

# **Local Economic Development in Polonnaruwa district, Sri Lanka**

**A Case Study prepared by**

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**As part of the Good Practice LED Cases in South Asia**

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## **BACKGROUND OF THE GOOD PRACTICE LED CASES IN SOUTH ASIA**

The International Labour Organization (ILO) organized a Seminar on Local Economic Development (LED) in Asia in Chiang Mai, Thailand, from May 22 to 25, 2007. It is part of ILO's contribution to the Asian Decent Work Decade objectives (2006-2015) set by employers, workers and governments at the Asia Regional Meeting held in Busan in 2006. Fifty five participants from nine countries in Asia – China, India, Indonesia, Lao PDR, Nepal, Philippines, Sri Lanka, Thailand and Vietnam – and from ILO field offices in Asia, in Geneva and the International Training Centre in Turin, shared knowledge and experiences about LED in the four day event.

One of the converging suggestions by the participants was to disseminate more case studies and good practices in support of more effective advocacy by their institutions. The main body of the current LED knowledge has been derived from the European and Latin American experiences where initial conditions, context in which the LED was introduced and size and scope of the LED initiatives may greatly vary from those of Asia. The seminar identified Asian examples of strategies and programmes for enterprise and economic development at the local level, with the aim of creating jobs, empowerment and generating sustainable economic territorial systems. Documenting some of these cases would certainly meet the demand of participants who represented the ILO constituents and stakeholders in respective countries. It would certainly enhance the learning experience of capacity building activities the ILO may organize from time to time in the region.

It is in this context that the ILO undertook structured LED case studies. The production of the Good Practice LED Cases in South Asia has been supported under the region-wide initiative “*LED Product Line for Asia and the Pacific*” managed by the ILO Regional Office for Asia and the Pacific (ROAP) in Bangkok. The *LED Product Line* intends to build knowledge base for LED development, and share the knowledge to facilitate better planning and implementation of LED initiatives, thereby promoting LED initiatives in Asia. A total of four case studies are being developed in South Asia under the coordination of the ILO Subregional Office for South Asia-New Delhi (SRO-New Delhi).

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## ACRONYMS

BDS	Business Development Services
EDB	Export Development Board
Enter-Growth	Enterprise for pro-poor Growth project
GEM	Gender Empowerment Measure
ILO	International Labour Office
ILO	International Labour Organization
KAB	Know About Business
LED	Local Economic Development
LOCA	Local participatory appraisal of Competitive Advantage
LTTE	Liberation Tigers of Tamil Eelam
MFI	Micro Finance Institution
MSEs	Micro and Small Enterprises
NAQDA	National Aquatic Development Association
NGO	Non-Governmental Organization
PDEF	Polonnaruwa District Enterprise Forum
PP	Public-Private
PPD	Public-Private Dialogue
PSD	Private Sector Development
SBA	Small Business Association
SIDA	Swedish International Development Cooperation Agency
SLIDA	Sri Lanka Institute of Development Administration
UNDP	United Nations Development Programme
USD	United States Dollar
VC	Value Chain
VCA	Value Chain Analysis
VCD	Value Chain Development

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## LED in Polonnaruwa: summary data sheet

### Highlights of the LED approach

- The **Polonnaruwa District Enterprise Forum (PDEF)** is an innovative organization given its public-private membership, mandate and informal character. It functions well thanks to the commitment and leadership of its members and its internal organization.
- There is no overarching **LED strategy** for the district. The approach is pragmatic and responds strategically to LED issues that emerge from public-private dialogue (PPD), LOCA and VC analyses.
- The approach is **locally owned** and offers good sustainability perspectives. “Localizing” methods and tools as well as local actors driving the implementation of LED interventions have been key in this respect.
- Polonnaruwa is going through **all phases of the LED process** though with varying emphasis and not always in chronological order. Phases may partly overlap and some, such as territorial diagnosis, are recurrent. Sensitizing and monitoring & evaluation are continuous activities

### Territory

Polonnaruwa is a rural and relatively poor district in the North-Central Province of Sri Lanka and counts 359,197 inhabitants. Cultivated / cultivable land, minerals and inland water are important natural resources. The district also has a famous cultural patrimony with a huge tourism potential, though affected by the civil war. The road network is relatively good. The great majority of households lives from subsistence farming. Economic growth sectors are: dairy farming and milk processing, inland fishing, ornamental fish, garment, cane, brick-making and light engineering. The organizational density provides a complex but promising perspective for joint LED undertakings. The territory is not always confined to district boundaries. For instance, VCD can have a regional dimension.

### LED strategy

Polonnaruwa's LED strategy is focused on the development of local firms. Labour skills are the 2<sup>nd</sup> important dimension of the LED strategy. Local human capital and skill-pool are being developed through diverse activities including the Palama campaign, business management training and technical skills training. Inward investment is only recently being addressed through a proposal to set up a district investment promotion desk. Infrastructure is not part of the LED strategy.

### Policy environment for LED

The governance system in Sri Lanka is complex and to a large extent centralized, which hampers autonomous and efficient decision-making at the local level. In addition, there are no formal policies or legal provisions on PPD. However, recent national policy documents emphasize the Division as the “new micro level framework” of development and poverty reduction, and in particular of sustainable economic development. Also, people's participation in the identification of location specific strategies is promoted.

### Achievements so far

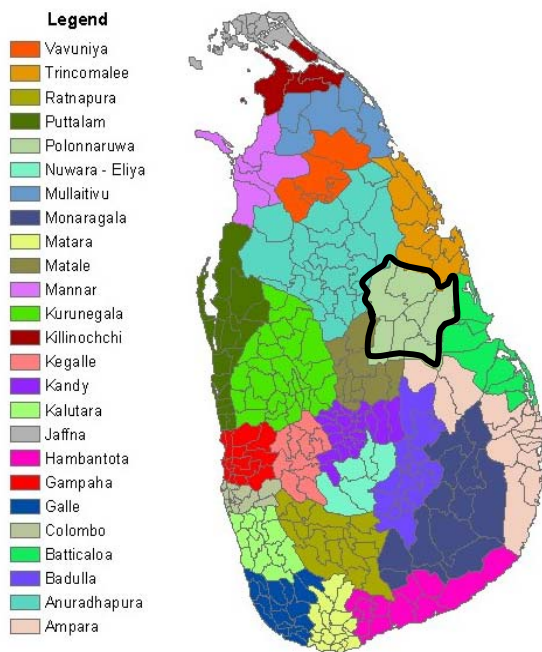
- PPD on MSE development has become an established practice through the PDEF. This resulted in increased confidence and joint undertakings amongst people and organizations that previously had little inter-action.
- The participatory approach contributed to a strong sense of local ownership and a pro-active attitude of the Forum members who set and implement their agenda and take responsibility of the Forum secretariat.
- PPD succeeded in changing business regulations benefiting small enterprises in for instance cattle breeding, ornamental fish and paddy sectors.
- More people consider enterprise as an option to earn a living thanks to the Palama campaign
- MSE fairs have successfully connected clients and suppliers and have become a profitable business opportunity in itself.

## 1. LOCAL ECONOMIC DEVELOPMENT PROCESS TO DATE

### 1.1 Polonnaruwa: major development challenges and opportunities

Polonnaruwa is a rural and relatively poor district in the North-Central Province of Sri Lanka. The great majority of households live from subsistence farming. The district enterprise base is rather small. Most enterprises operate in the informal economy where working conditions are poor and productivity is low. Moreover, the growth and employment potential of small enterprises is under-utilized.

**Figure 1** Sri Lanka district map



Source: [www.gov.lk](http://www.gov.lk)

Local governance is key in enabling local economic development. In Sri Lanka, the governance system is rather complex as various, sometimes parallel layers of government intervene in private sector development at the local level.<sup>1</sup> Consequently, entrepreneurs have to obtain permits and licences from different agencies or departments where the controlling function often prevails beyond client orientation.<sup>2</sup> However, local authorities in the North Central Province perform well in other areas of business services, such as garbage & waste disposal, market facilities, dissemination of market information, and business advisory services.<sup>3</sup>

The level of business management

<sup>1</sup> At the local level, District Secretaries and their staff represent the Central Government, followed one level lower by Divisional Secretaries and further down by Grama Niladharis. Central Government agencies may or may not have representatives at the District level. Provinces are made up of several Districts and are governed by an elected Provincial Council, with its own administration and decentralized budget but no say over the District administration. Elected Municipal councils and Pradesha Sabhas report to the Provincial Councils. Divisional secretariats also perform some tasks for the Provincial Councils. There are thus two parallel and partly overlapping Government structures. Source: Hakemulder R., *Improving the local business environment through dialogue. A story from Sri Lanka*, Conference paper, Enter-Growth, November 2006

<sup>2</sup> Gamini Wickramasinghe, *Improving business regulation services. Report on the needs assessment of public officials implementing business related rules and regulations* (unpublished), ILO/Enter-Growth/SLIDA, 2007.

<sup>3</sup> The Asia Foundation, *Economic Governance Index 2007. A measure of the local enabling environment for private enterprise in Sri Lanka* (draft summary report), 2007, p.31



and technical skills amongst entrepreneurs in most economic sectors is not very high. Generally, farmers and small entrepreneurs are not or weakly organized. Small business associations (SBAs) are often not very strong in effectively delivering services to their members and voicing their interests. This contributes to the lack of dialogue between public and private sectors.

Another factor that influences local economic growth is the enterprise culture. Like in other -principally rural- areas in Sri Lanka, people in Polonnaruwa tend to have negative biases towards business and entrepreneurship. Considered too risky or exploitative, there is a general preference for jobs in public administration or in the armed forces.

Furthermore, the conflict between the Sri Lankan government and the Liberation Tigers of Tamil Eelam (LTTE) affects economic activity in Polonnaruwa. First, the general drop in tourism lowered the number of visitors to the *Cultural Triangle*<sup>4</sup>, which includes Polonnaruwa's Ancient City. Moreover, businesses encounter difficulties in transporting merchandise due to frequent roadblocks causing important delays. This is particularly problematic for the quality of fresh products from Polonnaruwa's agro and fish industries.

Such industries are currently the backbone of Polonnaruwa's economy and present an important growth potential. Examples include dairy farming and milk processing, inland fishing and ornamental fish. Other potential growth sectors include ornamental plants, garment, cane, brick-making and light engineering. Besides, and in spite of the conflict, the tourism industry still offers an opening for inward investment.

Finally, Polonnaruwa's dense institutional setting constitutes a development opportunity. In addition to the before mentioned government administration and SBAs, one finds a number of BDS providers, banks, economic support organizations and other development organizations that have a stake in the district economy. Although the interaction between these actors may be complex at times, it also provides promising perspectives for dialogue and joint LED undertakings.

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<sup>4</sup> The Cultural Triangle is a well-know tourist attraction in the centre of Sri Lanka consisting of the World Heritage cultural sites of the Sacred City of Anurahapura, the Ancient City of Polonnaruwa, the Ancient City of Sigiriya, the Ancient City of Dambulla and the Sacred City of Kandy.

## ILO Enter-Growth

The ILO Enterprise for pro-poor growth project, or Enter-Growth for short, started in June 2005 for a period of 3.5 years with support of the Swedish International Development and Cooperation Agency (SIDA). It covers the districts of Kurunegala and Puttalam in North-West Province and the districts of Anaradhapura and Polonnaruwa in North-Central Province.

Enter-Growth's approach to LED is based on an area-based, participatory and three-pronged, integrated strategy to small enterprise development: (i) improving market access, (ii) enhance an enabling policy and regulatory environment and (iii) influence the way enterprise is perceived and valued in society (enterprise culture). Public-private dialogue (PPD) is the underlying means to identify, plan and implement LED initiatives in the districts.

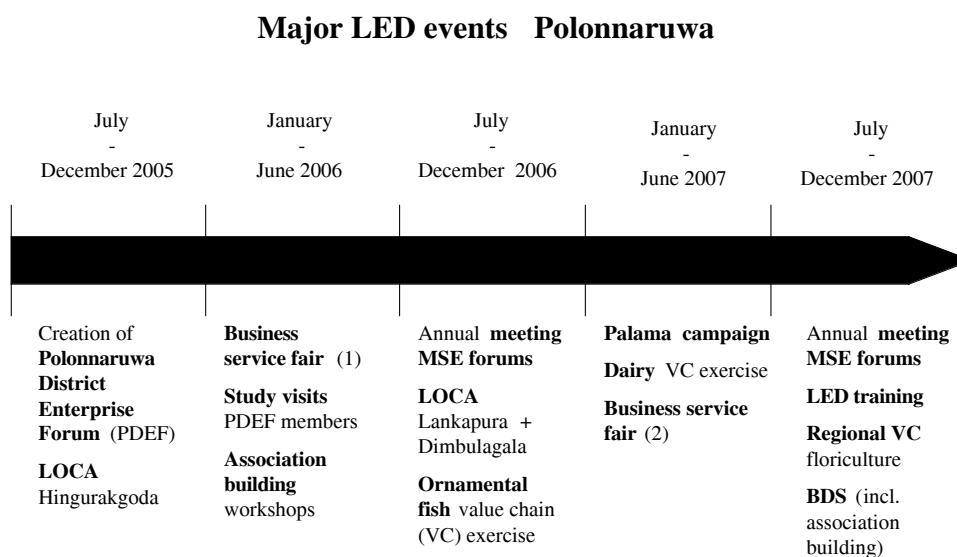
Pro-poor growth aspires balanced LED based on economic growth potential to which poor people contribute and eventually benefit in terms of more jobs and higher incomes. It is a long-term process.

See: [www.entergrowth.com](http://www.entergrowth.com)

## 1.2 Major LED events

Since the start of the ILO Enter-Growth project in June 2005, a number of Local Economic Development (LED) events have taken place in Polonnaruwa.

**Figure 2 Time-line of LED events in Polonnaruwa**



### *1.2.1 Polonnaruwa District Enterprise Forum*

The first half-year of the project was centred on the identification of LED stakeholders and strategies. As a first step a stakeholder mapping was carried out. Then separate mini-workshops were organized with LED stakeholders from the public sector, the business community and NGOs with the objective to come to an agreement on setting up a public-private forum and to define its mission and terms of reference. This resulted in the creation of the Polonnaruwa District Enterprise Forum (PDEF) in September 2005.

A methodology that has been applied in order to focus and structure public-private dialogue is **LOCA**: Local participatory appraisal of Competitive Advantage<sup>5</sup> (see 1.2.2). Besides the LOCA methodology, the PDEF has benefited from other capacity building activities. Some members have participated in study visits to relevant SME development projects in Sri Lanka<sup>6</sup> and in Bangladesh<sup>7</sup>. Other members have become value chain development (VCD) facilitators (more on VCD hereunder). In a yearly event, the PDEF exchanges experiences with public-private district forums from Anaradhapura, Kurunegala and Puttalam (known as MSE forums) that have been set up within the framework of Enter-Growth. Together with the MSE forums, the PDEF also participated in LED training.

Already in its short history, PDEF achieved some remarkable successes. For instance, in Hingurakgoda division the shortage of high yield cattle breeds is the main cause of low milk production, while demand is very high. This is linked to a de facto Government monopoly on the import of semen and artificial insemination. Government veterinarians can serve only a few. The LOCA contributed to a decision to train and assign additional veterinarians. Subsequently, local stakeholders have managed to mobilize funds for this training. As such, the Artificial Insemination Training Centre of Gallella has provided training with financial support of the World Bank funded “Gemi Diriya” project<sup>8</sup> and other organizations<sup>9</sup> plan to do the same.

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<sup>5</sup> LOCA (called PACA – for Participatory Appraisal of Competitive Advantage – outside Sri Lanka) is a product of the consultancy firm Mesopartner. For further information see: <http://www.paca-online.de/>

<sup>6</sup> GTZ, Promotion of micro, small and medium enterprises, <http://www.gtz.de/en/weltweit/asien-pazifik/sri-lanka/12388.htm>

<sup>7</sup> Catalyst growth through business services, <http://www.katalystbd.com/>

<sup>8</sup> More info on the “Gemi Diriya” project managed by the Ministry of National building and Estate Infrastructure Development, can be found at the World Bank site: <http://www.worldbank.lk/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=233047&menuPK=287062&Projectid=P074872>

<sup>9</sup> For instance, the NGO “Sewa Lanka Foundation” plans to finance this training for youth and the social education project under the wildlife protection authorities of Kawuduldewewa and Minneriya sanctuaries is also prepared to fund training.

The PDEF also fruitfully addressed the problem of irrigation water, which was not being made available for the fast expanding ornamental fish breeding sector. The relevant authority has agreed to provide water now, and is considering how this can also be done during the off-season, when canals are being repaired. Furthermore, the PDEF contributed to bringing up the issue of the validity of tickets for archaeological sites in the “cultural triangle” to the national Enterprise and Export Development Forum. Initially, the validity was just one day, discouraging tourists from staying longer. The Cultural Triangle Authority has now extended this to three days.<sup>10</sup> These early successes have added to the commitment of the PDEF members to the forum and its recognition in the district.

The PDEF does not have a legal status but it has professionalized its organization over time. Rules and regulations have been established for its internal functioning and the Chambers of Commerce, that had been sharing the secretariat with Enter-Growth, took over this function fully in January 2008.

### *1.2.2 LOCA and value chain development: revival of the ornamental fish industry*

Economic stakeholders in Polonnaruwa have been actively involved and taken the lead in two interlinked approaches to promote their economy: LOCA and value chain development (VDC).

LOCA is an 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 sub-sector and develop and implement ways to strengthen them.<sup>11</sup> Private and public service providers (including some members of the PDEF) have been trained as LOCA facilitators. Hingurakgoda was the first division that used LOCA by the end of 2005. In the 2<sup>nd</sup> half of 2006, Lankapura and Dimbulagala divisions followed.

The LOCA exercise in Hingurakgoda resulted in an action plan for the dairy, ornamental plants, home-based apparel, ornamental fish, seed paddy and poultry industries. The action plan for the ornamental fish industry for instance, was based on the observation that this sector is characterized by a high demand and a high profit whilst requiring small start-up capital. It was found that local climate and water conditions are particularly suitable for fish growing. Moreover, the availability of a network of collectors as well as relevant service providers are strengths of this industry. On the other hand, the LOCA team had detected a low technical know-how and little organization amongst growers. Also, the growers’ bargaining power with collectors was weak, sometimes resulting in exploitative profit margins. An additional risk for the sector was the increasing prices of inputs.

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<sup>10</sup> Hakemulder R., *Improving the local business environment through dialogue. A story from Sri Lanka*, Conference paper, Enter-Growth, November 2006.

<sup>11</sup> Enter-Growth progress report 2.

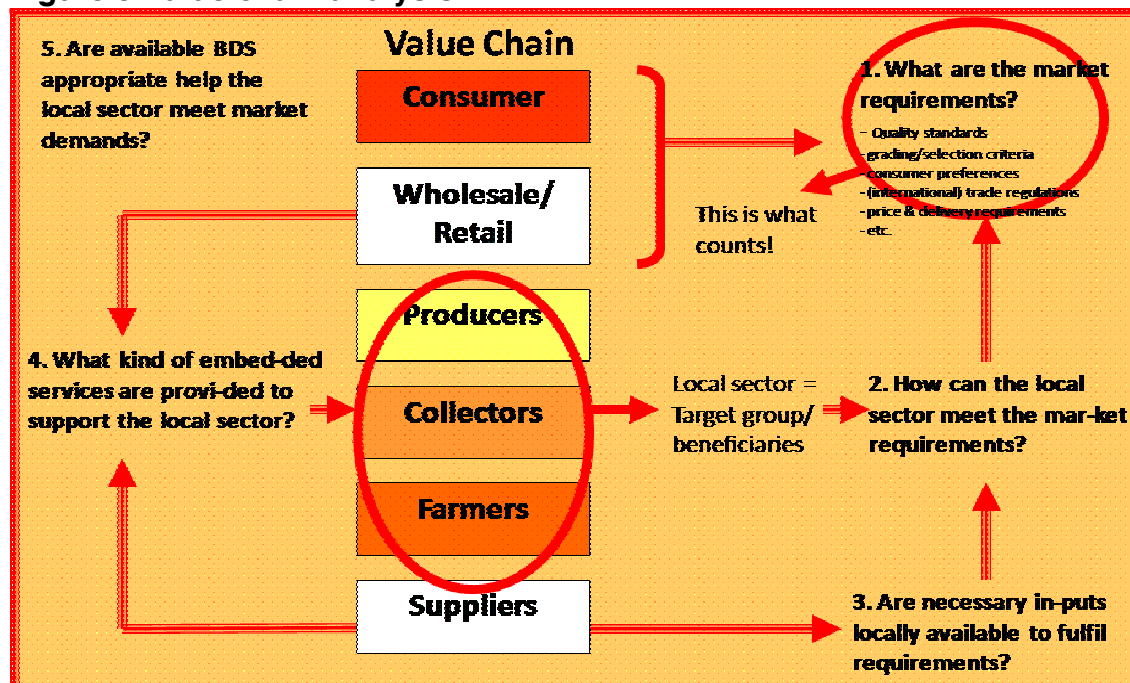
Two proposals were retained to enhance the potential of this industry:

- 1) Providing technology and training by coordinating with relevant authorities.
- 2) Forming an association for the division

As a result, nineteen ornamental fish growers took the initiative to found a divisional association. Thanks to the intermediation of the Chambers of Commerce, the association received support from the *Nucleus* technical assistance programme of GTZ that focuses on increasing the capacities of SBAs. Members of the association participated in a training on good practices in ornamental fish growing at the training centre for ornamental fish in Rambodaga, which belongs to the governmental National Aquatic Development Association (NAQDA).

The three LOCA exercises in the divisions made clear that the ornamental fish industry had a growth potential that could be addressed at district level. Hence, a district-wide value chain exercise was initiated. The primary aim of this exercise was to improve the integration and position of local growers into the ornamental fish chain whilst improving its competitiveness and market integration. The secondary aim is to the development of value chain levels that are not part of the district economy, such as national level retailers and exporters. See figure 3.

**Figure 3 Value chain analysis**



Source: Herr M., *Local Value Chain Development for Decent Work. An operational guide*, ILO/Enter-Growth, Colombo, 2007

In the ornamental fish sector, VCD added to the dynamic started by the LOCA exercises. For instance, the fish growers association in Hingurakgoda merged with the district level association, a more effective way of voicing interests and reinforcing businesses. As such, growers undertake joint marketing efforts in the district to increase their sales and incomes. In addition, the growers will participate in the national aquatic exhibition in Colombo. Although at present the national market for ornamental fish is still sufficient, growers were also linked to a major exporter.

Another result of the LOCA and VCD exercises is an increased awareness of the needs of Polonnaruwa growers at the level of the Export Development Board (EDB) and NAQDA in Colombo. Consequently, they have increased their presence and services in the district.<sup>12</sup>

### *1.2.3 Business development services*

Usually, the lack of specific business development services (BDS) is identified through LOCA and VCD exercises. This was for example the case of packaging training, which was indicated by a variety of LOCAs and some VCDs, in different districts. Enter-Growth contracted an NGO to work on this. Service providers from Polonnaruwa and other places were trained and the training has been delivered several times since.

The development of SBA training is another example. In this case, Enter-Growth took responsibility of developing the service, as there was no local organisation that could do it. ILO training material on managing SBAs have been adapted to the Sri Lankan context and several training of trainers sessions have been conducted in Polonnaruwa and other districts.

### *1.2.4 Business services fairs*

In March 2006, a first business service fair was organized under the auspices of the Chambers of Commerce and Industry and Enter-Growth and with close involvement of the PDEF. Its aim was to promote services, to provide information on them, and so strengthen demand. The fair attracted large numbers of visitors coming for entertainment as well as looking for specific information and services. It was the biggest event to be organized for years. The event included over 100 stalls, entertainment and broad media coverage. Hence, the organizers benefited in terms of increased profile and membership of the Chambers of Commerce increased. A second fair was organized about 1 year later. This time, the organizers from Polonnaruwa received a smaller subsidy. They believe in the profitability of a future event even without a subsidy.

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<sup>12</sup> ILO/Enter-Growth Intervention Report LOCA exercise in the Hingurakgoda division of Polonnaruwa district.

### 1.2.5 Palama campaign

Polonnaruwa was the first district in Sri Lanka where a social marketing campaign to promote entrepreneurship was launched. The Palama<sup>13</sup> campaign helps communities to find alternative values regarding entrepreneurship. It does so through forum theatre performances, a form of theatre that involves the audience in the play. It enables youth, women and men to examine and explore their own motivations and environment with regard to making a living out of business. The performances are promoted in each community through posters, flyers and announcements in schools and other public places. At the end of the performances, brochures are made available that contain information on business and financial service providers and member-based organizations that can advise people on whether and how to start a business.<sup>14</sup>

The performances were very successful and attracted about 56'000 persons, i.e. about 6.5% of the district population. A quasi-experimental study has found that after the performance, more attitudes towards enterprise had been statistically significantly more positive among participants. And about 26% of the audience has increased its appreciation of enterprise in one way or another.<sup>15</sup>

### 1.3 Challenges: LED for and by local stakeholders

Enter-Growth faced a number of challenges during the implementation of LED support activities in Polonnaruwa. Most of them are inherent to Enter-Growth's LED approach that is anchored around facilitating and mobilizing local actors' involvement in the design and implementation of LED interventions, rather than substituting itself to them.

To make this happen, Enter-Growth preferably relies on local service providers that are contracted to manage LED support activities. However, the required capacity is not always available in the district. In some situations this means that capacity has to be build first, like in the case of LOCA and VCD exercises. Hence, Enter-Growth put a lot of effort in the training of LOCA and VCD facilitators in local government agencies, NGOs and companies.

A comparable situation rose during the implementation of the Palama campaign, though with a different outcome. The campaign had been delayed because a competent theatre company could not be found to manage the campaign. In the end, Enter-Growth opted to take on the management itself, while building the

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<sup>13</sup> Palama means bridge in Sinhale (Palam in Tamil). The campaign presents enterprise as a bridge between poverty to prosperity, which can be crossed together rather than by the individual (since individual wealth seeking is not appreciated).

<sup>14</sup> Van Empel C., *LED story Sri Lanka, The Forum theatre experience*, 2007

<sup>15</sup> Hakemulder F., *Forum Theatre Effects on Beliefs about Business*, ILO/Enter-Growth, Colombo, 2007

capacity of a theatre group.<sup>16</sup> The Polonnaruwa group was assisted to set up its own company and encouraged to find other clients. As such, the actors are even role modeling a form of self-employment.

Enter-Growth also experienced that success of LED activities greatly depends on the interest and continued commitment of local stakeholders. For instance, it happened that initial buy-in of local stakeholders to jointly designed LED plans, faded away because:

- the proposed projects were too ambitious and appeared not to be within reach in the short time;
- not all stakeholders would equally benefit from the project;
- of a reluctance to public-private collaboration and partnerships<sup>17</sup>;
- of the length of participatory exercises. When intervals in between steps took too long, momentum got lost;
- funding was not (immediately) available and needed to be mobilized.

#### 1.4 Key results so far

This case study covers the period June 2005 – December 2007 corresponding to about two-thirds of the total duration of Enter-Growth.<sup>18</sup> Hence, the LED process in Polonnaruwa is still young and evolving. However, one can already distinguish some key results and indications for longer-term impact:

- **Public-private dialogue and cooperation.** PPD on small enterprise development has become an established practice through the PDEF. One observes an increased confidence and joint undertakings amongst people and organizations that previously had little inter-action.
- **Local ownership.** The participatory approach has contributed to a strong sense of local ownership. This is demonstrated by the pro-active attitude of the Forum members who set and implement their agenda and take responsibility of the Forum secretariat.
- **More enabling business environment.** On the basis of the issues put forward through the LOCA and VC exercises, the PDEF and other stakeholders have succeeded in making effective changes in the business environment.
- **Better and more business services.** The LOCA and VC exercises have

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<sup>16</sup> Enter-Growth also supported one theatre group in each of the other 3 districts.

<sup>17</sup> This was strongly felt in the dairy sector, which is traditionally dominated by government agencies. The governmental veterinary service felt threatened by the introduction of a private artificial insemination service and was not willing to give up its monopoly in this field. In stead, it preferred to add more trained public vets to its service.

<sup>18</sup> At the time of writing the project is expected to close down by November 2008.



made support agencies and other service providers more aware of the needs of small enterprises. Consequently, they have adapted and extended their offer in the district. Moreover, Business service fairs have successfully connected clients and suppliers and are likely to become a profitable business opportunity in itself.

- **Changing enterprise culture.** More people consider enterprise as an option to earn a living and/or value enterprises more positively thanks to the Palama campaign.
- **Local identity and social cohesion.** Supposedly, big events that are owned by local organizers and involving diverse population groups such as the MSE fairs and forum theatre performances, increase a sense of belonging and attachment to the district. In the long term, this has the potential to strengthen local identity and contribute to social cohesion, which is major ingredient for LED and in some places even a decisive competitive factor.

## 1.5 Lessons learned

So far, the LED experience in Polonnaruwa has learned the following lessons:

### Public-private dialogue

- Creating the Forum at an early stage of the LED process was instrumental for getting support for the initiatives that were undertaken afterwards. Or, as the Enter-Growth district manager of Polonnaruwa put it: *“The Forum acts like a smoothening agent, like grease or engine oil for an engine.”*
- Public-private dialogue at the provincial and district level can have an impact on the business-enabling environment and service provision even in a complex and largely centralized administrative system like Sri Lanka’s. It also has good potential for sustainability.

### LOCA and VCD<sup>19</sup>

- The impact of the LOCA exercise in terms of creating awareness for local economic needs and networking amongst local stakeholders, BDS providers and government authorities was revealed to be high. Therefore, LOCA has become more than just a methodology and can be considered as a concrete action to facilitate LED.<sup>20</sup>
- LOCAs need to focus more on competitive sub-sectors. Many sub-sectors are dependent on continuous and apparently interminable “development

<sup>19</sup>

This section is taken from the ILO/Enter-Growth Progress report 2

<sup>20</sup>

ILO/Enter-Growth Intervention report LOCA Hingurankgoda.

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.<sup>21</sup> In cases where districts have a competitive value chain in common, the VC exercise can be taken at a higher (regional) level, increasing possibilities for linkages with markets outside the district.
- LOCA exercises can provide a sound basis for more in-depth VCD work, which holds good potential for more systemic interventions and impact on larger numbers of people.

### **Roles, responsibilities and mindsets<sup>22</sup>**

- Government and NGO service providers can often not be relied on to implement LED 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.

## **1.6 Sustainability perspectives and challenges**

Sustainability has been a continuous concern of the project team and pathways to sustainability of main Enter-Growth outcomes have been identified.<sup>23</sup>

With regard to the **PDEF**, several sustainability factors come into play. First, it is recognized for its achievements so far within and to some extent outside the

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<sup>21</sup> The experience with the Nestle in Polonnaruwa demonstrates that this is not an easy task as external factors come into play. The Nestle factory was the most important buyer of milk from Polonnaruwa and surrounding districts. Due to unfavorable conditions induced by the government’s orientation towards a state-owned milk factory, Nestle could not buy the required quantity of milk locally and decided to close down its site in Polonnaruwa.

<sup>22</sup> This section is taken from the ILO/Enter-Growth Progress report 2

<sup>23</sup> This chapter is mostly based on: ILO/Enter-Growth, *Pathways to sustainability of main Enter-Growth outcomes*, 11 May 2007.

district. Secondly, the almost autonomous functioning of the PDEF indicates a dynamic that is not likely to be distorted by the future withdrawal of Enter-Growth. However, the future will tell whether the Chamber of Commerce will remain available in the long run for the secretariat function. Also, the financial capacity of the other members to share the –relatively low- running costs may change over time.<sup>24</sup>

The continuity of the **LOCA and VCD** exercises is not evident. Although local organizations seem to be convinced of the usefulness of the LOCA and VCD, national level recognition of and support to their work is weak. However, it is at the national level that budget allocations for such exercises are taken. Enter-Growth acknowledges this as a major concern, and has taken action to strengthen national level support. Several organisations have since included LOCA and VCD exercises in their budgets, or in proposals to funding agencies. The project is less concerned about the technical capacity at the district level to continue LOCA and VCD exercises and foresees a gradual technical withdrawal for exercises that still will take place within the project duration.

Thanks to its success, the concept of the **business service fairs** is likely to be imitated, though not necessarily as an annual event of the current dimension.

The **Palama campaign** is not expected to be sustainable by itself. Even if sponsorships are obtained (which so far has not been possible), these will extend the campaign for only a limited period of time. The Polonnaruwa theatre company set up by the actors is showing some initial signs of sustainability, but it is unlikely that the main focus of its work will continue to be enterprise culture. Here one should note that it is not necessarily the *Palama campaign* that needs to become sustainable. Its evidential, successful outreach and eventually impact on the enterprise culture so far is equally important in terms of sustainability.

In conclusion, one can say that the philosophy of the project to build capacity and assisting local actors to become facilitators of LED and providers of relevant services, provides in principle good sustainability perspectives. This way of working owes a lot to the BDS market development concept, i.e. don't displace local actors and don't replace local funds; limit support to facilitation and invest in changing the system, including service development, not in delivery. However, for developing and testing new services or campaigns, sponsorship will remain necessary and not always easy to obtain.

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<sup>24</sup> An encouraging trend in this respect is that the Enterprise Forum model is being replicated in a dozen other areas (outside the districts where Enter-Growth operates), principally through Chambers of Commerce and Industry.

## 2. DETAILED DATA AND ANALYSIS

### 2.1 Highlights of the LED initiative

One can distinguish three distinctive and inter-related features of the LED initiative in Polonnaruwa. They are:

- 1) Informal but structured PPD
- 2) Responsive and pragmatic LED strategy
- 3) Local ownership and sustainability

These features are highlighted one by one in the following paragraphs.

#### 2.1.1 *Informal but structured PPD*

In some countries local governments are enabled to involve non-governmental and private sector representatives in local development issues through national [policies and/or law].<sup>25</sup> In Sri Lanka, however, there are no formal policies nor legal provisions on PPD. National level PPD initiatives exist but are rather uncommon. An example is the National Forum for Enterprise and Export Development, run by the EDB and formerly chaired by the Minister for Enterprise Development and Investment Promotion<sup>26</sup> The Forum discusses issues, which are prepared and presented by private sector representatives. It tries to solve these on the spot with the relevant authorities that are also invited to the monthly meeting. However, at local level, such PPD initiatives are even more rare.

Considering this context, the initiative in Polonnaruwa to set up the PDEF is rather innovative. Despite the absence of a legal status and hence a lack of official embedding into local policymaking, the Forum functions well. For instance, the example of the validity of entrance tickets to the Cultural Triangle demonstrates that its suggestions are taken up at local level and even national level. The endorsement of PDEF decisions by the signature of its Chairman, the district government agent, is crucial in this respect. But also the commitment of its other members, its internal organization through rules and regulations, as well as the leadership of the Chamber of Commerce and Industry contribute to the PDEF success and sustainability (see chapter 2.4.3 for further details).

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<sup>25</sup> This is for example the case in Ghana where the Local Government Act foresees the possibility of establishing District Assembly Sub-Committees that can co-opt representatives from civil society. Consequently, a few districts in Ghana have decided to set up – with assistance of the ILO- public-private sub-committees on productive and gainful employment that promote the development of micro and small enterprises. See: Carlien van Empel, *LED story Ghana: Rooting public-private dialogue*, ILO, 2007.

<sup>26</sup> Another Ministry is in charge now.

### *2.1.2 Responsive and pragmatic LED strategy*

Unlike other LED experiences, there is no overarching LED strategy for Polonnaruwa district. The district strategy is continuously being constructed as the PDEF and other local actors respond strategically to LED issues that emerge from the participatory LOCA and VC analyses.

The LED interventions that are undertaken address coherently various dimensions of LED, including the market access of micro and small businesses, the rules and regulations concerning micro- and small businesses as well as the enterprise culture. Together the interventions form a coherent approach to LED.

Another example that highlights the pragmatism of the LED strategy is the way the “territory” is dealt with locally. The stakeholders in Polonnaruwa look beyond the borders of their district in order to address obstacles for LED more efficiently. The before mentioned case of the validity of entrance tickets for the Cultural Triangle is one example. Other examples are VCs that cover regions rather than only the Polonnaruwa district, such as the VCs in dairy and packaging sectors.

### *2.1.3 Local ownership and sustainability*

The various LED interventions stem from a careful introduction of methods and tools that have proved their success internationally but needed an adaptation to the local setting. For instance, the VCD method is a mixture of the LOCA method and international guidelines in VCD.<sup>27</sup> The coverage and scale of these exercises have been designed for the specific situations at the local level. The same can be said for the globally well-known concept of Business service fairs. The concept was modified to include a lot of entertainment, such as fairground attractions for children, concerts by popular bands and cultural shows, to bring in huge crowds and turn the fair into a 'mega event'. The Palama campaign is even more exceptional in this respect because of its thorough design, based on cultural anthropological research, enabling the promotion of entrepreneurship through local values.

However, local ownership and sustainability is not only a matter of “localizing” methods and tools. Also the implementation of LED interventions by local actors is key. The guiding principles of Enter-Growth in this area are:

- Enter-Growth does not substitute itself to Sri Lankan service providers
- Where needed, capacity will be built for implementation and future replication

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<sup>27</sup> See: Herr M., *Local Value Chain Development for Decent Work. An operational guide*, ILO/Enter-Growth, Colombo, 2007. One example of international guidelines on VCD is: Schmitz H., *Value Chain Analysis for Policy-Makers and Practitioners*, ILO, Geneva, 2005.

- The implementation of LED interventions does not depend on Enter-Growth resources. Resources will need to be mobilized by local actors.

## 2.2 Zoom on Polonnaruwa

Polonnaruwa is a rural district of 333,280 hectare in the North-Central Province of Sri Lanka and counts 359,197 inhabitants.<sup>28</sup> The district has seven divisions<sup>29</sup> headed by Divisional Secretaries under the responsibility of the Government Agent who is responsible at district level.

The district capital Polonnaruwa is at 216 km from Colombo and is rather well connected to other parts of the country through its road network and railway service. Other basic infrastructure facilities such as water supply and sanitation, electrical power supply and communication services are present but not accessible to all. For instance, 75.3% of the district households have sustainable access to safe drinking water and 53.4% have access to improved sanitation.<sup>30</sup> In addition, 41.4% of the households are using electricity and only 11% use telephone. The district is ranked 9 in the combined consumption poverty and human poverty ranking of 17 districts (17 being the poorest).<sup>31</sup>

The employment situation in Polonnaruwa district provides further insight in the district poverty level. The unemployment rate in Polonnaruwa lies between 6.3 and 7.7%, which is relatively high compared to other districts.<sup>32</sup> The underemployment rate is between 6.5-10.9 % and is one of the highest in the country.<sup>33</sup> The district shows the highest male contribution to the economically active population namely 69.2%. The participation rate of the informal sector in the non-agriculture sector is 54.4%, which is slightly higher than the national average of 51% but significantly higher than, for instance, the 43% in the urban Colombo district.<sup>34</sup> The high number of 5,056 non-registered enterprises against 2,894 registered enterprises confirms the importance of the informal economy.<sup>35</sup> At national scale the small enterprise base in Polonnaruwa district is little; it accounts for only 1% of the country's small enterprise base. The great majority of households live from subsistence (paddy) farming.

<sup>28</sup> Polonnaruwa district profile, Enter-Growth internal document

<sup>29</sup> The seven divisions are: Thamankadwa, Hingurakgoda, Medirigiriya, Elahera, Dimbulagala, Lankapura and Welikanada.

<sup>30</sup> Millennium Development Goals district statistics (2002) at <http://www.mdg.lk/>

<sup>31</sup> National Development Policy Framework and the Millennium Development Goals in the context of Sri Lanka (2005),

<http://unpan1.un.org/intradoc/groups/public/documents/UN/UNPAN008616.pdf>

<sup>32</sup> The national unemployment rate in 2006 was 6.5%. Department of Census and Statistics, *Sri Lanka Labour Force Survey Final Report – 2006*, Colombo, 2007

<sup>33</sup> Out of the 17 districts for which underemployment data are available, 4 districts (including Polonnaruwa) have a score of 6.5-10.9%. The underemployment rate for the remaining districts is: 3 districts 6.1-6.4%, 5 districts 4.0-6.0% and 5 districts 2.8-3.9%. Source: *Sri Lanka Labour Force Survey Final Report – 2006*, Colombo, 2007

<sup>34</sup> *Sri Lanka Labour Force Survey Final Report – 2006* (2007)

<sup>35</sup> Polonnaruwa district profile, Enter-Growth internal document

### 2.3 Assessment of the Polonnaruwa LED strategy

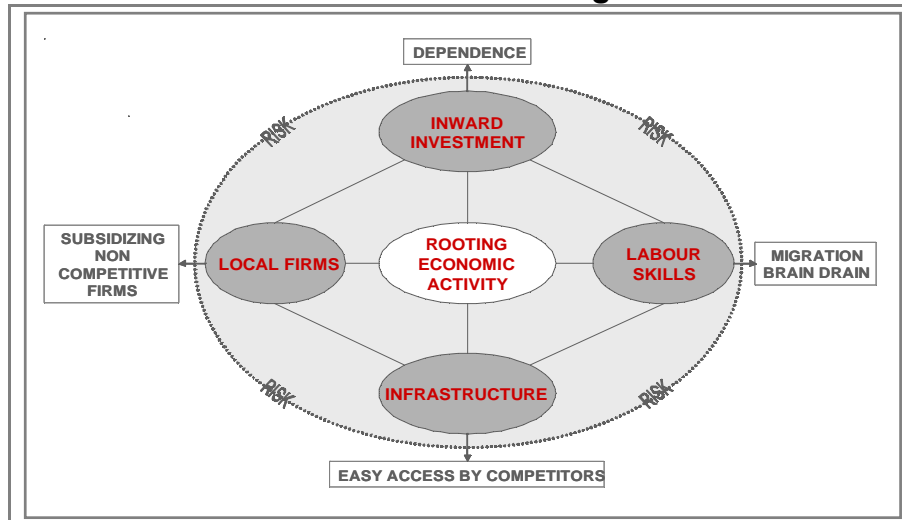
Even though we cannot speak of “*the*” LED strategy in Polonnaruwa, the strategic LED interventions can be analyzed with help of the “bases and risk of LED strategies” framework developed by Andrés Rodríguez-Pose of the London School of Economics. See Figure 5a.

Within this framework, four commonly used types of LED policies are identified:

1. **Local firms:** policies that aim to improve the competitiveness of local firms.
2. **Inward Investment:** policies aimed at attracting new inward investment.
3. **Labour skills:** programmes and projects aimed at developing local human capital and skill-pool in the local economy.
4. **Infrastructure:** activities that aim to upgrade the local infrastructure

Although intervention does not necessarily need to occur in all four axes, the framework shows that intervention in any of the four areas is only likely to have the desired result if it is matched by sufficient capability in the other three. For example, upgrading local infrastructure will not necessarily lead to economic development and employment if the local economic fabric is weak. In other words, if local human capital and labour skills are low and firms within the locality are not competitive in a broader market, improving infrastructure may only provide easy access to outside competitors rather than development opportunities for local firms.<sup>36</sup>

**Figure 5a The “bases and risk of LED strategies” framework**



Source: <sup>37</sup>

<sup>36</sup> Taken from: Rodríguez-Pose A., Tijmstra S. (2005), How to plan and implement a LED strategy. Module III. ILO sensitizing package on LED, unpublished.

<sup>37</sup> Idem.

Figure 5b presents Polonnaruwa's LED strategy against a "standard" LED strategy with maximum values for the four bases.

**Figure 5b The bases of Polonnaruwa's LED strategy**

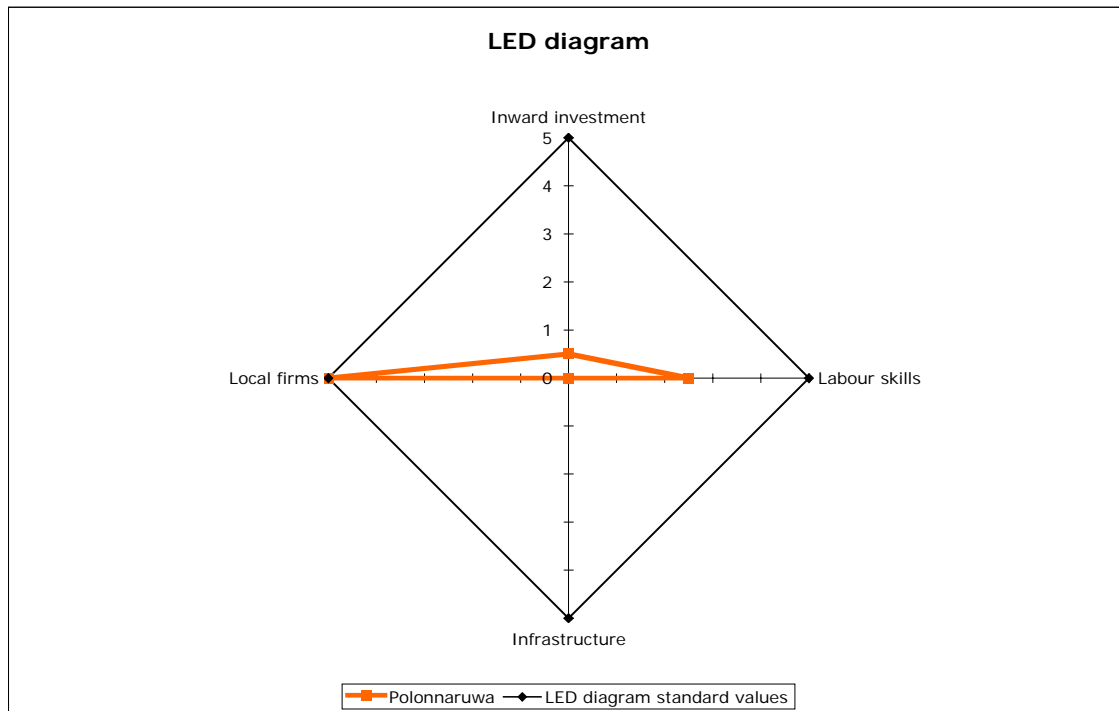


Figure 5b shows that Polonnaruwa prioritizes the improvement of competitiveness of local firms. Here, we distinguish: (a) direct support to enterprises in the selected growth sub-sectors such as ornamental fish, inland fishing, dairy farming and milk processing, ornamental plants, seed paddy and the poultry industry, and (b) more indirect support by influencing the environment in which firms operate. Examples of direct support activities include<sup>38</sup>:

- *Linking local firms to the export market*: two ornamental plant growers have found an exporter through the intervention of Enter-Growth. This has resulted in improvement of production technology through embedded services provided by the exporters and higher sales (income).
- *Branding*: the seed paddy farmers' association in Hingurankgoda division has developed a common trademark. Through increased adherence and control to quality standards, their brand name stands for high quality – controlled and certified by the Agricultural Department. Currently, the group is seeking support again to purchase a sewing machine, in order to seal their seed paddy bags properly.

<sup>38</sup> The examples are taken from: Enter-Growth Intervention Report on the LOCA exercise in the Hingurakgoda division of Polonnaruwa district.



- *Organization of farmers:* Through an Enter-Growth workshop layer-breeding farmers had got to know each other. Subsequently, the farmers had decided to form an association (without support from Enter-Growth). Today, the association tries to reduce farmers' input costs by using their bargaining power to strike special deals with suppliers of feed (e.g. buying maize feed in bulk for members).

Examples of activities aiming at influencing the enabling environment of local firms are, amongst others:

- *Enterprise culture:* Changes in beliefs and attitude towards enterprises by means of the Palama campaign
- *Regulatory framework:* Changes in public service delivery in the field of business regulations through needs assessments and training programmes for local public officials in cooperation with Sri Lanka Institute of Development Administration (SLIDA)

Secondly, LED interventions in Polonnaruwa district aim at the development of local human capital and skill-pool. The improvement of labour skills is, amongst others, achieved through:

- Improved business management and organizational skills through, amongst others, SBA training
- Improved technical skills through training and (embedded) BDS.

The third component of Polonnaruwa's LED strategy is directed at attracting new inward investment. This issue came up at a later stage in the LED process; local stakeholders had prioritized other issues first. At the time of writing, this young initiative is still at the stage of a proposal to set up a district investment promotion desk.

Upgrading of local infrastructure is not (yet) addressed by LED interventions for two reasons. First, affecting infrastructure decisions in a bottom-up way is a difficult task. It is a highly politicized sector, where decisions are seldom implemented because of the frequent changes of Government or even just politicians.<sup>39</sup> Second, Polonnaruwa has a rather well developed road and rail network, which makes investment in that particular segment of infrastructure less urgent. However, there is scope to link up with other national development programmes promoting infrastructure development in other fields (e.g. irrigation schemes), such as the Rajarata Navodaya programme<sup>40</sup>, which is represented in

<sup>39</sup> This is also the reason why Enter-Growth was not designed to directly address problems related to weak infrastructure and the access to infrastructure.

<sup>40</sup> The Rajarata Navodaya programme is a provincial infrastructure programme of the Ministry of Agriculture, Irrigation and Mahaweli Development. Its objectives are: rural electrification, improvement of drinking water facilities and living standard of the poor, gravel road redevelopment in rural areas and the development of small and medium scale irrigation tanks.

the PDEF.

In conclusion on the bases and risk of Polonnaruwa's LED strategy, we note a predominant focus on local firms and a lesser emphasis on labour skills. Inward investment and infrastructure are slightly and not yet addressed. Compared to a LED strategy that includes all four axes, Polonnaruwa's strategy may -at first sight- indicate some unbalances and risks. For instance, following the logic of Figures 5a and 5b, the potential risk of overemphasizing support to local firms can be to support non-competitive firms because the local economy would lack of sufficient labour skills, inward investment and appropriate infrastructure and hence does not provide an environment that is conducive to growth. However, in Polonnaruwa, this risk has been taken deliberately for three reasons.

(i) Infrastructure was not a feasible area for LED interventions for the reasons explained above.

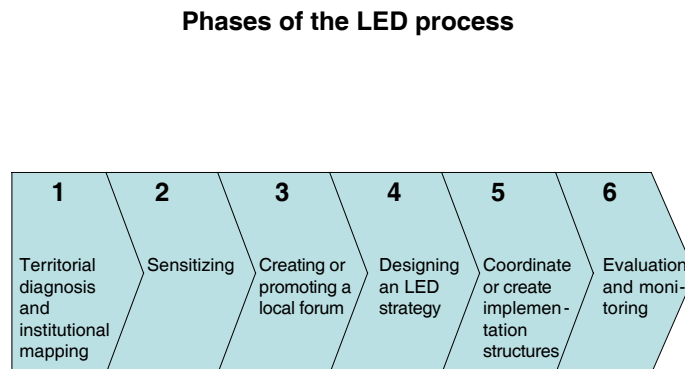
(ii) Polonnaruwa's LED interventions are guided by the objective of pro-poor growth, i.e. promoting an economic growth potential to which poor people contribute and eventually benefit in terms of more jobs and higher incomes. Consequently, the risk of supporting non-competitive (poor, informal) firms is taken on purpose.

(iii) Enter-Growth supports the process to come to LED interventions through LOCA, VCD and the PPD. The outcome of this approach is a responsive and pragmatic LED strategy that is constructed step by step. This differs from LED approaches that develop an overarching, long term LED strategy for the district. (See also section 2.1.2).

## **2.4 Phases of the LED process**

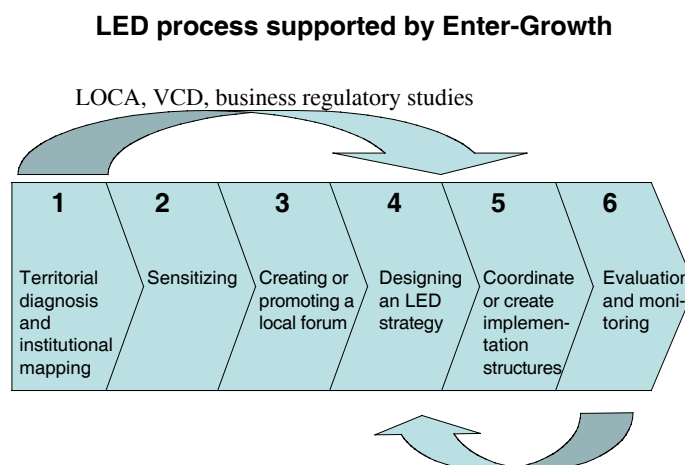
With support of the ILO Enter-Growth project, Polonnaruwa has carried out activities related to all 6 phases of the LED process and is still undertaking activities that are characteristic for one or more phases. Figure 6 shows the standard process with the various phases in a chronological sequence.

**Figure 6a     Phases of the LED process**



In Polonnaruwa however, phases partly overlap and do not always take place in the sequence as presented in Figure 6. Moreover, some phases are recurrent or involve continuous activities. This is illustrated in Figure 6b and further explained in the following description of each phase.

**Figure 6b     LED process supported by Enter-Growth**



### *2.4.1 Territorial diagnosis and institutional mapping*

During the first 6 months of the LED process starting in June 2005, a variety of mapping and assessment activities were carried out, principally by project staff and Sri Lankan research and consultancy companies but also by consultants from abroad. First a stakeholder inventory was carried out. More in depth baseline surveys followed the preliminary listing of stakeholders. They focussed on Micro and Small Enterprises (MSEs), Business Development Services (BDS) providers and business associations. These surveys intended to establish a benchmark to be compared to the end-of-project impact assessment.<sup>41</sup>

Furthermore, the impact of peace and conflict has been assessed. This was considered important with respect to dialogue and collaboration that is part and parcel of the LED process. The conflict context requires sensitivity to latent and active conflicts between various ethnic communities. For instance, as a result of this assessment, transparent criteria were developed for the composition of the MSE forum as well as for the selection of facilitators or Divisions to work in.

Subsequently, LOCA exercises have brought out more specific information on the territory. LOCA exercises are recurrent and separate exercises that take place in Divisions. When stakeholders find a competitive VC that divisions have in common, this VC can be the starting point for a VCD exercise. VCD exercises can also take place at regional level when districts have a VC in common. As such Polonnaruwa participates, for instance, in the regional VCD for ornamental plants and dairy.

This shows that the definition of the territory, i.e. Polonnaruwa district, is applied in a flexible way and changes in line with the purpose and detail of the diagnosis exercise. Moreover, VCs are not confined to administrative borders.

In conclusion we can say that initial activities undertaken during the phase of territorial diagnosis provided inputs to subsequent phases of sensitizing and the creation/promotion of a local forum. Next, more specific diagnosis activities such as LOCA, VCD and studies on business regulations contributed to the design of strategic interventions (phase 4) without formulating an overall LED strategy for the district.

### *2.4.2 Sensitizing*

The phases of sensitizing LED stakeholders and the creation of the Forum (see also 2.4.3) are closely linked. A series of mini-workshops for the private sector, the Government and NGOs separately were organized in support to the creation

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<sup>41</sup> The impact assessment strategy has been revised at a later stage of the project and has changed the use of some of these baseline surveys. This is discussed in 2.4.6.

of the Polonnaruwa District Enterprise Forum (PDEF). Mistrust between these sectors had to be overcome and confidence in Enter-Growth's LED approach had to be gained. The workshops informed between 30-40 stakeholders about Enter-Growth, presented the TOR of the MSE forum, and helped participants consider the advantages and disadvantages of collaboration and dialogue with the other sectors. They were then asked to select representatives for the Forum.

Subsequently, other sensitizing activities on different topics and for other target audiences have been initiated. As such, sensitizing can be considered a continuous activity. Examples of other sensitizing activities are the Palama social marketing campaign, the Business service fairs, half-yearly meetings with all organizations relevant to private sector development, and advocacy on regulatory constraints at the national level. For instance, the Palama campaign invites communities to reconsider their negative biases towards enterprises by promoting entrepreneurship whilst taking into account deeply rooted local values. Forum Theatres are key in this campaign and attract some 200 to 300 spectators per show.<sup>42</sup>

Business service fairs also have a sensitizing function in the sense that (future) entrepreneurs, service providers and visitors from various backgrounds meet and

### **Members of the PDEF**

#### **Government administration**

Agriculture Department  
District Education Office  
District Government Agent (Chairman PDEF)  
District Planning Officer  
District Secretariat

#### **Public sector**

Industrial Development Board  
People's Bank  
Rajarata Development Bank

#### **Private sector**

Seeds Guarantee Ltd  
Ceylinco Grameen Credit Company (Pvt) Ltd  
District Chamber of Commerce, Industry and Agriculture (Co-secretary PDEF)  
Rural Cooperative Bank Association

#### **Development organizations (foundations, projects, programmes)**

Ape Sawathi Foundation  
Gemiridiya Foundation  
ILO Enter-Growth project (2) (Secretary PDEF)  
Mahasan Manawa Sangsadaya Rajarata  
Navodaya  
Residential Programme Manager  
Sewa Lanka  
Sri Lankan Human Development Foundation

#### **Other NGOs**

Free Media Movement  
Surath Saloon Society

<sup>42</sup> More information on Palama Forum theater experience in Polonnaruwa can be found in: Reinprecht K. and Weeratunge N. (2006), *Design of a strategy to promote enterprise culture in Sri Lanka: Socio-cultural assessment results*; Van Empel C (2007), *LED story-The Forum Theatre experience* and Hakemulder F. (2007), *Forum theatre effects on beliefs about business*. All available at [www.entergrowth.com](http://www.entergrowth.com)

get exposed to local products and (business) services. Seminars are held at the fairs on specific topics. In the second year of the business service fairs they were combined with activities of the Palama campaign, including an exhibition of photographs showing entrepreneurs at work.

#### *2.4.3 Creating and promoting the PDEF*

The PDEF counts 23 members coming from various layers of government administration, public institutions, development organizations, NGOs, banks and private companies. Only one out of the 23 members is female. This reflects societal reality in Polonnaruwa, where few women fulfil (senior) management functions.<sup>43</sup>

The Forum was created within the 1<sup>st</sup> half year of the LED process and has strengthened its local ownership and autonomy since then. Its mandate is broadly to facilitate “local economic development through MSE development in their Districts, and function as a forum for dialogue. The PDEF discusses topics in relation to policies and regulations that are brought up through LOCA and or value chain analyses (VCA). If the issues cannot be solved by those represented on the PDEF, they are passed on and discussed with relevant District or Provincial authorities, or raised at the national level Enterprise and Export Development Forum.

The PDEF does not have a legal status but it has formalized its operational rules and regulations amongst the members. The Chairman officially endorses its decisions in his capacity as (high level) Government Agent. Relevant members ensure the follow-up.

Besides, at the level of VCs also small PP forums are set up to bring the key stakeholders in that particular VC together.

#### *2.4.4 Designing an LED strategy*

The design of an LED strategy is closely linked to territorial diagnosis institutional mapping. In fact, there is not one overarching LED strategy for the district. The complex institutional framework as well as current government planning and budgeting procedures would hamper an effective implementation. Therefore, the LED approach in Polonnaruwa is rather pragmatic and responds strategically to issues that emerge from the public-private dialogue (PPD), LOCA and VC analyses. The PDEF has set its own action plan with clearly defined goals, e.g.

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<sup>43</sup> This is not typical for only Polonnaruwa; gender inequality is evident in the country as a whole. For instance, Sri Lanka ranks 85<sup>th</sup> out of 93 countries in the Gender Empowerment Measure (GEM), which reveals whether women take an active part in economic and political life. Source: UNDP Human Development Report 2007/2008 country fact sheet Sri Lanka, [http://hdrstats.undp.org/countries/country\\_fact\\_sheets/cty\\_fs\\_LKA.html](http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_LKA.html)

“to make at least 50% of the enterprises in Polonnaruwa District successful and productive and increase the number of enterprises by 100% in 2012”. Besides various strategic plans have been/are being formulated for selected VCs such as for dairy products and ornamental fish.

#### *2.4.5 Coordinate or create implementation structures*

In Polonnaruwa district, no new implementation structures have been created. For district matters related to private sector development, the coordination is mainly in the hands of the PDEF, supported by Enter-Growth. Where relevant, the practical implementation of LED initiatives is done by PDEF members or local and national service providers.

#### *2.4.6 Evaluation and monitoring*

Like sensitizing, evaluation and monitoring is also a continuous activity which provides feedback to the (re)design of strategic LED interventions. For instance, follow-up surveys are carried out after MSE fairs and the Palama forum theatre has undergone an experimental impact assessment.

In terms of impact assessment, Enter-Growth focuses on the effect at the intermediate level of dialogue, services, skills, values and attitudes. Impact on business performance, jobs, and incomes would be long-term rather than immediate, even for its relatively direct interventions in value chains. Enter-Growth assumes it would be able to show that over the short period of three and half years while at the level of incomes and jobs it would be able to point to promising “signs of impact.”<sup>44</sup>

### **2.5 Enabling factors in the environment**

Overall, the governance system in Sri Lanka is complex and to a large extent centralized, which hampers autonomous and efficient decision-making at the local level. The various layers of local government structures make it difficult for entrepreneurs to get their businesses registered and obtain the necessary permits and licenses.<sup>45</sup>

However, one can observe a growing awareness on these matters amongst policy makers. Recent national policy documents emphasize the Division as the “new micro level framework” of development and poverty reduction, and in particular of sustainable economic development. Also, people’s participation in the identification of location specific strategies is promoted. This would facilitate the planning, financing and implementation of LED initiatives. It equally would

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<sup>44</sup> Enter-Growth Progress Report 4.

<sup>45</sup> The Asia Foundation, *Economic Governance Index 2007, A measure of the local enabling environment for private enterprise in Sri Lanka* (draft summary report, Colombo, July 2007).

legitimate PPD at the local level.



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