



THE ENTER-GROWTH PROJECT

SRI LANKA

**Applying a market development lens to an ILO local enterprise
development project**

The Springfield Centre

December 2009

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GLOSSARY OF TERMS AND ABBREVIATIONS

Several of these terms, and their accompanying explanations, are taken from The Operational Guide for the Making Markets Work for the Poor (M4P) Approach (2009).

BDS: Business Development Service(s), provided by Government, NGO or private sector suppliers to MSEs to help them start, sustain and grow their businesses. In Enter-Growth's target Districts there is a significant level of government provision of BDS.

Crowding In: Process by which interventions bring other players and functions into the market system. Crowding In can result in enhanced breadth (more transactions in the core of the market), depth (supporting functions), or reach (new areas or markets).

Decent Work: Decent Work (DW) is the ILO's overarching goal and the DW Agenda is its strategy for achieving it. The DW Agenda coordinates four strategic objectives relating to Rights, Employment, Protection and Dialogue¹.

KAB: Know About Business, a training tool, developed by ILO, for secondary, vocational and technical training institutes.

Facilitator: An agent, external to a market system, who seeks to bring about change within the market system.

Forum Theatre: An interactive theatre form, shaped in the 1970s, and used to stimulate debate and to influence amongst audiences on a specific issue or set of issues. Most commonly used in the development context on social and health issues.

Institutions: Structures and mechanisms of social and political and economic order and cooperation (formal and informal), which shape the incentives and behaviour of market players.

Intervention: A defined package of temporary activities through which Facilitators seek to effect change.

M4P: The making markets work for the poor, or market development approach.

Market: A set of arrangements by which buyers and sellers are in contact to exchange goods or services.

Market system: The multi-player, multi-function arrangement comprising three main sets of functions (core, rules and supporting) undertaken by different players, and through which exchange takes place.

MSE Forum: A public/private dialogue mechanism facilitated by Enter-Growth in all four Districts.

PACA/LOCA: Participatory Appraisal of Competitive Advantage, adapted and known as Local Competitive Advantage in Sri Lanka, is a proprietary product of Mesopartner, and has been implemented in a number of countries. The methodology (or 'tool') is a carefully structured sequence of interviews and workshops intended to generate a diagnosis of competitive advantages and disadvantages of a given locality and proposals for practical activities within a short period of time.

¹ See www.ilo.org/global/About_the_ILO/Mainpillars/WhatIsDecentWork/ for more information on ILO's Decent Work Agenda.

SIYB: Start and Improve Your Business, a tool set developed by ILO, used to help potential and existing entrepreneurs start and grow businesses.

Sustainability (the market development definition): The market capability to ensure that relevant, differentiated goods and services continue to be offered and consumed by the poor beyond the period of an intervention.

Systemic change: Change in the underlying causes of a market system performance - typically in the rules and supporting functions - that can bring about more effective, sustainable and inclusive functioning of the market.

Tools: Relatively standardised methodologies for market analysis or intervention (e.g. value chain analysis and development, small business association development, SIYB etc).

VCA/D: Value chain analysis/development. Enter-Growth typically referred to value chain development (VCD), a process that incorporates value chain analysis (VCA).

Abbreviations

EDB: Export Development Bureau

Enter-Growth: The Enterprise for Pro-Poor Growth project

FCCISL: Federation of the Chamber of Commerce and Industry of Sri Lanka

GDP: Gross Domestic Product

GNI: Gross National Income

GW practices: Good working practices (developed for millers in the Coir sector)

ILO: International Labour Office/ International Labour Organisation

LED: Local economic development

MSE: Micro and small enterprise

PPD: Public private dialogue

SBA: Small business association

VCA: Value chain analysis

VCD: Value chain development

ENTER-GROWTH AT A GLANCE

PROJECT PERIOD: June 2005 - September 2009.

Project Budget: US\$5,049,511.

Funder: Swedish International Development Agency (Sida).

Government partners: Ministry of Enterprise Development and Investment Promotion, District Secretariats.

Geographical focus: 4 Districts in the North/West and North/Central Provinces of Sri Lanka: Puttalam, Anuradhapura, Polonnaruwa, and Kurunegala.

Primary target groups: Micro and small enterprises (MSEs).

Overall development objective: to contribute to the generation of pro poor economic growth and quality employment for women and men in the North West and North Central provinces.

Immediate objectives in summary:

- *Market access:* improving market access for MSEs.
- *Business environment:* creating a more conducive policy regulatory and legal environment for MSEs.
- *Enterprise culture:* improving attitudes towards business and entrepreneurship.
- *Business development services (BDS):* greater access countrywide to market-led, sustainable business services for MSEs.

Main Foci:

- PACA (called LOCA in Sri Lanka).
- Value chain analysis and development (incorporating the promotion of BDS, and business environment reform).
- PPD through MSE Forums.
- Business registration.
- Enterprise culture development.
- Media development.
- SIYB and KAB.

Primary sub sectors:

- Local value chains: fruits and vegetables, ornamental fish, floriculture, dairy and tourism.
- Regional value chains: dairy, floriculture, packaging, coir.

Number of MSEs impacted by the project: an estimated 16,400 to date, and an estimated 50,000 in the longer term (excluding the estimated 252,000 participants in the Palama Forum Theatre events).

1 INTRODUCTION

1.1 Why a case study about the Enter-Growth project?

In the Kurunegala District of Sri Lanka some 3,000 dairy farmers have tripled the productivity of their cattle and increased employment on their farms by an estimated 11%. The ILO executed Enter-Growth project contributed to these achievements by: (a) raising a local bank's awareness and understanding of the market so that it now offers credit to farmers, (b) improving service suppliers' understanding of farmer needs so that they offer improved and market based training and information services, and (c) improving the marketing of fresh milk, through the establishment of a new local distribution system initiated by farmers associations, thereby increasing the prices farmers receive for fresh milk by 30%.

This is one example of the Enter-Growth project's impact, and it illustrates the kind of sustainable changes in market systems that the project facilitated. That Enter-Growth has had significant success in achieving local economic development in the four Sri Lankan Districts it has targeted, is in itself, not so unusual. What makes it different, and an appropriate subject for an ILO case study, is that a major aspect of Enter-Growth's success is to have facilitated *systemic changes* in the markets that poor people interact with, which in turn has led to *wider and more sustainable impact*. For example, the sustainable increase in production and incomes enjoyed by the Dairy Farmers in Kurunegala, referred to above, has happened because of changes to systems and institutions within the market. To do this, Enter-Growth has followed a *market development approach*, initially more intuitively, and then as the project progressed, more methodically. Enter-Growth is, in fact, one of only a few pioneering projects internationally, which has attempted to deliver a more systemic approach to private sector development.

1.2 Case Study objectives, key messages, audience and structure

All too often lessons from both successful and less successful development interventions are not properly assessed or documented. There are some valuable lessons to be learnt from Enter-Growth; the ILO Enterprise Development and Job Creation Department therefore commissioned this case study to demonstrate how Enter-Growth, an ILO Integrated Enterprise Development project at the local level in Sri Lanka, facilitated *systemic market change*, which in turn had *sustainable* impact on the growth of micro and small enterprises (MSEs) and the sectors in which they operate. The case will explain **how** the Enter-Growth project achieved this, describing its overall approach; and it will provide examples of **what** it managed to achieve. In particular, the case will provide an analytical perspective to describe how Enter-Growth has contributed to *market system* changes, and will draw out the important lessons that can be learned from the project's approach and experiences. As such it will be used as a learning tool for ILO (and other organisations) to describe how Enter-Growth adopted a market development approach, what this actually meant in practice and what it achieved.

The key messages to emerge from this case are:

- **The importance of a clear strategic framework that focuses on achieving systemic change:** this is an effective means for achieving impact, outreach and sustainability (rather than direct service/solution provision to enterprises).
- **The importance of understanding markets and the causes of constraints:** Sound understanding of how markets work, particularly identifying underlying constraints in the wider system of markets relevant to the poor/MSEs, is an essential pre-requisite for designing interventions that focus on causes rather than symptoms of weak market performance.
- **The rationale for facilitation versus direct intervention:** Development projects that take a facilitator role, acting as a catalyst for change, will encourage more players to take part

in the market systems (i.e. crowding in), and lead to greater local ownership and more relevant and sustainable change and impact.

- **Sustainability is central:** In order to achieve sustainable development impact, a project needs to develop, from the start, a clear vision of the future, beyond the end of a project or intervention.
- **The dangers of being tool-led:** Development ‘tools’ can be useful for delivering the market development approach, but the process of designing and implementing projects needs to start with the market, and addressing market weaknesses and the underlying causes of these weaknesses; it should not start with, or be led by, the tools themselves. Likewise compartmentalising enterprise development ‘components’, such as BDS or business environment reform is generally much less effective than when they are addressed in relation to sector based needs.
- **The potential benefits of risk taking:** Taking informed risks and stimulating innovation is a key way in which a donor funded project adds value... but not all risks will work out.
- **The benefits of a Facilitating role for the Funder:** When donors, central government and the executing organisation also take a hands off approach, and are willing to reach a practical balance between accountability and flexibility, it enables a project to be flexible, responsive, and innovative, as well permitting greater levels of ownership of project initiatives by local players.
- **Systemic market development approaches contribute to Decent Work:** Enter-Growth’s successful adoption of a market development approach, informed by the Decent Work Agenda, demonstrates its relevance for ILO’s overarching goal of Decent Work. In this instance it helped contribute to the DW strategic objectives of promoting Employment Creation, Social Protection and Social Dialogue.

The case study is intended for:

ILO development professionals: to provide key lessons for project design, implementation, and monitoring and evaluation processes.

Other non-ILO development professionals: the case history will demonstrate the benefits of adopting a systemic market development approach and some illustrations of how to do this in practice.

Table 1: Case Study Structure

Section	Summary of Contents
1. Introduction	This section explains the rationale for a case study of Enter-Growth and the case study’s objectives, primary audience and structure.
2. Background	This section briefly describes the key aspects of Sri Lanka and the project’s target Districts. It also provides some basic information on the Enter-Growth project.
3. Evolution and approach	This section describes how the Enter-Growth project evolved from a primarily Integrated Local Enterprise Development project, albeit focused on sustainability and facilitation, into adopting a more strategic market development approach. This is followed by a description of Enter-Growth’s market development approach and an assessment of what makes it different to more conventional enterprise development approaches.
4. Achievements	This section briefly describes Enter-Growth’s overall impact. It uses three project interventions to illustrate in more depth what Enter-Growth has achieved.
5. Lessons and	This section presents the main points of learning from the Enter-Growth project and

2 BACKGROUND

2.1 Country context

Sri Lanka has achieved reasonably stable economic growth², despite the Tsunami of 2004 and the resumption of fighting in the Northern and Eastern Province between 2006 and 2009. Stable economic growth has led to a reduction in poverty (an estimated 15.2% of the population live below the national poverty line³). In 2007 the GNI was US\$1,540⁴. Sri Lanka has provided free health and education services to all its population since the 1930s, and this has contributed to it achieving social indicators above those associated with countries of similar income levels⁵. For example, Sri Lanka has an impressive 92% adult literacy level⁶.

The main sectors driving Sri Lanka's economy⁷ are manufacturing, especially the garment sector which accounts for 45% of exports, and the services sector, especially telecommunications, transport and finance. An important boost to the economy has been the increase in international remittances (7.2% of GDP in 2007) from overseas workers⁸. The agriculture sector has remained stagnant, making marginal contributions to growth. Consequently, some parts of the country, particularly Western Province and in urban areas, have achieved much higher reductions in poverty than others. The majority of the poor live in rural areas, and are involved in the primary sectors (agriculture, forestry, fishing and mining).

Sri Lanka's ranking in the World Bank's Cost of Doing Business surveys⁹ has remained largely static (ranked 102 out of 181 countries). Sri Lanka has a myriad of ministries, departments and agencies, many of which have responsibilities that cover Enter-Growth activities. The public sector is a dominant player in the provision of support services to businesses; the business community has a high level of expectation that the government will provide them with assistance. As the project discovered during the design phase, a career within the public sector is generally the most attractive option for the majority of Sri Lankans.

The two provinces in which Enter-Growth operated were selected because: (a) they are two of the poorest in Sri Lanka; (b) three of the four districts had been affected by the conflict, and had communities representative of the main ethnic groupings in Sri Lanka; and (c) neither of the two provinces had been specifically targeted by similar programmes.

The four target Districts are located in the North Western and North Central provinces. The North Western province has 38% of its employed population in services, followed by 32% in industry and 28% in agriculture and fisheries¹⁰. In contrast, the North Central province has almost twice its employed population (52%) in agriculture, with 34% in services and 15% in industry. Unemployment is around 7% in the North Western province and 8% in the North Central province. By 2002, poverty had increased sharply in Puttalam district to 31%, decreased somewhat in Anuradhapura district to 20%, decreased marginally to 25% in Kurunegala district and remained stagnant at 24% in Polonnaruwa district. The large influx of internally displaced persons (IDPs) from the North might be one reason for the increased

² 6% in 2003, 5.4% in 2004, 6% in 2005, 7.7% in 2006 and 6.8% in 2007 (World Bank Country Assistance Strategy 2009-2012 (October 2008).

³ Department of Census & Statistics of Sri Lanka, Household Income & Expenditure Survey 2006/7 (March 2008). Quoted in ADB Country Partnership Strategy Sri Lanka 2009-2011.

⁴ World Bank 'Sri Lanka at a Glance', September 2008.

⁵ Sri Lanka ranks 99 out of 177 countries in the Human Development Index.

⁶ UNICEF 2000-2007 average. www.unicef.org/infobycountry

⁷ ADB Country Partnership Strategy Sri Lanka 2009-2011 (October 2008).

⁸ In the medium term it seems likely that remittance levels will be negatively impacted by the international economic crisis. As yet there are not figures for Sri Lanka to support this.

⁹ Doing Business 2009, Country Profile for Sri Lanka. World Bank/IFC.

¹⁰ Central Bank of Sri Lanka 2003/4 Survey, cited in Enter-Growth's Design Strategy for Enterprise Culture, February 2006.

poverty in this once relatively prosperous district¹¹. Both regions have been adversely impacted by the conflict, which resumed during the project period and ended very recently.

2.2 Brief Information about Enter-Growth

The Enterprise for Pro-poor Growth (Enter-Growth) project in Sri Lanka was implemented between June 2005 and September 2009¹². Enter-Growth was designed as a multi-faceted local enterprise development project, responding to a variety of constraints to economic growth and development that were identified with key stakeholders within the four targeted districts. The project's overall development objective was *"to contribute to the generation of pro poor economic growth and quality employment for women and men in the North West and North Central provinces"*. The project had four immediate objectives:

- **Market access:** improving market access for micro and small enterprises (MSEs).
- **Business environment:** creating a more conducive policy regulatory and legal environment for MSEs.
- **Enterprise culture:** improving attitudes towards business and entrepreneurship.

At the national level, it has a fourth Immediate Objective:

- **Business development services (BDS):** Greater access countrywide to market-led, sustainable business services for MSEs.

Enter-Growth was designed to contribute to ILO's Decent Work Agenda (see Box 1).

Box 1: ILO's Decent Work Agenda

The ILO's overarching goal is to promote opportunities for Decent Work (DW). According to the ILO, Decent Work sums up the aspirations of people in their working lives. These are aspirations for opportunity and income; rights, voice and recognition; family stability and personal development; and fairness and gender equality. The DW Agenda is the ILO's strategy to achieve it. It coordinates four strategic objectives:

1. Promote and realise standards and fundamental principles and rights at work.
2. Create greater opportunities for women and men to secure decent employment and income.
3. Enhance the coverage and effectiveness of social protection for all.
4. Strengthen tripartism and social dialogue.

As such, Decent Work was a core rationale and overarching objective for the Enter-Growth project. As will be seen later, the DW agenda informed both the project's design (in particular the decision to focus on MSEs) and its implementation.

The initial development approach adopted by Enter-Growth, as an integrated local enterprise development project, was characterised by its geographic focus, hence its use of the PACA/LOCA methodology¹³. This approach was, however, influenced by an intuitive market development ethos, with an emphasis on sustainability - manifested in particular by the 'light touch' approach adopted from the start by the Enter-Growth team (see Box 4). As the project

¹¹ Poverty map for Sri Lanka, Findings and Lessons (2005) Department of Census and Statistics, Colombo. Cited in Enter-Growth's Design Strategy for Enterprise Culture, February 2006.

¹² It was supported by the Ministry of Enterprise Development and Investment Promotion (MEDIP), the Swedish International Development Agency (SIDA), and implemented by the International Labour Organisation (ILO).

¹³ LOCA, Local Competitive Advantage, is called PACA, or Participatory Appraisal of Competitive Advantage, elsewhere in the world. It was developed by Mesopartner (www.mesopartner.com). The project made some adaptations to the PACA methodology.

progressed, Enter-Growth increasingly adopted market development approaches and evolved into an ILO version of a market development, or M4P¹⁴, project.

A participatory design process, followed by the use of LOCA and value chain development (VCD) to identify market needs, guided the deployment of training and other BDS, business environment reform, financial services, capacity building for existing and new small business associations (SBAs), and support for advocacy for business environment reforms. Other related activities included: service fairs and specific support to local authorities for increasing registration of MSEs. Dialogue was a central facet of the approach, through the LOCA and VCD exercises, and in particular through the MSE Forums, which were established in each of the four districts. The MSE Forums are made up of senior representatives from provincial and district government, the business community and BDS providers, and played a key role in facilitating and coordinating project activities. The project had a number of foci, summarised in Table 2 below, according to the project's objectives.

Table 2: Summary of Enter-Growth

Immediate Objective (abbreviated)	Key Foci
1. Improve market access for MSEs	MSE forums, Local Competitive Advantage (LOCA) approaches, value chain development, Business Development Service (BDS) promotion, small business association promotion, business service fairs, investment promotion.
2. More conducive policy, regulatory and legal environment	MSE forums, LOCA, value chain development, business registration promotion small business association promotion, support for specific advocacy initiatives, advocacy training, business environment reform training for local authority officials.
3. Improved attitudes to entrepreneurship	Palama Forum Theatre, support for KAB, mainstreaming of entrepreneurship in school syllabus, LOCA, value chain development, MSE forums.
4. Improved access to BDS nationwide	Support for SIYB, EYB, e-commerce, media development.

The budget for the project, after a short extension, was just over US\$5m for a final project period of four years and three months. The project was managed by a team established by ILO, with a headquarters in Colombo and four small district offices managed by full-time District Managers. Staff numbers, full- and part-time, varied during the project period, but a key aspect was the project's ability to identify and source appropriate, usually short term, specialist expertise, including ILO technical specialists, for various project interventions when necessary. The initial Project Manager was a seasoned ILO Team Leader; in the last two years of the project, he took on a part time Technical Adviser role and the previous Deputy Project Manager became the Project Manager. The ILO Country Office provided administrative backup and supervision and the ILO Country Director chaired a Steering Committee made up of representatives of Government, workers and employers organisations, private sector organisations and SIDA. At its request, the project was the subject of a mid term strategic review, as well as an independent final evaluation.

¹⁴ Making Markets Work for the Poor (often shortened to M4P) is a systemic development approach that has been developed with the support of many funders, in particular the Swiss Development Agency and the UK's DFID. This case history will discuss Enter-Growth in the context of M4P in more detail in later sections. More information is available at www.m4pnetwork.org.

3 ENTER-GROWTH'S EVOLUTION AND APPROACH

3.1 The evolution of Enter-Growth into a market development project

Enter-Growth was designed as an integrated local enterprise development project and had an intuitive market development ethos, as can be seen by the priority given to sustainability in the project document. As such the project was characterised by a combination of conventional enterprise development and key market development characteristics, including:

- Conventional enterprise development and local enterprise development characteristics:
 - *a fairly narrow geographic focus which was initially helpful in building relevant local relationships, but ultimately took the project away from an in depth market focus (MSEs rarely define themselves by their location, but more in terms of their specific commercial systems).*
 - *the promotion of two ILO BDS 'tools', SIYB and EYB, at the national level, which the programme inherited from an earlier ILO project.*
 - *LOCA, which was a central plank of the early Enter-Growth approach. The use of LOCA helped reinforce the geographic focus of the project. It was beneficial in developing broadly-owned development interventions, which resulted in 'quick wins', and which in turn helped gain support and build momentum. However, the LOCA analysis was not sufficiently focused on actual market constraints to enable the identification of more systemic solutions and interventions.*

And:

- Some market development characteristics (see Box 2), such as:
 - *a strong emphasis on sustainability, which led to the adoption of a 'hands off', and facilitative approach, working with and through project partners and avoiding directly interventionist practices. MSE Forums and dialogue between the public and private sector were key to the approach from the start.*
 - *an emphasis on understanding markets and identifying priority constraints and appropriate solutions (rather than starting with ILO products).*
 - *a commitment to achieving systemic change. For instance the establishment of the MSE Forums and the emphasis placed on reforms identified by specific sub-sectors.*
 - *a willingness to innovate and take risks, as demonstrated by the enterprise culture component.*

These important and intuitive market development aspects of the original Enter-Growth approach, while initially less dominant than the traditional enterprise development paradigms, made the eventual transition to a more systemic market development approach easier to

Box 2: The market development approach

The making markets work for the poor approach (M4P) is a development approach, which focuses on strengthening market systems so that they function more effectively, sustainably and beneficially for poor people. Central to the M4P approach is:

- Analysis of markets systems to identify underlying causes of the market weaknesses which prevent them effectively serving the poor.
- Interventions which aim to address these underlying causes, rather than the symptoms.
- A focus on sustainability, which means striving for both systemic change and developing a clear vision of the future beyond a particular intervention or project.
- A facilitative role for agencies and governments.

More information on M4P can be found at www.M4Pnetwork.org

manage.

3.1.1 How was Enter-Growth's evolution to a market development project accelerated?

The transition towards an increasingly market development approach was a gradual process to which the mid-term Strategic Review made a significant contribution. It was brought about primarily because of the team's recognition of the limitations with two aspects of their initial approach:

- Enter-Growth recognised the need to go beyond the narrow geographic focus and 'quick win' mentality of LOCA. The LOCA methodology had been very useful in building stakeholder interest in, and momentum for, the project; however, it had also resulted in partial analysis of market systems and inhibited the pursuit of more fundamental constraints. The Enter-Growth team therefore developed approaches for focusing on market systems, and identifying the underlying causes of weak market performance. In particular, the project used and adapted value chain analysis and development approaches as a route to discover the underlying reasons why specific markets which were important to the poor, weren't working properly.
- Secondly, a better understanding of key markets constraints, achieved primarily through value chain analysis and development (VCD), led the project team to realise that it needed to develop a more strategic approach to addressing these constraints, which focused on achieving systemic changes as a route for achieving sustainable impact at scale (see Figure 1).

Box 3: Value chain analysis and development (VCA&D)

Value chain analysis conceptualises enterprises, not as discrete enterprises, but as part of a system of linked production and exchange activities. The analysis plots the flow of goods and services up and down a chain, and possibly even between different chains, and focuses on three primary aspects: understanding where value addition occurs in the chain, understanding the power dynamics of relationships between actors in a chain; and understanding the nature of power dynamics across the chain. The development occurs when the analysis is used to 'upgrade' the acquisition of technical capabilities and market linkages that enable firms to improve their competitiveness and move into higher value activities.

Source: Strategic Review of ILO Enter-Growth Project, Sri Lanka: Springfield Centre (2007).

3.2 Enter-Growth's market development approach

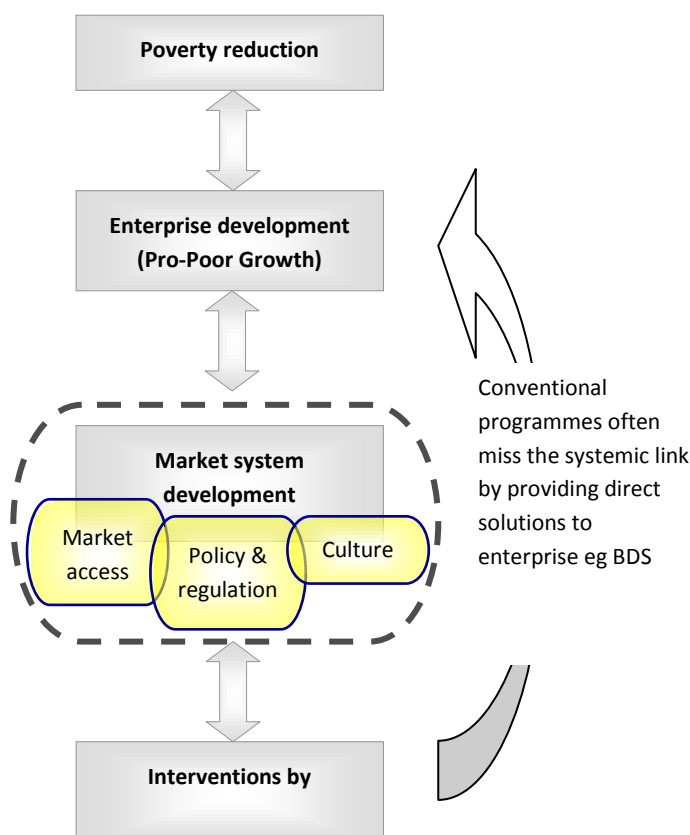
Enter-Growth's market development approach focused on developing market systems that matter to large numbers of poor/MSEs¹⁵. This approach can be characterised as follows:

- It had a **strategic framework**, which emphasised systemic market changes (illustrated in Figure 1, overleaf). The rationale behind this framework demonstrates a clear pathway, and a causal link, from project interventions to employment and poverty reduction. Under this approach, project interventions are designed to impact the economic or market system in which the poor interact; this is different to the majority of enterprise development projects, which have tended to provide direct solutions to MSMEs (the provision of BDS or financial services, are examples of the provision of direct solutions to enterprises, when delivered by development projects). Enter-Growth's market development approach

¹⁵ A market system in this context is the multi player, multi function arrangement comprising three main sets of functions (market transactions (the 'core' of any market system), rules and supporting functions) undertaken by different players (private sector, Government, representative organisations, civil society etc), through which exchange takes place, develops, adapts and grows. *Source: The Operational Guide for the Making Markets Work for the Poor Approach; DFID & SDC (2009).*

suggests that, by influencing changes in the economic system in which the poor interact, the interventions are more likely to lead to sustainable enterprise development, and thus to decent work and sustainable poverty reduction.

Figure 1: The strategic framework for Enter-Growth



Source: Strategic Review of ILO Enter-Growth Project, Sri Lanka: Springfield Centre (2007).

- It developed frameworks for improving its **understanding of the markets it works in**. In this way the project and its partners built on their experience and knowledge of the markets to develop a better understanding of the underlying causes of weak market performance, as opposed to the symptoms, of weak market performance. As the project recognised the need to address specific market constraints, it developed a participatory VCD tool to enable this to happen. A good example of this, in the Floriculture sector, is described in Section 4.2. In this case, poor quality standards was identified by value chain stakeholders as a symptom of several underlying constraints including Growers' limited access to information on new technologies, and market demand information.

VCA was also a useful tool for enabling, or perhaps even forcing, the project to look outside its geographical focus. At first the project used local VCA, and focused on markets in each district (so-called 'Local-VCDs'). These were then adapted to cover a bigger regional geographical area, taking links to outside markets into consideration. This was important as MSEs rarely define themselves by their location, but more in terms of their specific commercial systems, ie. by the functions they perform, the goods or services they provide, their size, and/or the customers they serve.

Enter-Growth's market development approach to promoting BDS, helped strengthen BDS markets. A survey of BDS providers in the four Districts revealed their limited understanding of the needs of their potential clients; following the value chain exercises, a sample of 21 BDS providers indicated that they had increased the range

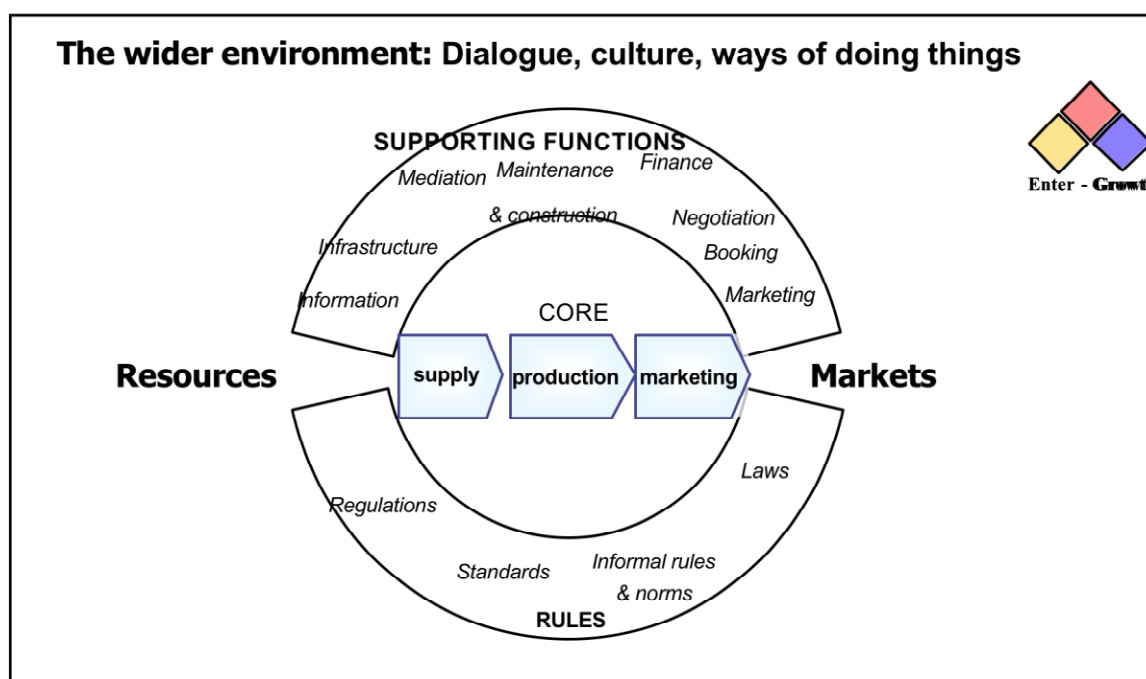
of services they offer, and generally were focused more on needs raised during either LOCA or VCD exercises. In addition, the project facilitated the development of new, and strengthening of existing, embedded services, provided by larger companies involved in the value chain. For example, 280 fruit farmers in a division of Anuradhapura were linked to exporters who provided varieties required for export, as well as training on how to grow them. In a Division in Polonnaruwa, the buy-back system of a medium size poultry breeder was expanded to include 100 farmers, who also benefit from supply inputs and training on the prevention of diseases.

Enter-Growth's systemic approach to business environment reform was characterised by:

- *the promotion of business environment issues identified within specific markets as priority concerns by key stakeholders.*
- *greater ownership of these issues by local stakeholders who were empowered (with advocacy skills, evidence-based arguments, collective bargaining and platforms for public-private dialogue) to advocate for these reforms.*

This was very effective. Of the business environment reforms facilitated, those which emerged from the VCD or SBA-building activities and were implemented by the MSE Forums tended to be more successful than those aimed at generic business environment constraints (eg. the business registration initiative)¹⁶. This was because the former were based on the specific and tangible needs of the sector.

Figure 2: Enter-Growth market system



- It **defined sustainable outcomes** for its interventions. Enter-Growth, aided by the mid term review, developed a systemic perspective on the markets in which the project operates. This systemic analysis helped Enter-Growth and its partners identify a clear view of how different market systems would operate sustainably, in terms of the roles of key players in each system (see Box 4), once the project had ended. Figure 2 illustrates

¹⁶ Eleven of the business environment reforms raised by either SBAs or through the VCD exercises, were achieved.

this conceptually: a market system comprises a core function of exchange or transaction, which requires a variety of supporting functions and rules for it to operate effectively. Making markets work better for MSEs requires multi-faceted interventions, designed to work together, to stimulate sustainable systemic change. Much of Enter-Growth's effort focused on strengthening different dimensions of specific market systems; for instance, VCD initiatives were complemented by interventions in the business environment, such as public-private dialogue, or more broadly, addressing cultural attitudes to entrepreneurship.

- It worked to facilitate **systemic change**; as the underlying causes of market weakness became better understood by all protagonists, reforms were fully owned and adapted to reality on the ground. Examples of systemic changes achieved can be found in Section 4.

Box 4: Sustainability

Sustainability is central to the market development approach. It is defined as: *the capability of the market system to ensure that relevant, differentiated goods and services continue to be produced and/or consumed by the poor beyond the period of intervention*. In order to achieve sustainable development impact, a project needs to develop a clear vision of the future, after a project or intervention is finished. This vision should explain how the market system will operate in the longer term and it needs to answer two core questions: (a) Who does (and who in the future will do)?; and (b) Who pays (and who in the future will pay)?

Although most development projects refer to sustainability, many pay little service to its importance. Ignoring the issue of sustainability implies an acceptance that market systems will continue to underperform. Developing a long term vision of sustainability provides direction to interventions, and helps ensure that a project's activities are linked to its strategic objectives.

- It was guided by the **Decent Work Agenda** to consider the need for and bring about systemic change; it included consideration of Decent Work related issues in the analytical frameworks used in LOCA as well as VCD, and provided training on Decent Work to LOCA and VCD facilitators and MSE Forum members to raise awareness of its importance. Its use of participatory approaches to identifying market constraints and the emphasis on the central role of the Forums aimed at promoting social dialogue and inclusion of social groups that had had no voice in the development process before.
- It increasingly recognised the importance of monitoring and evaluation (M&E), as a means to **assess the changes** facilitated through project interventions, and to use monitoring feedback to inform the ongoing implementation process.

As part of its market development approach, Enter-Growth incorporated core M4P principles. These are discussed below, using one of the project's interventions in the regional Dairy value chain work to illustrate how these principles were followed in practice.

3.2.1 Enter-Growth's market development principles

First some background: in this instance, one of the priority constraints to market growth is the limited availability of high yield cattle. This constraint, due to a *de facto* Government monopoly, was highlighted by both local and regional, Dairy value chain exercises that covered all four of the project's Districts. As a result of this initiative, the authorities decided to facilitate private sector investment in breeding farms. Land and finance has been made available, and 13 farms of different sizes are being set up, with one operational already. Although it will take time for their impact to be felt, it is estimated that eventually some 20,000 dairy farmers will be able to access high yield cattle from these farms, and thereby will be able to increase their productivity and incomes. This initiative illustrates how the project helped key stakeholders identify the exclusion of farmers from the market as a key constraint, and the Government's monopolistic behaviour, which was an obstacle to new

investment in the cattle breeding market, as the underlying cause of this constraint. With this information, Enter-Growth's partners were able to persuade Government to take action, which resulted in an important change in the market system and will in turn allow the inclusion of a greater number of market players.

- **Principle 1: Enter-Growth aimed to identify the underlying causes of weak market performance (as opposed to the symptoms).** In order to do this, the project introduced the value chain development (VCD) tool as a means for facilitating market players to undertake this analysis.

In the dairy subsector example the value chain analysis (VCA) revealed Government policies, which had resulted in a de facto Government monopoly, as the underlying cause of weak supply of high yielding dairy cows.

- **Principle 2: Enter-Growth aimed to address these underlying causes of weak market performance, by facilitating systemic change in market systems;** these are changes to the underlying causes of poor market performance. In more aggressively interventionist projects, where certain services or facilities are lacking, a project is more likely to take on the supply of these services itself, thereby addressing the symptoms of the constraint not the underlying causes; and thus failing to achieve lasting changes to the market systems. Enter-Growth, however, took a market development approach.

In the dairy sector example, other projects might have considered funding directly the establishment of breeding centres, in order to address the limited supply of high yield cattle. But, Enter-Growth searched for a solution that required local players, in this instance, principally the Government, to change their behaviour and systems to encourage investment in breeding centres - as such the outcome is both larger in scale (few donors would be able to support 13 new breeding centres) and has a much greater chance of being sustainable.

- **Principle 3: Enter-Growth then identified frameworks for achieving sustainable outcomes.**

In the dairy sector example, new breeding centres are being established by Government and private investors, and their impact will last long after the project closes.

- **Principle 4: Enter-Growth followed what it called a 'light touch' approach – a facilitative role – acting as a catalyst for change.**

In the dairy sector example, Enter-Growth worked in partnership with organisations like the Irritech Pvt Ltd, and provincial Ministries of Agriculture and Departments of Animal Production and Health, to help players identify the key constraints and solutions for themselves, and to put these solutions into effect (see Box 5).

3.2.2 Enter-Growth's use of development tools

Enter-Growth's focus on the markets it worked in enabled it to select and make use of appropriate tools to further develop the market. Its clear strategy and sound analysis of the markets it was engaged with, enabled it to deploy appropriate development tools, including new tools for building and strengthening small business associations (SBAs), VCD, packaging training, Good Working Practices (for coir mills), and existing ILO tools such as KAB and SIYB. However, most of the support enterprises eventually received was in the form of existing or modified services from local providers, which were re-directed by LOCA and VCD exercises.

Box 5: Enter-Growth's 'light touch' approach

From the start of the project, Enter-Growth took the role of a facilitator, what the mid term review called a 'light touch' approach. By this it meant that it provided limited direct financial support to partners, instead focusing on providing technical support, coordination and networking, and information. By adopting a 'light touch' approach Enter-Growth worked to develop partner capacity to do and deliver, rather than to do and deliver directly. The overarching aim of this facilitative approach is to build local ownership of the interventions and to ensure maximum sustainability. It helps bring about what is often termed 'crowding in', that is involving other players and functions in the market system. It also enabled Enter-Growth to identify and support potential drivers of change within the market system.

The 'light touch' approach is not always easy to put into practice. It is often simpler and quicker, in the short term, for a project to just do things, rather than encourage and facilitate others to do them. The project team at first encountered some resistance to this 'light touch' approach. Partner organisations in both the public and private sector and local and national government authorities had all experienced a different and more aggressively interventionist approach from other donor funded projects. Initially they expected the same from Enter-Growth, and were somewhat surprised and in some cases dismayed to discover that Enter-Growth was taking a different view. In fact, it took Enter-Growth's management time to explain and convince the rest of the project team that the light touch approach was the correct route; staff in the districts bore the brunt of partner organisations complaints on this issue, and it took time for the main stakeholders both within and out side the project team to come round to the 'light touch' way of thinking.

However, this aspect of Enter-Growth's approach is core to the sustainability of the project's work, and for those organisations that eventually embraced the approach, the benefits were tangible. According to both the mid term review and final evaluation, the light touch approach contributed to building local ownership of key aspects of the project as well as the expertise to continue with them long after the end of the project. These include the MSE Forums and the value chain development work.

Box 6: SBA Training

Enter-Growth and its partners found that a common weakness across the different sectors it engaged with was the low level of coordination amongst firms in the same sector, linked to weak collective bargaining and advocacy capacity. This was strongly related to the limited number of membership associations and the weak capacity of those that did exist. As a result Enter-Growth developed a training programme for supporting the establishment and growth of small business association in the four districts it works in. When the absence of, or a weak membership organisation, was identified as a root cause of a constraint during a LOCA or VCD exercise, the enterprises often decided to form an association, and service providers were able to use the tool to help them do so. In this way Enter-Growth did not impose SBAs as a solution, but acted as a catalyst for their formation and strengthening, ensuring greater levels of local ownership and sustainability. As a result of this initiative SBA membership of targeted SBAs increased by 47% and they offer a wide range of new services to their members. (See SBA Project Intervention Report February 2009 for more information).

3.2.3 Supporting ILO's Decent Work (DW) Agenda

As noted earlier, ILO's goal of Decent Work informed the design and implementation process for the Enter-Growth project. Given that the project acted as a facilitator, its activities were primarily by the priorities of its stakeholders, although the project made an effort to influence these, for example through awareness creation on Decent Work. In particular, Enter-Growth supported three of ILO's four strategic Decent Work objectives, as follows:

- *Employment creation*: the bulk of the project's activities are designed to achieve growth in MSEs and subsequently increased employment (self and wage). For example, all the value chain activities have resulted in new entrants and therefore increased employment. The 2009 Impact Assessment Survey suggested an overall increase in employment in the four districts of 15%¹⁷.
- *Social protection*: project interventions focussed on working conditions and the work environment. Incomes from work, for the self-employed as well as workers, have increased as a result of Enter-Growth facilitated interventions. In the Coir sector (see Box 7) improvements in the work environment were achieved. Good Agricultural Practices for dairy farmers, introduced in the dairy value chain, also include practices for a better work environment. Although social security was identified as an issue in some cases, stakeholders did not prioritise it for action in a context of a Government which in principle provides social security¹⁸.

Box 7: Addressing underlying causes of falling production in the Coir industry through the DW agenda

Sri Lanka is the world's leading exporter of coir fibre (mainly in its raw format). The industry has been growing steadily at 6% per annum, but is facing increasing competition from countries such as the Philippines and Thailand, which are taking steps to increase their production. At the same time the Sri Lankan industry is facing shortfalls in production along with increasing quality issues. Several mills have closed down.

Enter-Growth and its partners selected the Coir sector for a value chain development exercise because of both its importance to the local economy and also its pro poor potential. This analysis revealed that one of the core reasons for low production levels, is the difficulty Millers have in recruiting new labour. Exploring why this was the case, despite a local context of reasonably high levels of unemployment, revealed a core crisis of image for the sector. Employment in the coir sector was considered by potential workers to be undesirable, and the jobs were seen as dirty and hazardous. This is not without reason - research revealed that most workers in retting pits suffered chronic skin disease, and others, such as drum operators, had lost fingers, sometimes even whole hands or arms. This was an underlying cause of low productivity.

Enter-Growth worked with a variety of service providers, public and private sector, to develop Good Workplace (GW) Practices and training for Millers, to help them improve working conditions in their Mills and thereby improve the image of the industry for potential employees. Six training programmes were run by project partners, involving 90 millers. Eight have introduced the 'low cost' GW practices, with more millers planning to follow suit. Those that have adopted GW practices report increases in employment and in some cases improvements in production quality. Enter-Growth's partners plan to continue to provide the training as well as on-site guidance on the application of the practices.

- *Social dialogue*¹⁹: several aspects of the project's work helped strengthen dialogue between government, private sector and other civil society stakeholders. These include the LOCA and VCA which brought together different stakeholders to assess and identify constraints and opportunities; SBA strengthening which built the advocacy and collective bargaining capacity of various sectoral groups; and perhaps most significantly, the MSE Forums which have developed in to sustainable mechanisms for dialogue between government, private sector and other civil society stakeholders. As indicated in Section 4.4 of this case study, these project activities have combined to significantly improve dialogue between various stakeholders in both formal settings and also, very importantly, improved

¹⁷ Enter-Growth Impact Assessment Report; MDF (2009).

¹⁸ See the project's baseline MSE survey, January 2006.

¹⁹ Most forms of dialogue that were facilitated by the project fall do not fall under the ILO definition of social dialogue. For instance, trade unions are not part of the MSE forums but workers' views on working conditions and OSH in value chains have been incorporated in VCD strategies.

informal relationships and dialogue outside of these formal mechanisms. Lastly, the Palama Forum Theatre facilitated dialogue regarding cultural norms which impact MSE development.

3.3 What is different about Enter-Growth's market development approach?

A key question for practitioners who are thinking of adopting the systemic market development approach, has to be, *how does the market development approach differ from other approaches to enterprise development?* Table 3, below, summarises the primary differences in the systemic market development approach. Clearly it makes some generalisations about both market development and more conventional enterprise focused approaches to enterprise development, but it serves as a useful basic comparison and a means of identifying how the market development approach is different.

Table 3: Comparison of 'conventional' enterprise focused and market focused approaches

Issue	Conventional enterprise focus	Market focus
Overall design	<ul style="list-style-type: none"> Often views the poor as isolated from broad market systems. Tendency to provide direct solutions to identified problems. Tendency to focus on one service/component eg BDS or business environment reform. BDS, if part of the programme, is often promoted generically. Business Environment reform, if included, is often approached by focusing on generic issues (eg business registration promotion) Aspects of DW, other than employment, often not considered. 	<ul style="list-style-type: none"> Views the poor as integral part of wider market system. Focus on stimulating systemic changes to address market weakness. More likely to be multi-faceted (although one project may not address all constraints). Usually promotes BDS within specific markets, to ensure services are focused on needs of the market players. As such, likely to expand any consideration of BDS to include embedded services. Usually promotes business environment reforms identified within specific markets, and by facilitating stakeholders to advocate for reforms themselves. Advantages of ensuring priority issues are addressed, and effective ownership of those issues. DW strategic objectives considered as integral part of the market system.
Implementation methodology/ approach	<ul style="list-style-type: none"> Tends to have a more structured approach, with clear deliverables identified from the start; any changes often require formal agreement from several stakeholders. Tends to have more aggressively interventionist approach. Tends to have a standardised set of partners. 	<ul style="list-style-type: none"> Usually has a high level of flexibility to enable it to respond to market needs as they are discovered. Tends to take a more facilitative approach, or 'light touch' as Enter-Growth terms it. Partners are determined by market analysis.
Sustainability	<ul style="list-style-type: none"> May not view sustainability as a priority and in these instances project achievements are often short lived. 	<ul style="list-style-type: none"> Sustainability is core over-arching focus of a systemic market development approach and an integral part of project design. As such,

		concentrates on achieving changes in market systems, so as to achieve scale as well as sustainability of impact.
Use of development tools: e.g. VCD, LOCA, SIYB, SBA building etc	<ul style="list-style-type: none"> Some enterprise development projects tend to start with pre developed tools and look for appropriate ways to use them, develop them, and gain ownership of them. Tendency to magnify the importance of 'tools'. 	<ul style="list-style-type: none"> Starts with needs of targeted markets and uses tools only as appropriate, as a means of developing the markets and identifying and addressing causes of weaknesses.
M&E	<ul style="list-style-type: none"> At its best, focuses on project achievements against logframe objectives and indicators, and less on the wider impact of the project's approach. Tends to monitor activities and at the level of end-users of services, rather than of changes to market systems. 	<ul style="list-style-type: none"> Assessments of the project's contribution to changes in market systems are an important element of the M&E, along with an assessment of sustainability: the extent to which market activities will continue independently at the end of the project.

3.4 Challenges in implementing the market development approach

Enter-Growth faced a number of specific challenges in adopting a market development approach, and these are summarised below:

- Resistance to the 'light touch' approach: initial expectations of the vast majority of stakeholders (private, public and even within the Enter-Growth team) were of a more directly interventionist approach. Inevitably there was some resistance to the 'light touch' approach adopted by Enter-Growth.
- The dominance of Government agencies in service supplier markets made the development of a demand orientated sustainable market more difficult. However, after working with both government and non-government suppliers, the project found that many public providers were keen to adopt more market focused approaches.
- While ILO and Sida adopted a flexible, 'hands off' approach to Enter-Growth in terms of the substance of its approach and activities, ILO administration and finance rules, which, for example, require ILO country office approval of all contracts, were not always conducive to the project's desire to be responsive and flexible.

Other important challenges, not specific to the market development approach included:

- The resumption of fighting in the North and East of Sri Lanka, which the original project design had assumed was over, created constraints for MSEs, particularly in relation to market access. In addition, the conflict helped distract central government from other matters, such as efforts to stimulate economic growth.
- Complexity of government framework at district, provincial and national level: Sri Lanka has a large and complex government system, and this makes it hard for projects such as Enter-Growth to engage effectively with a multitude of ministries, departments and agencies involved in different market systems.

3.5 Enabling factors for implementing the market development approach

While Enter-Growth faced numerous challenges in implementing the market development approach, there were certain circumstances, which enabled this process. These are summarised below:

- A capable team is always a important for the success of a development project. This is particularly true for projects following a market development approach, for which flexible free thinkers are crucial. The high calibre of the project team, at head office and in the four district offices, and the facilitative management style of both Project Managers, were key factors in the project's ability to effectively adopt a light touch approach, to be flexible to market and partner needs, build positive relationships with stakeholders (especially in the face of expectations of a more interventionist approach), to work in a variety of sectors, and to build local ownership. Sri Lanka has high levels of education, in comparison to other locations of enterprise development projects, which helped contribute to the project's ability to recruit a strong team.
- However, in a multi-faceted programme it is not possible to have staff to cover every issue. Enter-Growth identified and recruited the appropriate technical and specialist expertise, international and Sri Lankan, to help with the variety of elements in the programme. For a multi-faceted and innovative project, requiring a variety of technical expertise, this was very important.
- The project team's intuitive market development approach, strongly led in this direction by the project management, made Enter-Growth's eventual transition to a market development approach, easier to realise.
- Both ILO and Sida, adopted a 'hands off' approach to the project, enabling it to be flexible and responsive in its approach. This is illustrated by the original project document, which described a process in relation to broad objectives, rather than promising specific deliverables; as well as the ability of the project to make changes in approach and to the activities, without encountering restrictive approval procedures. This was an important enabling factor for Enter-Growth.
- Knowledge sharing and staff training: Enter-Growth is one of only a few pioneering projects attempting to deliver a more market-based approach to private sector development. However, the project developed links with Katalyst, a project which has taken a similar approach in Bangladesh, including study tours for staff, which were useful for sharing experiences. In addition, Enter-Growth learned from and shared experiences with other enterprise development projects in Sri Lanka, for example projects run by GTZ and Swisscontact, and had staff attend courses run by the ILO, Mesopartner and the Springfield Centre.
- M&E: The project ultimately made considerable efforts to document its progress, achievements and lessons learnt. This can be seen by the considerable number of monitoring and impact reports produced, particularly in the second half of the project period after the mid term review encouraged the project to refine its approach to M&E. Significant here is the project team's use of these reports, to help refine and in some cases adapt its approaches.
- ILO developed a project document, and a project approach, which did not start with, and was not focused on, its range of development tools.

4 ACHIEVEMENTS

4.1 Enter-Growth's overall impact

As a multi-faceted project, Enter-Growth's impact has been varied and multi-dimensional. Table 4, below, provides a summary of headline dimensions of the achievements (including some data regarding scale and outreach) of the project. Much of the achievements have taken place through facilitative action and through local stakeholders, making attribution difficult to pin down.

Table 4: Summary of headline achievements for the four targeted districts

Headline achievement	Numbers (estimates)	Additional information
Increases in household incomes	Nearly tripled in selected targeted divisions	Incomes have increased generally (but not by so much) in other parts of the country so attribution is difficult. <i>Source: Impact survey 2008/2009.</i>
Employment increases	15% increase in businesses in selected targeted divisions	Employment has increased generally (but not by so much) in other parts of the country so attribution is difficult. <i>Source: Impact survey 2008/2009.</i>
Number of businesses impacted by project	To date: 16,400 Once interventions have impacted along value chains: estimated 52,000	<i>Source: Impact reports and database (which uses stakeholder and staff monitoring reports).</i>
Number of sectors impacted by the project	22	Coir, dairy, floriculture, packaging, vegetables and fruit, salt, tourism, food processing, ornamental fish, cane, bricks, cashew, handicrafts, pottery, garments, light engineering, carpentry, poultry, freshwater fish, paddy, communication service providers, NGO and public business service providers. <i>Source: Enter-growth progress reports and database.</i>
Number of SBAs impacted by the project	26 SBAs with 47% increase in membership	<i>Source: Intervention report on SBAs.</i>
Number of business environment reforms achieved by the project	11	These include reforms and District, regional and also national level. <i>Source: Intervention Reports and Enter-Growth progress reports.</i>
Number of students taking entrepreneurial studies	27,000 took the final exam in 2008	<i>Source: National Institute of Education.</i>
Number of students completed KAB	5,400 by March 2009	<i>Source: SIYB Association database.</i>
Palama attendees	Audience of 252,000	<i>Source: Palama case study.</i>
Attitude to business shifts due to Palama	41% of sample respondents reported positive shift in attitudes towards business	<i>Source: 'Before and After' quasi-experimental study of Palama participants.</i>
Audience for TV drama series on business ethics	300,000 nationwide for the 3rd episode	<i>Source: Ratings from TV station.</i>

Ultimately, as an ILO market development project, Enter-Growth's most important achievements are in addressing identified weaknesses in the market systems, which affect the poor, so as to achieve sustainable impact at scale; these in turn have then impacted MSEs, employment and so forth. For this reason, this case study has taken three of the many Enter-Growth interventions and looked at how these have impacted market systems, addressing constraints which make them more inclusive and work better for the poor. One example is of a VCD, in the floriculture sector; the two other interventions are the innovative enterprise culture activities, and the MSE Forums, which helped coordinate the bulk of the project's activities.

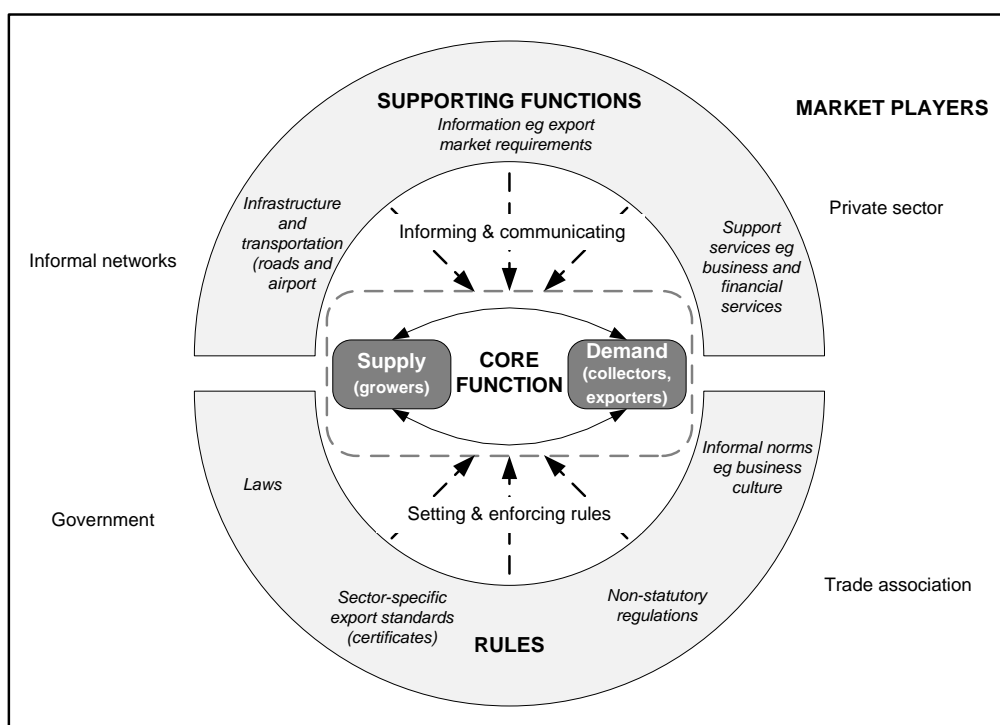
4.2 The floriculture value chain

4.2.1 Background

Sri Lanka, with its varied climatic conditions, is recognised as one of the best quality production centres of floriculture in the world. Production is primarily in the Western, North Western and Central provinces, and the sector provides much needed employment in rural and peri urban centres. The floriculture sector produces a wide range of products including live plants, foliage, cut flowers, flower seeds and foliage. The market for floriculture is both domestic (hotels, retail, public parks and gardens etc) and export. For the latter, Europe is the dominant market with the Middle East and Asia growing in importance. The sector generates foreign exchange earnings and has been growing steadily during the last few years (a 7.5% growth during 2002-2007).

The Floriculture sector was selected by Enter-Growth and its partners for the following reasons. Firstly, it is an important sector in the targeted Provinces, and crucially it has demonstrated potential for growth. Secondly, floriculture involves a range of players, including relatively poor small-scale farmers and women farmers, and therefore has the potential to impact poverty levels directly. Lastly, there was considerable buy-in and commitment from the key players in the floriculture value chain, in particular the EDB, which emerged as the host organisation for the work.

Figure 3: The Floriculture market system



4.2.2 Constraints

Problems in the core of the market system (supply, production and marketing).

Facilitation by Enter-Growth and its partner, EDB, using the market system presented in Figure 3, helped the floriculture VC stakeholders to identify:

- Immediate constraints (ie symptoms) they face.
- The underlying causes of these constraints.

These are summarised in Table 5 below:

Table 5: Constraints faced by the floriculture sector

Symptoms	Underlying causes
Poor quality standards – smallholder supply is perceived to be generally of lower and inconsistent quality than larger growers.	<ul style="list-style-type: none">▪ Growers have poor access to information on improved technologies and production methodologies, as well as on market requirements, especially for export markets.▪ Exporters, domestic buyers and collectors have poor access to information on export markets (market requirements and demand conditions). Poor communication along the value chain exacerbates this.▪ Limited availability of new varieties due to a lack of research facilities in Sri Lanka.
Poor input and service suppliers.	<ul style="list-style-type: none">▪ Small number of specialised input suppliers and only a few Exporters also provide these services.▪ Agreements between growers and collectors tend to be informal which removes any incentive for the collectors to invest in improving grower capacity.▪ Growers have limited bargaining power and therefore unable to influence prices of inputs.▪ Government stakeholders (support services) are not coordinated and often duplicate efforts.
High transportation costs.	<ul style="list-style-type: none">▪ High risk and insecurity (transportation hampered by security checks on the roads and at the airport - resulting in damages and higher costs for both domestic and export markets).
Growers have limited access to financial services.	<ul style="list-style-type: none">▪ Financial service providers perceive floriculture and in particular, Growers, as high risk.

The value chain players agreed that the above constraints could be summarised as an underlying problem of *weak knowledge, poor communication and poor coordination* between market players.

4.2.3 Enter-Growth's strategy for addressing the underlying constraints

In developing interventions, Enter-Growth and its partners were guided by the following principles:

- All efforts were intended to achieve a better functioning market; Enter-Growth looked for means to help the market respond, not to find solutions that the project could initiate.
- Enter-Growth played a facilitative role, not directly interventionist ('light touch').
- Enter-Growth was responsive and flexible.

- Enter-Growth kept in mind two key factors: the need to reach sustainable solutions and to achieve scale.

4.2.4 Interventions, signs of change and impact

The following is a summary of the activities, and related achievements, facilitated by Enter-Growth and its partner service providers:

- Improved co-ordination: support, including SBA training, was provided for the establishment of a national Tropical Floriculture Association of Sri Lanka, which acts as an umbrella association for smaller floriculture societies.
 - *It now has over 100 members (predominantly growers with some collectors).*
 - *It is using its growing collective bargaining power and skills to improve prices and has negotiated at least one deal, on behalf of some of its members, which reduces the cost of inputs from a domestic supplier.*
 - *Members report active sharing of technical knowledge and advice as well as marketing information, amongst members.*
 - *With support from EDB, links are being developed with technical institutes, with the aim of increasing the transfer of technical knowledge.*
 - *EDB produced a BDS Directory and this is now available through the Association.*
- As a result of the discussions and activities surrounding the VCD, the Ministry of Export Development and International Trade has started to establish Floriculture Collection Centres, the first in Bingiriya, Kurunegala District. These will form part of the proposed Floriculture Export Zone. The centre, which is fully operational, enables selling, preparing and packaging floriculture products for export. A second centre is planned in Udubaddawa. The Export Zone is being designed to cater for approximately 10,000 existing and potential new growers.
- An increase in the provision of support services for the floriculture sector.
 - *Following the VCD, EDB has refocused its support activities in the real needs of the value chain players. For example, EDB has provided awareness programmes for growers and exporters to improve understanding of new trends and market conditions in the export markets. It has also provided incentives to growers to get certification, to encourage them to better understand and move towards meeting export standards. It has facilitated decentralised and group based testing and certification (individual growers used to have to travel to Colombo to have flowers certified, but it is now done locally and for groups of growers).*
 - *EDB also ran a workshop involving representatives from sixteen banks, which raised awareness of the potential of the floriculture sector. Several banks are introducing loan programmes for small growers. As an example, seventeen growers in Puttalam District have now accessed (subsidised) loans and used these to cultivate flowers in net houses.*
 - *EDB is also providing training to potential new entrants to the sector covering technical issues as well as advice on how to get started, access finance and so forth. 170 new entrants were recorded by the Intervention report.*
- Improved advocacy, and for market system changes outside the districts.
 - *The MSE Forum and the EDB (a Forum member) have jointly advocated for the establishment of a 'green gate' at the airport, which will give priority to live and perishable goods. This has been approved and is under construction.*

In summary, the systemic changes achieved include:

- *the establishment of a national Tropical Floriculture Association which represents small scale growers;*

- *a change in attitude by government towards the floriculture sector, recognising it as one of strategic economic importance. This is demonstrated by the decision to establish floriculture collection centres.*
- *a tighter focus by service providers on the real needs of market players.*

4.3 MSE Forums

4.3.1 Background

Work with MSEs in the four Districts, in particular through the LOCA and VCD exercises, repeatedly identified Government policy, legislation and regulations, and practices as important constraints to the development of sectors. In some cases various elements of what can collectively be termed the business environment, were (a) preventing potential entrepreneurs from entering markets; or (b) were preventing markets from expanding; or (c) were constraining exports (for example, security measures at the airport were found to cause damage and increase the costs of exporting perishable goods such as cut flowers and ornamental fish). In this context, project partners also recognised the need to engage in business environment reform.

4.3.2 Constraints

Enter-Growth recognised at the design stage that there were key constraints in the business environment that. The LOCA and in particular the VCD exercises, as well as feedback from new and strengthened SBAs, revealed a range of *sector specific* business environment constraints that were preventing enterprise development and growth.

These constraints were in fact *symptoms* of a more entrenched underlying weakness in the market system. This *market weakness* was in essence *the absence of any meaningful dialogue, formal or informal, between the business community and District, Provincial and also national Government authorities*. Enter-Growth and its partners identified the very limited level of public/private dialogue in each of the four Districts, as the main constraint to

Box 8: The importance of public-private dialogue

A business environment, which is conducive to private sector led growth, and enables enterprise investment and development is predicated on a good relationship and meaningful dialogue between government and the business community. This enables government to understand the priority issues and constraints facing businesses, so that their policies and actions are better informed by business needs. It also enables businesses to better understand regulations, government policies and so forth.

reforming the business environment²⁰.

Good public-private dialogue is based on several factors, the most important being:

- (a) The private sector's advocacy capacity, in particular its ability to identify and prioritise the priority issues it is facing, and to present well grounded arguments for reform to government. With general weak business associations, poor market analysis and ltd advocacy capacity, this did not exist in the four districts.
- (b) Government's willingness to listen and recognition of the importance of a sound business environment for economic growth. At the district and provincial government levels there

²⁰ Although the project recognised the potentially important role of workers in this dialogue, workers' organisations did not exist at the District level, and in the design stage Colombo-based unions expressed no interest in involvement in an MSE project.

were several senior government officials, interested in business development as a basis for growth and willing to engage more actively with the business community.

- (c) A mechanism for dialogue (both formal and informal). This did not exist in the four Districts.

The above factors (a) and (b) were either weak or did not exist in the four districts, and as such they were identified as the underlying causes preventing effective dialogue between government and the business community from taking place

4.3.3 Interventions, signs of change and impact

Having identified public-private dialogue as the key market weakness preventing improvements to the business environment, Enter-Growth's approach was to focus on the underlying causes preventing public/private dialogue from taking place. There were two strands to this approach:

- *Building private sector capacity to advocate:* several interventions of the Enter-Growth project worked to improve advocacy capacity within the business community, including LOCA and VCD which helped facilitate the identification of key constraints, and build evidence based arguments for reform; SBA development and strengthening which also helped identify constraints and also build a consensus around these issues; and advocacy training, introduced towards the end of the project at the request of stakeholders.
- *Establishing a mechanism for public/private sector dialogue:* MSE Forums. MSE Forums, established in each district, are mechanisms that facilitate dialogue and networking amongst key players in government, the private sector, and relevant NGOs. The project district offices initially functioned as the secretariats, ensuring meetings took place and that there was a substantive agenda for each. These included issues raised in LOCA and VCD exercises, which offered opportunities for the forums to achieve quick results. This established their credibility and made them attractive for their members. The Forums' lead role in organising the first business service fairs, which were the biggest events their districts had seen for many years, were also instrumental in this respect. Over the first twelve months the forums developed a dynamic of their own, and the project took less of a role, allowing the members to take the forums in the direction they wanted.

All MSE Forums are different but they have the following strengths in common:

- *They all appear to be fully owned by their members. That they are different and have adapted to the characteristics of their environments, as well as the fact that they have continued beyond the end of the project, is testament to this factor.*
- *Strong ownership is to a large degree a result of the fact that the Forums meet a genuine need in each district that goes beyond the needs of the Enter-Growth project. In the words of a private sector MSE Forum member in Anuradhapura: "The MSE Forum fills a gap; we really need it."*
- *Relationships between key figures within the three groups represented in the MSE Forums (government, the business community and NGO sector) have improved: formal and informal dialogue is reportedly more frequent and more constructive. A MSE Forum member in Kurunegala stated: "Before the Forum I couldn't get a solution to my problems; now I can find a solution with one telephone call."*
- *MSE Forums have been able to find and affect solutions to issues raised, resulting in tangible improvements to the business environment. These, primarily 'quick wins', have helped retain the interest of the senior representatives of the public and private sectors, which in turn has helped to drive their success. To date at least ten regulatory constraints have been addressed through the efforts of the MSE Forums.*

- *The MSE Forums have also played a strategically important coordinating role for several of the Enter-Growth supported activities, particularly business environment reform and improving market access.*

In summary, *the systemic changes achieved include:*

- Improved capacity of the business community to advocate for reforms;
- The establishment of a formal public private dialogue mechanism which is owned by its participants;
- Improved relationships between the public sectors and the business communities at a formal and informal level.

4.4 The enterprise culture intervention

4.4.1 Background

In Sri Lanka as a whole, the government employs a large proportion of the workforce (15.2%). Business start-ups are low, especially in rural areas. Many young people, hoping eventually to find a government job, choose to remain unemployed, or take unpaid employment on their parents', often subsistence, farms, rather than take a private sector job or start a business when a government job is hard to find.

Box 9: Weak Enterprise Culture in rural Sri Lanka

Research conducted by Enter-Growth revealed that private sector enterprise was undervalued as a contributor to society and the economy; attitudes towards entrepreneurship were often negative amongst potential business operators, influencers on career decisions of children, as well as amongst local officials. The hierarchy of livelihoods options started with a strong preference for government employment, followed by other (private sector) wage employment, followed by farming. Starting a business had low status and was often seen as an option of last resort.

Source: Palama: A Campaign for Enterprise Culture in Sri Lanka. Chris Seeley, June 2009

4.4.2 Constraints

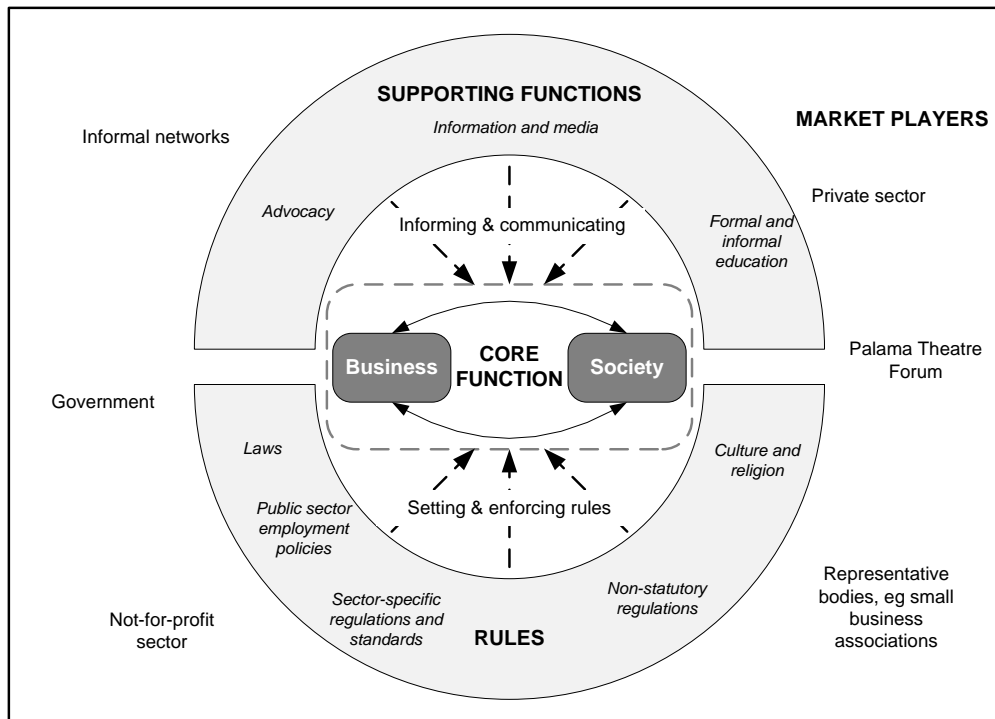
During the project formulation phase, stakeholders in the districts indicated that negative attitudes towards business and entrepreneurship were a core constraint on enterprise start-ups and growth. Addressing this issue was included tentatively in the project design.

In keeping with the market development approach, Enter-Growth conducted research to verify the above findings and to better understand the reasons, and underlying causes behind these attitudes. As illustrated by Figure 4 above, the constraints were in the wider system of rules and norms, and in particular informal norms. Through its research, Enter-Growth found the main reasons underpinning these attitudes were:

- *Dependency*: an expectation that government should and will provide for the people.
- *Comfort*: a sense of comfort with the familiar and not much attraction to new challenges.
- *Fear of the unknown*: a desire for security and an unwillingness to take risks, and face repercussions of failure.
- *Stress*: a desire to avoid stress and enjoy a 'trouble free life' and 'peace of mind'.

- *Respect*: business people are less well respected than their counterparts in government employment. Many see business people as exploitative and not contributing to their communities.
- *Conformism*: no desire to confront the *status quo* and some of the prevalent biases against business.

Figure 4: The system for enterprise culture



4.4.3 Interventions, signs of change and impact

Enter-Growth's interventions focused primarily on addressing the informal norms that impacted attitudes to business. The impact logic adopted was that by changing attitudes to business, more people would perceive business as a reputable livelihood option, and this in turn would result in more business activity and less reliance on Government employment.

Enter-Growth adopted a three pronged intervention:

- Campaign to change attitudes towards business amongst rural communities including influencers and officials.

This is the innovative part of the intervention: Enter-Growth took the Forum Theatre approach, which has been used to promote social, often health-related messages, and adapted it to try to change attitudes towards entrepreneurship. This choice was based on additional research on communication channels that were likely to reach and affect rural audiences in Sri Lanka. Forum Theatre was reinforced by conventional performance theatre, as well as poster competitions, school wall painting, stickers, and similar tools. This became the "Palama" (enterprise as a "Bridge" to prosperity) campaign. It made use of forum theatre experts to help develop local actor groups. More than 250,000 people took part in the theatre events, and a quasi experimental study found that 41% of an audience sample had experienced a positive shift in their attitudes towards business (compared with a sample from a control group).

- Provide opportunities to young people at appropriate stages in their education, to learn essential business skills, and to see business start-up as a credible and attractive option.

Enter-Growth used an existing ILO development tools to deliver this component: Know About Business, a proven training course for technical and vocational training schools which raises students awareness of business as a career option, and understand how to set up their own businesses. This was adapted and incorporated into more than 170 vocational/technical training courses across the country. Know About Business was also used as a basis for developing a new Entrepreneurial Studies 'O' Level course at the request of, and in collaboration with the National Institute of Education. The end result was a new programme to which a variety of national institutions and specialists had contributed. The course was included in the national curriculum (currently in only 900 schools, but this is due to expand in the next academic year).

- Integration of elements of this issue into communications and training materials used in other parts of the project.

The value of enterprise to local economies and communities was also a major theme in courses used to train 1,900 government officials involved in business licensing and registration, training for MSE Forum members, and a course developed with the Sri Lanka Institute of Development Administration. Business service fairs, which reached around 100,000 visitors per year, also promoted local enterprise.

In summary, *the systemic changes* achieved include:

- Improvements in attitudes towards business as a reputable livelihoods option, amongst rural communities, including influencers within these communities.
- It is important to note that changing mindsets is one of the most powerful forms of institutional change.

5 KEY LESSONS AND CONCLUSIONS

The Enter-Growth project has generated several important lessons, some new and some which reinforce existing points of learning. The most important are as follows:

- **A strategic project rationale:** focusing on systemic change as the rationale for a project is an effective route for achieving impact, outreach and sustainability (rather than direct service/solution provision to enterprises as in most conventional programmes).
- **Contributing to Decent Work:** Enter-Growth's successful adoption of a market development approach, informed by the Decent Work agenda, demonstrates its relevance for ILO's goal of Decent Work. In this instance it helped contribute to the DW strategic objectives of promoting Employment Creation, Social Protection and Social Dialogue.
- **Understanding markets:** Sound understanding of how markets work, particularly identifying underlying constraints in the wider system of markets relevant to the poor/MSEs, is an essential pre requisite for designing interventions that focus on causes rather than symptoms of weak market performance.
- **Unconstrained analysis (and thus solutions):** Market analysis should not be inhibited by narrow project related geographical boundaries. Markets operate, and weaknesses and their solutions exist, beyond these artificial constraints.
- **Sustainability:** In order to achieve sustainable development impact, a project needs to develop a clear vision of the future, after a project or intervention is finished. This vision needs to answer two core questions: (a) Who does (and who in the future will do)?; and (b) Who pays (and who in the future will pay)?
- **Use of development tools:** Development 'tools' can be useful for delivering the market development approach, but the process of designing and implementing projects needs to start with the market, and addressing market weaknesses and the underlying causes of these weaknesses; it should not start with, or be led by, the tools themselves.
- **Generating ownership for relevance and sustainability:** Projects should work with local partners to facilitate change, and allow them to 'own' the development process.
- **Appropriate risk taking:** Taking (informed) risks and stimulating innovation is an appropriate role for a donor funded project. Not all risks will work out.
- **Facilitation versus intervention:** Development projects that take a facilitator role, acting as a catalyst for change, will encourage more players to take part in the market systems (ie crowding in), and lead to greater local ownership and more sustainable impact. Some initial resistance to a 'light touch' approach is often to be expected, but potential partners can be brought round over time.
- **Role of the funder:** When Donors, Governments and implementing agencies also take a 'hands off' approach, and are willing to reach a practical balance between accountability and flexibility, it enables a project to be flexible and responsive, as well permitting greater levels of ownership of project components by local players. Overly complex and bureaucratic rules and regulations can however inhibit projects from being flexible and responsive to partner needs.
- **Transitions:** Although the Enter-Growth project incorporated key elements of an systemic market development approach at the start, its evolution to a more market development approach involved it making key and important changes. Its ability to do this, to learn from its own and other project's experience, is in itself a vital lesson for all other projects and Project Managers.

- **High calibre resources:** Good quality project staff are essential for delivering market development projects: when the emphasis of the project is to add value through advice and influence, rather than direct interventions and funds, the technical, communications and interpersonal skills of project staff are essentially at the heart of what the project is offering.