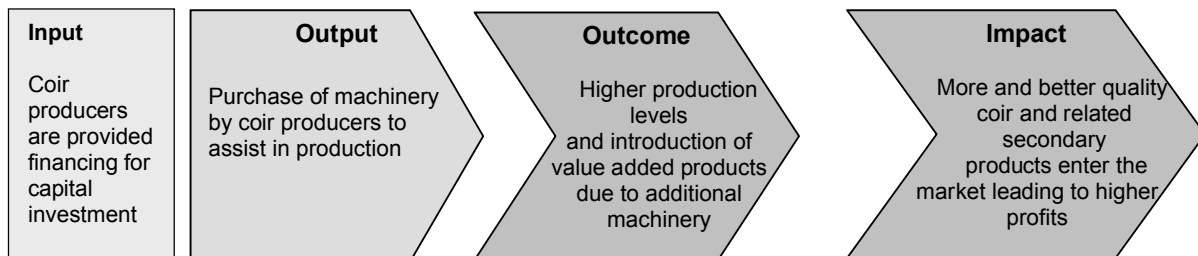
2. Enter-Growth plan

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

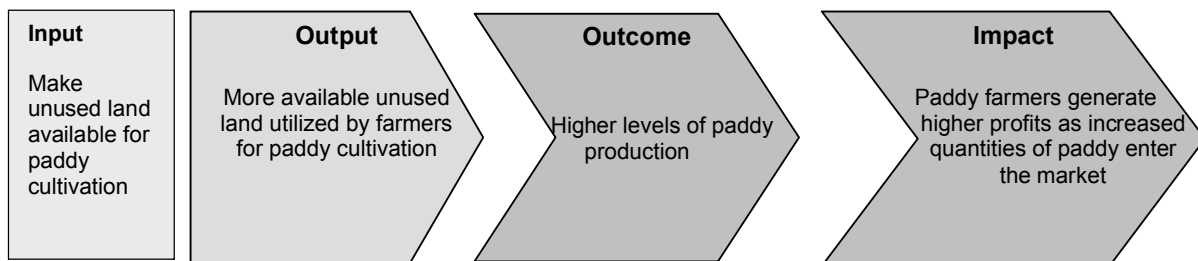
Influence or Results Chain - Floriculture and Cut Foliage sector



Coir sector



Paddy Cultivation sector



3. What actually happened

Floriculture and Cut Foliage

In September of 2007, SEDD, the implementing party for the sector, in collaboration with EDB (Colombo and NWP) organized a workshop to introduce market opportunities for floriculture products. One hundred growers from Kusum Lanka Association, Madampe and Chilaw along with two exporters participated in the workshop and participants were made aware of market

opportunities, product and pricing information as well as the roles of the EDB, the exporters and the growers. This was the beginning point of gathering all the growers and establishing a strong grower network. Since then, SEDD has organized several awareness and training programs including:

- A workshop in October 2007 (for 40 growers selected from the September workshop) on harvesting techniques, quality standards and pricing of masengiyani plants conducted by EDB and organized and sponsored by SEDD
- A workshop in November 2007 on training and information on forward agreements, its rules and regulations and eligibility criteria by EDB, 40 growers attended
- Ten technical training programs, both in-field and in-classroom training, provided by two new exporters and coordinated by SEDD and EDB

After the workshop to introduce the forward agreement system in November 2007, forward agreements with two companies, Wattala Greenet Flowers & Plants Pvt. Ltd and Kandy Foliage Export Co., Kurunegala, were signed in April 2008. Forty growers out of which twenty are new entrants have been linked to these two export companies to grow several new varieties for a period of five years with the exception of orchids (10 years):

- codiline: 12 growers linked to Kandy Foliage Export Co. Kurunegala
- sandriana: 17 growers linked to Wattala Greenet Flowers & Plants Pvt. Ltd
- orchid: 6 growers linked to Wattala Greenet Flowers & Plants Pvt. Ltd
- masengiyani: 20 growers linked to Wattala Greenet Flowers & Plants Pvt. Ltd
- marjarita: 5 growers linked to Kandy Foliage Export Co. Kurunegala

**Please note that one grower may grow more than one variety and hence the number of growers in the breakdown above totals 60.

Minimum production amounts have been set in the forward agreements and 50% of production has to be supplied to the exporter as agreed upon in the forward contracts. The twenty new entrants have received 15,000 seedlings for cultivation from the two exporters. Both these export companies have also provided technical training on cut foliage to ensure that the quality and specs of the flowers are of export standards. Plans are currently underway to establish two collection centres in Madampe where collectors in addition to these two exporters, can come to purchase flowers for export.

In June of 2008, with SEDD's coordination, the People's Bank of Madampe through their Agricultural Loan Scheme granted loans (Rs 100,000 each at 12% p.a.) to twenty new growers for their net house construction. The net houses have since been constructed and the cultivation process has begun. The twenty new growers have also been linked to the two existing collectors Kusum Lanka Association works with: (i) Ceylinco Cut Flowers, to market their anthuriums in Colombo as well as to exporters of anthurium in Colombo and (ii) Green Garden Gampaha for the export market. In addition, ten growers also previously received loans from Ministry of Agriculture (Rs 50,000 each at 6% p.a.) in 2007 to help with the purchase of inputs (seedling plants, fertilizers, etc.). A further grant from EDB in the amount of Rs 400,000 was allotted to a collector in November 2007 for construction of a new and improved net house with water facilities.

Coir Sector

With IDB's (implementing agency) facilitation, two coir producers have successfully received financing to purchase new machinery. In March 2008, IDB introduced a coir mill owner to Lanka Putra Development Bank. With IDB's recommendation, a loan in the amount of Rs 850,000 at a subsidized interest rate of 12% per annum was approved and granted for the purchase of a coir block machine. IDB also further coordinated a Rs 400,000 grant from the National Chamber of

Commerce (NCC) to add to the funding of the block machine. The combination of the loan and grant has enabled the entrepreneur to purchase one coir block machine and start the production of coir dust blocks within his existing mill which was previously only producing coir twines. IDB also facilitated a second grant from the NCC in February 2008 in the amount of Rs 135,000 (for 90% of machine cost) to help a second sole proprietor purchase a coir twine machine and the sole proprietor has also invested his own funds to cover the remaining cost of the machine. With the purchase of this new machine, the sole proprietor now has two coir twine machines. The sole proprietor has not started production with this new machine as yet as he requires three phase electrification in order to run this machine. An application for three phase electricity with the supporting payment has been submitted and production will commence as soon as the necessary power supply commences. IDB selected these two entrepreneurs as they are considered to be dedicated and motivated individuals with the most promising enterprises. A majority of the coir producers in Madampe on the other hand are very rural and informal and hence are unlikely to receive bank financing.

The IDB is in the process of exploring new market opportunities through the web in order to try and secure new markets and buyers for value added coir products, however, no linkages have been created to date. Further, no new market links have emerged through the existing Small and Medium Industrial Association (SMIDA). It is not quite clear why no new market opportunities have been created. It appears that IDB finds the current production capacities of the coir producers not quite adequate to accommodate new buyers. However, IDB has provided guidance to the coir mill owner on how to create a company website to help with marketing efforts.

The Vidatha Center, a body of the Ministry of Science and Technology, the responsible party for information dissemination to the coir sector has not carried out this proposal. It was found to have insufficient capabilities to execute this proposal both in terms of resources and information access. As such pertinent information on technology, processing methods, product prices and specs, and buyers and sellers has not been shared with the coir producers as had been planned.

Paddy Sector

In late 2007, the implementing agency, the Divisional Secretariat issued a letter to a group of farmers² stating that if the farmers were not going to cultivate unused lands in the division, then the government would acquire these lands. As a result of this, forty farmers have started to cultivate paddy within these unused plots of land.

With regard to the proposal to minimize environmental pollution, no progress has been made to date. A proposal was explored with the Divisional Agriculture Committee to eliminate sewage water that flows into the 250 acres of cultivated paddy fields because of a polluted canal next to these fields (from the flow of sea water from sand mining activities as well as sewage and waste water from butchery businesses). Subsequently, the Irrigation Department was asked to renovate the irrigation canals, however, the budget for this is significant and it is too costly for the local authorities to fund this program. Hence, this proposal has been abandoned due to lack of funds. Similarly, the proposal to establish a farmer based rice processing centre to replace the rice processing function within the Rice Cooperative Society, currently not functioning well, has been found to be economically not viable and hence not feasible.

This sector is further hindered by protocols, regulations and political interferences of vested parties which are all barriers to this project. Since rice cultivation is a not a small scale business, binding factors such as fertilizer subsidies and low interest loans provided by the government are necessary to motivate farmers to participate in paddy cultivation. Without these incentives, farmers

² The list of farmers was obtained from the Agricultural Services Centre

are simply not interested in cultivation. Currently, a quarter (25%) of approximately 1000 acres is being cultivated. Large areas of land have just been abandoned as the owners of the land plots have either passed away, are no longer in the area or are not interested in cultivation without the provision of tangible incentives (fertilizers, seeds etc). Furthermore, the water supply in the area is inconsistent and is only supplied on pre-determined dates as decided by the Agricultural Committee. Political interests in the Division remain vested in supporting the butchery businesses of the Muslims in the area rather than the paddy farmers. Overall, paddy cultivation is governed at the national level and therefore it is difficult to institute changes and foster further development of the sector at the divisional level.

4. First signs of impact

To see early impacts of this divisional LOCA exercise, a total of 10 persons were interviewed: seven entrepreneurs from the 3 sectors and three key informants from the host organization IDB, and two implementing agencies, SEDD and DS Madampe.

Floriculture and Cut Foliage Sector

After the LOCA exercise, twenty new growers have entered the sector and several new flower and plant varieties have been introduced. Growers have participated in awareness and training programs leading to exposure to the true potential that exists in the industry. Growers have also been linked to two new export companies. As a result, the following signs of impact were found:

- A shift from 'hobby-based' production of plants to more business style, commercial cultivation of anthurium as well as new varieties such as codiline, sandriana, orchid and other plants
- Overall, more growers have entered the market and about 55-60 members send between 1000 to 1500 flowers every week through one main collector/member. This is a significant increase from 2007 when only 250 anthuriums were collected per week from about 20-25 growers. Because of this increased collection rate and hence an increase in income and profits, the collector has been able to obtain financing from a bank to lease a vehicle to help with collection efforts.
- As a result of increased awareness, links to export opportunities and training in the forward agreement system with EDB support, forty growers have been linked to two export companies and forward agreements have been signed with these companies, Wattala Greenet Flowers & Plants Pvt. Ltd and Kandy Foliage Export Co., Kurunegala. Of these 60 growers, 20 are new entrants who have prepared the soil to cultivate 15,000 seedlings of new varieties suitable for export.
- After several technical training programs, the quality of flowers and plants has increased substantially. As a result, export quality is being consistently maintained (45 cm per flower for best colour and shape), and a smaller number of flowers are being rejected at the collection points and at the buyers centre.
- Through the linkages created with the People's Bank, twenty new growers have obtained loans for their businesses; all of whom now have net houses to grow their plants, protecting them from strong sun and insects which has resulted in better quality plants.
- Growers are able to obtain competitive pricing due to the increased availability of transparent pricing information as well as links to several buyers in the market (Ceylinco Flowers, Green Garden Gampaha, and Greenet Flowers etc.) If members do not get the price they want from one buyer, they can easily go to the next buyer. In the local market

anthurium sells at Rs 5 per flower while for the export market the price has increased from Rs 10-15 before 2007 to Rs 15-25 in 2007 and Rs 25-30 in 2008. This price increment can be attributed to the higher quality of flowers being achieved by the members.

- Overall income reported are good, approximately Rs 7,500 per week for the most established grower, around Rs 1,100 per week for others and less for new growers, for which increase in profits is a bonus because these women were not earning anything before. Increase in income levels can be attributed to enhanced quality and hence better pricing for flower exports (currently around Rs 25 per flower as compared to Rs 10 -15 before 2007).

Coir Sector

Through the provision of grants and low interest financing from Lanka Putra Development Bank, two coir producers have been able to acquire a coir block and coir twine machine respectively. Of these two producers, one, a mill owner has started production of value added secondary products (coir blocks) in addition to coir twines. This has created four new employment opportunities. The second producer will also be hiring one new staff once his three phase electricity supply commences and his new coir twine machine is operational.

Overall, there has been a marginal increase in income and profit levels for the coir mill owner due to the introduction of coir dust blocks and the sale of coir dust. Some 30 tons of coir blocks have been produced to date and sold at Rs 13,500 to Rs 20,000 per ton and during low demand periods, the sale of coir dust (Rs 10 – Rs 16 per kg) helps boost income. While there has been slight increase in price of coir twine from Rs 45 per kg in 2007 to Rs 50 per kg in 2008 (inflationary increase), prices of raw materials have also increased accordingly. Production levels of coir twines are more or less the same for both businesses. Hayleys Group, the primary buyer, is in a monopoly position and determines the price, quality requirements and purchase quantity. While IDB is in process of researching new buyers in China through the web, no new buyers have been introduced to the producers. Linkages to new buyers through the existing SMIDA association have also not materialized.

Paddy Cultivation

The letter issued by the Divisional Secretariat has led to forty farmers cultivating previously unused and abandoned land which is in of itself an accomplishment. However, the field visits have also shown that the original idea of establishing a farmer based rice processing centre as well as the plan to eliminate environmental pollution within the canals have not materialized due to lack of funds and lack of political will.

5. Overall conclusions and learning

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

Everyone interviewed especially in the floriculture (and coir sector to some extent) agree that the LOCA workshops and consequent interventions have been beneficial to them. The benefits in summary:

More training and financing services

The LOCA interventions have opened doors to business services such as training and micro-finance. Governmental institutions (SEDD and EDB) have played a key role in strengthening the floriculture sector in terms of providing rigorous technical training which has led to a consistent increase in the quality of the floriculture products. This has enabled the growers to receive a better price for exports now than before the intervention (in the case of anthuriums, currently around Rs25 per flower as compared to Rs10-15 before 2007). The growers have also been able to negotiate better pricing through forward contracts with two new exporters.

Both SEDD and IDB have successfully helped coordinate necessary bank financing for the floriculture growers and coir producers which otherwise would not have been easily obtainable. The training programs and subsequent provision of micro-credit has enabled twenty new entrants to start growing activities in the floriculture sector as well as helped two coir producers acquire new machines.

More awareness, better networking and trust building

Working through the association in the case of the floriculture sector fosters a strong network and is a successful strategy. It offers a useful platform for entrepreneurs to get together to discuss common problems and solutions, and learn about the information resources available to them. Bringing them together is also for many an eye-opener to see that others face similar challenges as business owners. This builds confidence and trust that together, they can willingly exchange information with one another and do something to tackle their issues.

Better access to markets

The floriculture example shows how grouping entrepreneurs and helping them foster increased linkages to both the local buyers and two new exporters enables the growers to improve their marketing. Collectively they produce increased quantities and better quality products in order to meet export requirements, which in turn has led to better product pricing and higher income.

Know-how on forward contracts mechanisms

The LOCA project has enabled easier access to government agencies to obtain information and services, such as knowledge on the working mechanisms, eligibility criteria and rules regulations governing forward contracts which ultimately led to the execution of forward agreements between forty growers and two new exporters in the floriculture sector.

Increased recognition

Working together through an association is beneficial because clients seem to have more faith in a sector than in individual businesses. Also, the mere fact that the sectors are associated to ILO and other organizations has helped improve their image. In Sri Lanka, entrepreneurship in general does not have a good reputation and businesses need to do everything to install faith from customers.

Learning**Market distortion through subsidies**

The case of the paddy farmers illustrates what happens if business inputs are subsidized. Binding factors such as fertilizer subsidies and low interest loans provided by the government determine the motivation of farmers to participate in paddy cultivation. Unexpectedly, without these incentives, farmers are simply not interested in cultivation and hence in participating in the LOCA interventions in this sector. Currently, only a small percentage (25%) of approximately 1000 acres is being cultivated merely because of lack of sufficient government subsidies.

The commitment of implementing partners

The coir example makes a good showcase on the importance of selecting appropriate implementing body for project proposals. The Vidatha Centre of the Ministry of Science and Technology lacked the capabilities both in terms of information access and availability of resources to provide required information to the coir producers as was planned. Hence, the necessary information on technology and processing methods, buyers and sellers and product pricing and specs was not passed on to the producers which further hindered project progress. Moreover, IDB has also not fostered any new market linkages from the producers as had been planned.

The barrier of funding for sector development

Several LOCA interventions in the paddy sector could not be implemented due to the lack of available funding; on the part of the government, when it came to rehabilitating the irrigation canals and the farmers, when it came to setting up a rice processing centre. Both parties were not willing or unable to bear the costs of these proposals. Perhaps more financially feasible proposals should have been formulated during the LOCA exercise. It might also be recommended to facilitate fund raising (from other donors) so that entrepreneurs can gain from creating the farmer operated rice processing centre.

Firstly, the LOCA team facilitators (comprising representatives from IDB, SEDD, Enter-Growth, District and Divisional Secretariats and an NGO) should have been more careful in selecting proposals where there were real incentives amongst the stakeholders to implement them. Secondly, Enter-Growth should have also been more actively involved in stepping in when obstacles occurred so they can propose alternate solutions and ensure successful implementations for already selected proposals. Especially the coir and paddy cultivation sectors could have been monitored more closely as limited progress has been realized in these sectors.

Next steps

The strategy to work through associations, provide awareness and training programs and then link them to new markets, both local and export, is effective and should be implemented in other divisions. The assistance provided to the floriculture and cut foliage sector by the People's Bank also shows how this can help in strengthening a sector. Efforts to link up with other existing providers for training, marketing support and loans is a successful and sustainable way to improve small business sectors which should be continued and replicated in other Districts. The success achieved in the **floriculture sector** in Puttalam (through providing training and financing and establishing forward contracts) should most certainly be replicated in other Enter-Growth project districts.

The Enter-Growth project and its partners should look to support the **coir sector** in terms of extension of financing for machinery acquisition to a larger group of producers. In addition to helping increase production levels, the project should next look into linking coir businesses to new buyers, both locally and abroad. Facilitating access to micro-finance and other assistance would also help **paddy farmers** find the necessary capital to invest in their own rice processing centre as the farmers currently producing rice do not have a rice processing center at present. This will have to be facilitated by the relevant stakeholders responsible for proposal implementations in this sector. More focus should also be given to motivate both the coir and paddy sectors' implementing partners to achieve the successful implementation of unaccomplished proposals.