



International Labour Organisation/  
Ministry of Advanced Technology and National  
Enterprise Development



**PROGRAMME DOCUMENT**

**Programme:** Micro and small enterprise development for pro-poor growth in Sri Lanka

**Location:** North-West and North-Central Province, and country-wide

**Duration:** 36 months

**Starting date:** 1 June 2005

**Brief programme description:** This programme will support the implementation of the Government's strategy for poverty reduction and the generation of quality employment for women and men through a coherent and integrated micro and small enterprise development programme that targets two provinces with a high incidence of poverty (North-West and North-Central); that addresses issues at the national level that will enhance impact in the provinces; and that transfers lessons learnt to the national policy level as well as other parts of the country.

In the integrated programme in the provinces, the programme will take a participative and inclusive approach to planning and developing its specific interventions, to ensure a high degree of relevance and ownership. It will focus its work on selected sub-sectors with high potential for growth and poverty reduction. Based on consultations already conducted, the primary entry point will be expanding the access of micro and small enterprises to markets for their products and services. Here, the programme will support activities that will lead to a more dynamic and effective market for business services that enable enterprises to improve their productivity, become more market-led, and develop linkages to new markets. This will include developing new, more demand-driven business services and the capacity to deliver them, including services embedded in value chains. It will also include promotion of the use of business services. Improved demand for services will also result from work on the project's second entry point, strengthening enterprise culture. This will include a social marketing campaign that promotes enterprise as a way out of poverty, and support to the introduction of business awareness training in vocational schools. Improving the local policy and regulatory environment forms the programme's third entry point. The programme will promote organisation of micro and small enterprises and build the capacity of business associations to serve their members, moderate the development of a dialogue between micro and small enterprises and the authorities, support specific policy and regulatory improvements, and strengthen the authorities' capacity to develop and maintain an enabling environment.

At the national level, the programme will build on the achievements of the Start and Improve Your Business project, with the objective of a fully sustainable programme that will continue to increase access to SIYB, Expand Your Business and related business services. In addition, commercial mass media programmes will be developed that provide small businesses with information and an opportunity to voice their concerns in a public forum. The experience gained through the programmes in the provinces will be shared with national level stakeholders and representatives from other provinces.

The programme will ensure that gender imbalances will be addressed through each of its main components. It will support approaches and services that are likely to benefit women, select sub-sectors which offer opportunities to women, and address gender bias among officials bias and service providers.

## 1. BACKGROUND

Sri Lanka embarked on liberalisation of its economy in the late '70s, promoting growth of the private sector, and more openness to the global economy. Successive Governments implemented various measures to promote export, and divested public sector ownership in a range of sectors. More liberal investment policies contributed to a rapid increase in private sector investment. Productivity grew at more than 9 percent per year between 1977 and 1998, and unemployment declined from some 20 to 8 percent. Since 1997, Sri Lanka's economy grew by on average about 5 percent per year, in spite of the armed conflict in the North and Northeast. The year 2000 saw a much lower rate, and 2001 even a contraction by more than 1 percent, due to the global downturn in tourism and the attack on Colombo airport. However, the economy rebounded rapidly, partly as a result of the peace process. GDP growth in 2003 was 5.9 percent, and for 2004 the forecast is similar.

Yet, poverty has not decreased (and perhaps increased) over the past decade, with in 1996 some 25 percent of the population suffering from chronic consumption poverty, and an additional 15 percent being affected by transitory consumption poverty. Poverty in Sri Lanka is a mostly rural phenomenon, with nearly 90 percent of the poor living in rural areas. It is also, and partly by extension, a region-specific phenomenon. Much of past and current growth has favoured greater Colombo and the Western Province, and to a lesser extent the Southern Region. The more rural provinces, Uva, North-West, Sabaragamuwa and North-Central in particular, are still characterised by largely subsistence agricultural economies that have benefited little from the development of the private sector in the urban centres and the areas immediately around them.

Most of the poor are working poor and their dependents, and include subsistence farmers and agricultural workers, workers in the fisheries or livestock sector, the self-employed and those who operate or work in micro and small enterprises (MSEs)<sup>1</sup>. Their productivity is low, and many are underemployed. However, a significant and perhaps growing share of the poor is unemployed, in particular among youth and women. With regard to youth this is partly the result of a mismatch between supply and demand, with the education system not providing the skills required by the private sector, and most educated youth preferring public sector jobs. Women face disadvantages in terms of traditional attitudes, education, and opportunities to engage in business (through greater lack of access to credit for instance). The unemployment rate among women has consistently remained double that among men.

The new Government has recognised the urgency of addressing these issues, in particular the failure of growth to benefit the poor and the need to increase employment. Lasting peace is a key national objective, whose achievement will have a tremendous impact, including strengthening economic growth, especially in the poorest regions. The Poverty Reduction Strategy sets out the main elements of the approach to address other underlying causes of poverty. Increasing productivity, leading to higher incomes, including for the poor, is chief among these. The Strategy acknowledges the important role of MSEs in this process, given that most of the poor find employment in either agriculture or micro and small enterprise.

The Government's economic policy framework, "A New Economic Order for a Strong National Economy", also emphasises the need for "pro poor – pro growth" policies, and recognises the important role that small enterprises play in the economy and the contribution they can therefore make to the generation of sustainable employment, economic growth, and poverty reduction.

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<sup>1</sup> In what follows MSEs will generally be meant to include self-employment, and enterprises in the formal as well as the informal economy.

The Government regards MSEs as a key element of its comprehensive programme for social and economic development that aims to benefit all sections of society, and its policy framework includes measures that will improve the regulatory environment, strengthen the supply of business services such as training, access to technology and information, and access to capital. The Government also plans to address the need for a more efficient and cost-effective infrastructure for enterprise development, especially with regard to roads and transportation, telecommunication, the Internet and electricity.

Improvements in the road and communication network would significantly benefit the development of the poorest regions, enhancing access to input as well as output markets. Equitable growth is also likely to result from increased investment in the poorest regions, and by a focus on agriculture and forward linkages to MSEs. Many of the new jobs that will have to be created over the next few years will be in self-employment and small enterprise, which in the poorest regions make up much of the private sector, and provide an income to some of the poorest sections of the population.

The actual size of the small enterprise sector in Sri Lanka is not known, as a variety of definitions are in use and much of the sector is part of the informal economy and therefore not reflected in the statistics. Formal small and medium size enterprises account for some 90 percent of industrial establishments, and some estimates set the contribution of such enterprises to employment in manufacturing at 70 percent. Informal enterprise especially has grown rapidly over the past decade, in particular outside the greater Colombo area and the Western Province. Registered small enterprise is also far less concentrated in the West than large and medium size. Expanding this base of private enterprise in the provinces is likely to benefit the poor directly as well as indirectly, by contributing to stronger region-based economic growth.

## **2. PROBLEMS AND ISSUES**

There have been numerous analyses of the problems and issues facing the MSE sector in Sri Lanka, of which the most recent and perhaps most significant was undertaken by the Task Force that prepared the White Paper on SME Development<sup>2</sup>. In preparation for the formulation of the present programme, it was felt necessary to validate this analysis and take stock of the actual situation of micro and small enterprises in the intended programme areas, given the local focus of the programme (see Geographical coverage, page 19). Consultation with stakeholders – micro and small entrepreneurs, business associations and chambers of commerce and industry, development banks, provincial and district authorities – revealed rather similar problems and issues across the four districts, as summarised in the attached problem tree (see Annex 1)<sup>3</sup>. In addition, a small survey of some 200 rural micro enterprises was carried out, to ensure that this less vocal group was also heard. The findings and analysis largely confirmed the findings of the Task Force, with some differences in emphasis.

The focal problem in the MSE sector is that the enterprises generally operate at low or even very low profitability, that few of them grow and that the start up rate of new MSEs is limited. At the

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<sup>2</sup> Task Force for Small & Medium Enterprise Sector Development Program, « National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka ; White Paper », December 2002

<sup>3</sup> The consultations with stakeholders were done in two ways: first interviews that facilitated the construction of the draft problem tree, then a second round of consultation in each district to validate and verify the problem tree. The second round largely endorsed the problem tree, but also generated a number of updates and modifications. The problem tree attached in Annex 1 includes these updates.

first level of explanation for this situation, six major groups or clusters of causes can be identified. One relates to the **weak infrastructure** (poor roads, frequent power cuts, weak communications) **and poor access to infrastructure**, which generally cause production stops and disturbances for existing MSEs, such as rice millers, maintenance workshops, construction firms. It also has a negative effect on markets access, and access to information. This problem was not analysed in detail because infrastructural problems seldom can be solved within the context of a programme to support the MSE sector. Notwithstanding this, the problem exists and ways and means to address infrastructural issues must be accommodated within the programme framework to the extent possible, for instance by strengthening the influence that MSEs have on public investment decisions. A more strategic group of problems refers to the **policy and regulatory** environment and deals with the relations between the private MSE sector and the public sector in its capacity of policy maker, regulator, issuer of licenses and registration etc. Looking at the MSE sector proper, it became clear during the consultations that the whole issue of (lack of) **market access** and the closely related problems of **access to technology and product quality** provide substantial bottlenecks to MSE development. Finally, it was often put forward that **socio-cultural aspects**, in particular the dominant social values of affiliation, are not encouraging or supporting entrepreneurship development. Also socially rooted gender bias effectively shuts out many women entrepreneurs. It is this area which did not come out as strongly in the SME White Paper.

Each of these problem areas must be further analysed in order for a programme to address them effectively. The consultations so far indicate the following main cause-effect chains in the various problem areas. In the **policy and regulatory environment**, it can be noted that there is no tangible political or administrative priority for MSE development among district or regional political and administrative bodies. MSE support and promotion is generally not part of development planning or even day-to-day decision-making in matters that affect the conditions for small enterprise development. Officers in charge of issuance of licenses and registrations have a legalistic rather than a proactive approach in relation to issues and problems that may arise. This unfavourable environment is partly due to the lack of dialogue between provincial and district authorities on the one hand and the business community on the other. There is no regular platform for joint consultations around MSE issues. One obvious opportunity is the District Coordination Committee, but this forum normally invites public institutions and departments only. Further explanation for the lack of dialogue is that civil servants are not normally trained in developmental issues or take them into full consideration in assessments and decision-making, but also that chambers of commerce have been slow to target and organise MSEs and to provide benefits for them. Also, there is little cooperation between chambers and associations, which could give more organised voice to MSE issues and problems at local level. Hence, there is little awareness among MSEs and civil servants that a closer cooperation and better organisation would be beneficial for the local business community and subsequently for the local economy.

**MSEs** themselves mostly work without significant networks in terms of membership in business associations or through cooperation with other enterprises in value chains or even with business (development) service providers. Most have established their business on rather rudimentary mechanical and service skills, work with fairly simple technologies, employing mainly the entrepreneur her/himself and family members, with low productivity and profitability. Low productivity is also linked to low quality of employment in the enterprises, especially in terms of occupational safety and health, job security, health insurance, and quality of human resources management. Moreover, market liberalisation has meant that local MSE products have to compete with imported goods that are often cheaper and of higher quality. Markets for MSEs are therefore limited. In addition, linkages between rural producers and MSEs on the one hand, and

urban centres and markets beyond those appear to be weak, in spite of the presence of two significant growth nodes, the towns of Kurunegala and Anuradhapura. Business-to-business linkages are weak overall, which is reflected in the very limited use of subcontracting and the virtual absence of manufacturing clusters.

All in all this signifies that the capacity of MSEs to demand and afford various improvements that business services could offer is limited. But there are also examples of growth-oriented enterprises that cannot fully exploit the market due to a lack of information about markets and technology. So even if there is effective demand, there are still market failures in the provincial and district business services markets. One quite tangible reason is that traditional service providers do generally not market themselves to the local business community. They prefer to target donor or government-led programmes to develop MSEs or to support income generation. They are generally more supply than demand driven. From a strict business perspective this may seem logical given the relatively much lower financial risks involved in selling services to the government and to donors. However, in a medium to long-term perspective it would be more sustainable to strengthen the demand and develop a commercial market for business services. This would also enhance the relevance and therefore the impact of the services. A special weakness to overcome in this respect is the firmly rooted expectations among MSEs (and service providers) that whatever training and related services are provided should be free or highly subsidised. This has created a kind of vicious circle with a low willingness to pay for business services and a general anticipation that whatever subsidised services are provided are of low value or relevance. The result is a poorly developed service market for MSEs.

MSEs themselves generally rank the high interest rates and the **limited availability of capital** as the most important obstacle to growth. The roots of the problem are several. Most obvious is that many MSEs pose a very high risk in terms of credit-worthiness, at least in the strict legal perspective. They have few assets that can serve as collateral, and they seldom have formal business plans that could be evaluated by a loan officer. However, even if they approach the bank with a business plan developed by a certified business services provider, the commercial banks often reject the application for the lack of collateral. Some more developmental banks can offer loans on a personal guarantee.<sup>4</sup> Such loans can possibly serve as working capital for smaller traders and manufacturers to renew stocks, but not finance investments in machinery or business expansion. A contributing factor is that land can seldom be used as collateral. The process of land title registration is complex and formal possession can often not be substantiated by possession of the formal deed. Likewise, allocation of new land for commercial purposes is slow and affected by corruption and political considerations. The process can take years and the applications are often unsuccessful.

This means that MSEs are normally subject to the availability of micro finance offered by donor funded schemes, NGOs, and sometimes retailed through development banks. However, the loans offered through such programmes are also limited, both in size and in geographical coverage, and they may not necessarily target business with investment plans or growth-oriented enterprises.

In the socio-cultural area affecting **the enterprise culture**, it has been repeatedly underlined in economic and employment analyses that there is a cultural bias in favour of public sector and white-collar employment in Sri Lanka. Not only do family values in general encourage young people to select education with this aim, but also the education sector itself is oriented towards theoretical rather than practical subjects, and **enterprise orientation** is normally not included in

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the syllabus in the general education system. Neither does the curriculum foster entrepreneurial values in other ways. Starting and owning a business is not regarded as an attractive professional choice from this perspective, at least not until the business becomes a success. Moreover, the dominating traditional social value in Sri Lanka, at least among the majority Sinhalese population, can be referred to as **affiliation**, meaning that establishing and honouring kinship relations is generally seen as the first priority in the traditional value system. Individualism, thrift and personal achievement – all different aspects of entrepreneurship – can be seen as a challenge to affiliation, and there is anecdotal evidence that flourishing enterprises have collapsed due to the need to use business assets to comply with social values<sup>5</sup>.

Moreover, **women** in general **are discouraged** to start a business and even to consider this as a positive option, especially in more rural areas. In addition, and partly as a result, they encounter both strategic obstacles (lack of social and family support, responsibility for child rearing) and practical obstacles (less access to financial and business services than male entrepreneurs etc).

Focusing on the **national level**, one would expect that the policy, regulatory and institutional environment should enable enterprises to address some of these constraints. Instead, it is often a constraint in itself. Over-regulation (including with regard to labour legislation) results in unnecessary delays and a high cost of compliance. Above all there has been a lack of overall policy and strategy, to guide the range of institutions that aim to promote MSEs. These include 18 central level Ministries that are directly concerned, 50 statutory bodies, Regional Development Ministries, Provincial Councils, at least 300 business development services providers, a large number of Chambers of Commerce and Industry, and at least 6 major development agencies.

The Draft SME White Paper aimed at providing a framework for coordination and convergence in this complex environment, with the ultimate goal of addressing the above identified needs of small enterprises more effectively. It recommended the establishment of an autonomous SME Authority and suggested a number of measures to develop a more commercial market for business services.

The new Government is now reconsidering the White Paper and its main recommendations, for possible inclusion in an SME Policy. It has established a Cluster for Small and Medium Enterprise Development under the National Council for Economic Development, which, among other things, is reviewing these issues and may propose adoption of a number of key measures to create a more enabling environment for small enterprise growth. It can be expected that this will go a long way towards providing an overall direction to the work in support of small enterprise development. However, the extent to which it will affect the sector in the provinces will much depend on the support of representatives of relevant central level Ministries, as well as of Provincial Councils, and District and other local authorities, each of which have their own, often overlapping mandates. The translation of the proposed policies and strategies into concrete action at the provincial and district level is where the greatest need lies.

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<sup>5</sup> A recent survey on growth entrepreneurs in Sri Lanka showed that “need for achievement” assumed a second place in comparison to “need for affiliation”. 50% of the interviewed entrepreneurs stated affiliation the leading motive for them being in business (S. Buddhadasa: “Challenges, Issues & Growth Orientation of Sri Lankan Entrepreneurship”, published in Economic Review, April/June, 2003).

### **3. DEVELOPMENT COOPERATION IN THE SECTOR**

Donors and development agencies are providing strong support to Government as well as non-Governmental programmes in the sector. This includes support of international lending institutions and the development, with ADB assistance, of an overall SME policy framework, for which the Draft White Paper was prepared. Although the review of legislation that has taken place in the context of support to developing an enabling environment for the private sector did cover labour legislation, and some labour laws have already been revised, the special concerns of MSEs, the need to bring more of them into the formal economy, and the need to improve their quality of employment and so contribute to higher productivity, are not being systematically considered.

Under the guidance of the new Ministry of Advanced Technology and National Enterprise Development a Business Services Support Facility of US 2.4 million has been set up to serve as an island-wide framework for SME development. The BSSF was originally part of the ADB support, but is now managed by the new Ministry. The unit is also charged with the task of coordinating donors to the SME sector.

The BSSF has an economic zone focus, establishing Business Development Centres in five economic zones with the purpose of serving as facilitators to enhance the capacity and quality of BDS providers in the respective zones. The management of each Business Development Centre is sub-contracted to an existing BDS provider. A centre will overlook and guide the services of District Enterprise Promotion Centres. The main intervention under BSSF is a scheme of matching grants, which will allow pre-screened and certified business development services providers to access training and capacity building from the five Centres. However, grants can also be used by SMEs to access services from a certified and capacitated service provider. The scheme has been launched in mid-2004.

ADB assistance in the area of finance includes capital for on-lending, through commercial banks and Development Finance Institutions. The first credit line of US 6 million is already fully committed, and an SME Enhancement Fund is planned whereby ADB and the Government will guarantee US 90 million to be raised on the international capital market. The Japan Bank for International Cooperation, JBIC, is planning a credit line for SMEs to a total value of US 100 million.

Swisscontact is supporting the development of a small number of commercial business centres, while GTZ is working towards sustainability for its CEFE training programme for business starters. Swisscontact, GTZ and the ILO have formed a "Business Development Services core group", which has set up a web-based service provider directory and which has provided guidance to business services supply and demand studies, and held an annual BDS Conference. Recently steps have been undertaken to transform this group into a more formal and general SME donor coordination group, under the chairmanship of the Secretary of the Ministry of Advanced Technology and National Enterprise Development.

The ILO/Sida Start and Improve Your Business project, which started in 2000 and which is currently in its second phase, has developed a capacity among business development services providers (Partner Organisations) in most parts of the country to provide start-up and small business management training using the well-proven SIYB materials. It has also developed a new assistance package for fast growth enterprises, Expand Your Business (EYB), which is currently being introduced. An independent project review conducted in 2003 concluded that although by the project's completion (the end of 2004) sustainability at the Partner Organisation

level may be reached, a strategy for national sustainability was, at the time, not yet in place. Such a strategy would have to address issues such as market development, quality maintenance, trainer upgrading and further programme development. This has since been addressed by the project and its partners, by their updating the previous business plan and building a consensus around that plan among all major stakeholders (trainers, master trainers and BDS-providers). The Sri Lanka SIYB association has been formally set up with a board of directors and an executive director. However, further assistance is required to make the SIYB programme fully sustainable, in particular by further enabling the SIYB Association to fulfil its mandate. Given that EYB is a new product, support to its further introduction and consolidation of the capacity to provide it will also be required after completion of the project. The review also found that SIYB is often being offered to target groups who need simpler, more basic training, and recommended that introduction of a programme that meets their needs be considered. Introducing the Know About Business awareness training package in vocational training institutes was also suggested. This has meanwhile been initiated.

Information is another business development service for which the need is being addressed, through the establishment, with GTZ support, of Business Information Services Centres that provide web-based services on an increasingly commercial basis. Similar services will be established with Sida support (through the Federation of Chambers of Commerce and Industry of Sri Lanka), and, on a large scale, with World Bank assistance.

Significant support is being provided to strengthen private sector representative organisations, especially the Federation of Chambers of Commerce and Industry of Sri Lanka and some of the district chambers. Sida support through the Federation provides assistance to member chambers in institutional and human resources development, equipment and finance for key staff. Similar assistance is planned under a project, also with the Federation, of the Handwerkskammer Hannover. However, Chambers of Commerce and Industry under the Federation are largely representative of the larger small and medium-size enterprises, and there is little support to the formation and strengthening of associations of micro and small businesses.

A GTZ project in the Central Province is an exception to this. This is also the only project that takes a more integrated and process oriented approach to MSE development at the provincial level. In addition to strengthening representative organisations, it aims to develop a dialogue between the private sector and provincial authorities that will result in concrete initiatives to improve the business environment. This is a new project, which follows an initial orientation phase.

Enterprise development is also included in the ADB-supported Rural Economic Advancement Programmes, currently focussed on the Central and Southern parts of the country. Several of these programmes, which build on the experience of the Sida-funded Integrated Rural Development Programme, have achieved considerable success, including in the area of rural off-farm activities. The currently proposed programme will gain from applying some of the lessons learned. The development of a dialogue between the private sector and district and provincial authorities as well as service providers, which is a cornerstone of the current proposal, has, however, not been a key element of the REAPs.

Support in the area of market access has been limited. USAID has taken a sub-sectoral approach, working through value chains and promoting cluster development. The focus has been on larger enterprises. Swisscontact has recently started a programme to organise rural producers and link them to markets.

In conclusion: Although external assistance for development of the small enterprise sector is comprehensive, there are some areas where ILO and Sida can make an important difference. This is, in the first place, the development of programmes at the provincial and district level that operationalise the policy intentions and strategies laid down in the Poverty Reduction Strategy and those that will be included in a forthcoming SME Policy in ways that meet the concrete needs of MSEs and create an environment in which the poor can benefit from the growth of the sector. In this respect it should be emphasised that the BSSF will not directly target MSEs but more specifically small and medium sized enterprises. There will hence be no likely overlap between the programs in the suggested districts. Rather, there will be significant opportunities for synergies, cooperation and complementarity. Secondly, the need to expand MSEs' markets, and related to that, enhance their productivity and competitiveness, is insufficiently addressed by other agencies and programmes. Thirdly, the key role that representative organisations and dialogue between authorities and the small enterprise sector can play in improving the business environment and so contribute to growth seems insufficiently recognised and supported. Fourthly, the suggested programme will include measures to improve the enterprise culture as an integral part, which is not a salient feature in any of the other interventions, with the possible exception of CEFE and Swisscontact. Finally, the ILO and Sida's past and ongoing work in small business training, through the SIYB project, makes them well-placed to continue to play an important role in the development of demand and supply of business services.

Given the expected starting date of this programme, the need to provide advice on labour legislation with respect to MSEs will have to be addressed separately.

#### **4. PROGRAMME STRATEGY**

This programme will support the implementation of the Government's strategy for poverty reduction and the generation of quality employment for women and men through a coherent and integrated small enterprise development programme that targets two poor provinces and addresses issues at the national level that will enhance impact in the provinces, and transfer lessons learnt to the national policy level as well as other parts of the country.

##### **4.1 The district level**

The programme will have three key thematic entry points, based on the problem analysis and the problem tree, validated in consultation with district stakeholders, as presented in the previous section:

- Improving market access, including through developing a vibrant market for business services.
- Developing an enabling policy, legislative and regulatory environment at local level.
- Strengthening enterprise culture.

The goal of the interventions in these areas is to create an environment that will enable more productive MSEs to be started and existing MSEs to grow and become more profitable, rather than to provide support that will benefit individual companies directly. The approach is participative, inclusive, and bottom-up, to ensure a high degree of relevance and ownership – the main interventions will be decided on by the stakeholders themselves, the private sector and MSEs in particular. The effects will therefore tend to be long-term rather than immediate, although the development of more market-driven and therefore more relevant services can be expected to have an impact in the short term as well. The effects will also be likely to benefit

many rather than a selected few, as a more enabling environment will be there for all to make use of. The effects are also likely to be sustainable rather than project-bound, since they will be embedded in local organisations, institutions, attitudes and values.

### **Improving market access**

Market access has been identified as a central constraint on growth of the private sector in general and the MSE sector in particular, especially outside the greater Colombo region and the Western Province. Expanding local, provincial, national as well as export markets for MSEs will therefore be the **primary entry point** for the programme's work at the district level. Broadly, this work will cover a number of inter-related aspects, which have all in their turn been identified as restricting MSEs' markets. The need to **improve productivity and quality** is chief among these, as well as the need for MSEs to offer more **market-led products and services** and to develop **market linkages**.

To a large extent, these needs can be addressed through developing a more dynamic and effective **market for business services**, including skills training, transfer of technology, and market linkages, as well as for financial services. The programme will contribute to strengthening the demand as well as the supply of services that are relevant to MSEs owned by women and men, to replace the supply-(often donor) driven services that now predominate. Fostering a dialogue between MSEs and service providers, including non-institutional providers such as suppliers, wholesalers and exporters, and as well as collaboration among providers, will underlie the interventions in this area. This will be initiated by establishing a forum of representatives of MSEs (Chambers of Commerce and Industry but especially associations), service providers and relevant authorities, which will steer this process, with the support of the programme. Forums will be established in each of the four districts the programme plans to cover and will also play a key role in other programme components. Each forum will take the following basic approach:

- Organise "MSE services fairs", which will give service providers the opportunity to present and promote their services to MSEs, and which will include events where stakeholders present their views on how and in which respect the MSE business services market can and should be developed. Most importantly, women and men who own MSEs will be able to initiate a direct dialogue with providers. The programme will present good practice in developing service markets from other countries. On average two service fairs will be organised in each district, in order to have greater outreach to more rural MSEs. They will result in the identification of a number of MSE service needs that may have to be addressed. The fairs will also serve to launch the programme.
- This will be followed by further analysis of the identified needs and how they may be met in a sustainable, demand-driven way. This will include in-depth, service market assessments related to the expressed needs of MSEs and provider capacity. These assessments will be specific with regard to the different needs of women and men. Developing the providers' tools and competence in market research among MSEs will be among the outcomes of this process. It will also include analysis of value chains in priority sub-sectors and of the need for interventions in these sub-sectors (see below), and separate consultations with women entrepreneurs and women's organisations.
- At the same time, however, a concrete activity will be launched to address one of the obvious needs identified through the service fairs that do not require further assessment. This will serve to mobilise support and build the programme's credibility in the district.
- Organise a second series of events where MSEs and service providers come together, where the results of the analysis are presented; priorities for action determined; and the

interest of providers and MSE representatives to contribute to addressing such priorities is established.

The forum will then work with the interested providers, the Chambers of Commerce and Industry and MSE associations to design and implement the prioritised measures for developing a more effective service market. It will draw on national level specialists, where appropriate grouped in multi-disciplinary teams, to build local capacity as required. Based on assessments already carried out, this work could include the following services that address the need for **productivity and quality improvement**:

- Introduction of a basic business training programme for women and men with little education in self-employment or micro enterprise.
- Introduction of training and advisory programmes that aim at improving productivity through better working conditions, including occupational safety and health. This will draw on the experience with programmes for enterprises at different levels.
- Strengthening the capacity to provide (adapted) SIYB and EYB training to different target groups where required.
- Developing new counselling and training services that address the specific needs of priority sub-sectors.
- Collaboration with business information providers to increase their offer in the areas of productivity improvement and better working conditions.
- Strengthening services in the provision of information on and transfer of new technologies, including as part of business relationships with equipment suppliers.
- Developing relevant skills training, in particular as part of relations within value chains, e.g. where wholesalers provide training on production according to new designs.
- Introducing service delivery and support mechanisms that enhance access for women.
- Improving access to financial services. The programme will support the development of formal linkages between MSE associations, business services providers and financial institutions that will facilitate the design of appropriate financial products for women and men, and promote them among association members and service provider clients.

Much of what MSEs in rural areas produce is suitable only to local markets, while their efforts to access markets beyond these are generally based on the same products, rather than demand in such markets. Support to services that will enable MSEs to **develop more market-led services and products** is expected to include:

- Developing services with existing providers to link enterprises to information on national and global markets and facilitate the development of direct relations with national and international buyers.
- Strengthening services on product development and design, and quality improvement. This may involve design institutes that currently generally work in isolation from both markets and producers; facilitating the development of subcontracting relationships that include a transfer of know-how and skills; and developing services embedded in business relationships with wholesalers and exporters.

The need to support facilitation of the **marketing** of MSEs' products will place particular emphasis on building networks between rural areas and district cities as well as linkages to markets beyond, including for export. This may include the development of services and capacity in the following areas:

- Formation of groups for taking joint orders and for joint promotion and marketing.
- Promotion of specialisation in groups and cluster formation, including in sub-sectors that offer potential for women.
- Establishing direct linkages to buyers, including exporters.
- Establishing linkages to other businesses, where these sub-contract for part of the production process, or contract for services.
- Public private partnerships for the provision of community services such as waste collection, in collaboration with municipal authorities.
- Promotion, including through participation in trade fairs (in Sri Lanka and abroad), through websites, and through the media. This will include collaboration with Peoplelink, a public-private initiative that enables groups of MSEs to take part in e-commerce, or a similar organisation.

On the demand side, the MSE service fairs and other events will be well- publicised events that will raise the profile of the sector and of service providers, and will so have a positive effect on demand for services. The programme will also:

- Support the promotion of business development and financial services at annual service fairs in different locations in each of the four districts.
- Support the promotion of services through associations and Chambers of Commerce and Industry; and through mass media. The latter work will be closely linked with the programme's national component, which will develop programmes that target small businesses at commercial radio and television stations, and the social marketing campaign to promote enterprise culture (see below).
- Collaboration with service providers to strengthen their strategies, tools and capacity to market their services to MSEs (rather than donors), including by taking better account of the differences between MSEs owned by women and men.

This work on market access and productivity improvement will have a **primary focus on selected MSE sub-sectors** that have significant potential for market expansion, and address the specific constraints on realising this potential. The programme will:

- Select 3 to 4 high-potential sub-sectors per district. This will be done in consultation with MSE and other private sector representatives, Provincial and District Governments, and service providers, and on the basis of economic opportunity studies that are currently being carried out under the ADB Programme, as well as other available research. Priority will be given to sub-sectors that offer potential for the expansion of employment and increasing incomes for women and youth, and that will affect growth in rural areas, either directly, or through backward and forward linkages. The identification process will include two stakeholder workshops in each of the four districts, the first of which will be held after the MSE fairs. The sectors that definitely deserve consideration include tourism, coconut and coir, rice milling and commercial fruit growing and processing, but this is by no means an exhaustive list.
- Through value chain analysis, identify and analyse the barriers to market expansion. This should involve the enterprises themselves as well as buyers and other parties in the value chain and the immediate business and service environment.

This information will be an input into the process of business service development that will be initiated by the MSE fairs.

The programme will not be limited to these sub-sectors, though. Significant economies of scale can be realised by building more generic capacities around the sub-sector specific work, and by developing tools that could be utilised more broadly, in particular in the area of productivity improvement. This is true especially for the introduction of the training and advisory services mentioned above, and for the strengthening of demand for business services. Moreover, economic opportunities in rural communities may be diverse but too small in scale to limit support services to selected sub-sectors – diversification may be a more urgent need in such cases.

Improving market access will also involve working with larger, medium-size enterprises, which form an important market for MSEs, through subcontracts or for the provision of services. Training and advisory services, as well as support in marketing, will therefore also be offered to larger enterprises that have or will develop linkages with MSEs and so enable MSEs to grow.

Although the programme will focus on existing enterprise, whose expansion is an efficient means for creating employment, support to the establishment of new businesses will be provided especially where the base of existing MSEs is small and emerging opportunities are good, i.e. the more rural areas in the districts. There will be a special focus on business start-ups by women.

The programme will not subsidise the delivery of business services, apart from those in a pilot testing stage. It will provide funds only for service development, marketing and capacity development, in accordance with the donor guidelines on business development services for small enterprises. Where appropriate, the programme will collaborate with the new Business Development Centres set up under the ADB supported Business Services Support Facility project, which are intended to function as facilitators for the development of BDS markets. The project will also collaborate with the SIYB Association of Sri Lanka as a potential facilitator of business services development.

### **An enabling policy, legislative and regulatory environment**

The programme's second area of focus at the district level will be creating an enabling policy, legislative and regulatory environment. This will reduce constraints on growth and bring more enterprises into the formal economy. Here a priority will be the development of an **effective dialogue** between provincial, district and local authorities on the one hand, and MSEs on the other. Developing and strengthening representative organisations is an essential element of this process. This will be addressed by building the capacity of local institutions to:

- Promote the establishment of new groups by women and men, initially around a concrete common purpose such as accessing new markets, to then further develop them into representative groups, in collaboration with district Chambers of Commerce and Industry.
- Build on existing informal groupings and cooperatives to develop representative associations.
- Carry out organisational strengthening of existing small business associations, including through training and making them more inclusive, especially of women.
- Promote increased participation of MSEs in district Chambers of Commerce and Industry.

District Chambers of Commerce and Industry have already demonstrated a keen interest in playing a role in organising MSEs, either independently or by including them among their membership, and the programme will closely collaborate with them and build on these initiatives.

To provincial, district and local authorities the programme will provide training to improve their appreciation and understanding of the key role of MSEs in the development of the provincial economy and the reduction of poverty, within the context of existing and emerging national policy frameworks such as the Poverty Reduction Strategy and the SME White Paper. The programme will strengthen the authorities' capacity to translate national policies into an enabling environment for small enterprise development at the provincial, district and local level in ways that recognise the differences between women and men, including through better coordination. It will support the authorities in implementing administrative and developmental measures that improve the environment for MSEs. Part of this work will be undertaken with the Sri Lanka Institute for Development Administration, whose mandate includes the training of public servants. This will facilitate the transfer of lessons learnt to the national level. The work will be guided by the MSE forums the programme will establish in each district.

As part of this process, and to initiate the dialogue between authorities and MSEs, the programme will:

- Support the MSE forums in organising “MSE policy days”, which will showcase the role of MSEs in the districts and give women and men who own MSEs the opportunity to present their views on the priorities to be addressed with regard to the policy, legislative and regulatory environment. This will be a first opportunity for most MSEs to enter into a direct dialogue with authorities at this level. The programme will ensure that the views of MSE workers are represented by conducting focus group discussions prior to the policy days.
- Support authorities and MSE representatives to conduct business climate surveys, which will complement the results of the policy days. This will provide another opportunity for MSEs to put forward issues with regard to the policy, legislative and regulatory environment. The focus will be on enterprises in more isolated areas, which may have had less opportunity to participate in the policy days. The analysis will be gender specific.
- Conduct separate consultations with women entrepreneurs and women's organisations.
- Conduct sensitisation workshops for authorities, female and male MSE owners and workers on the role of representative organisations and developing a dialogue. These workshops will also result in proposals to establish more permanent mechanisms for consultation and dialogue.
- Support the MSE forums in holding “small enterprise dialogue days”, during which the results of the business climate survey and sensitisation workshops will be fed back to the stakeholders. The outputs of these events will be the identification of priorities that should be addressed by authorities at different levels, establishment of the need for additional assessments of such issues, and a concrete proposal to the authorities on how to establish a sustainable dialogue with the small enterprise sector. This could include the establishment of the MSE forums on a more permanent basis, possibly as advisory bodies to the District Coordinating Committees.

The programme will follow this up by:

- Providing support to revision of the policy, legislative and regulatory environment at the provincial, district, divisional and municipal level.
- Training of officials on such revisions.
- Guidance to and moderation of the establishment of a sustainable dialogue.

In order to put the work of the District Secretariats on a sounder basis, the programme will support them in the establishment of a small enterprise information system, which will include data on legislation and regulations, registered enterprises, business development and financial services providers, associations, Chambers of Commerce and Industry, and relevant development programmes. This will be searchable and web-based, so business information providers can access it.

Although the work on the enabling policy and regulatory environment and on market access is linked (see flow chart on page 16), the interventions in the area of market access are not dependent on the success of the dialogue between authorities and the MSE sector. Most constraints on expanding markets can be addressed without improvements in the legislative and regulatory environment. Furthermore, the institutional environment is so complex, that establishing a successful dialogue between authorities and MSEs will take time, and may require a focus on one aspect of the constraints on the small enterprise sector (the policy, legislative and regulatory environment, which the authorities are directly responsible for) rather than looking comprehensively at the entire spectrum.

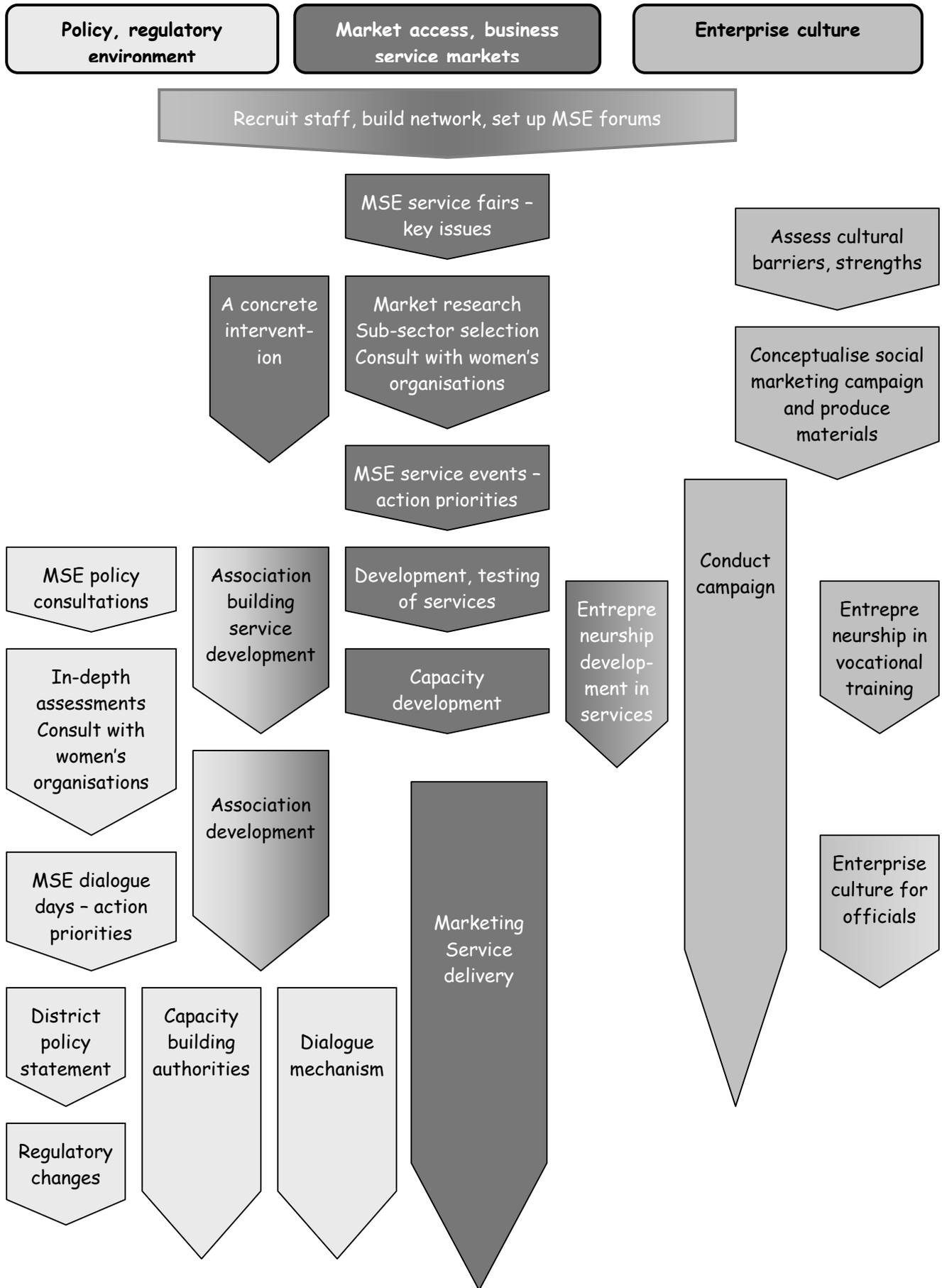
### **Enterprise culture**

An underlying cause of many of the factors that contribute to the lack of dynamism and growth in the MSE sector is the relatively weak enterprise culture among those who could start MSEs and those already in business who are content with low profitability and growth. This also affects their support networks, especially for women, as well as the overall environment in which MSEs operate, through the negative attitudes towards the private sector of many officials. The programme will therefore work together with business services providers and other institutions, the private sector and the authorities to undertake a number of activities that aim at strengthening social and cultural support for private sector development by women and men, with a focus on poor communities. This will include:

- Introduction of more entrepreneurship training in MSE business creation and improvement programmes, especially those for women and youth. Currently few programmes include modules that aim at confidence building and enhancing risk-taking behaviour.
- Introduction of business awareness training in vocational and technical training courses. This will require capacity building, as well as generating support for introducing such training among the line ministries responsible and in the management of the institutions. This will require close collaboration with the ADB-funded Skills Development Project, which supports the introduction of entrepreneurship education in vocational training.
- Integration of entrepreneurship and business-related topics in non-formal training, such as functional literacy courses. Much non-formal training targets women and therefore offers a good opportunity for the promotion of enterprise values.

#### **Flow chart “Integrated participatory small enterprise development” on page 16:**

This chart presents the process by which the programme will be planned and implemented, with improving market access and business services markets as the central entry point (darkest shade) and strengthening enterprise culture and the local policy and regulatory environment as the two other key themes. The place and shade of the arrows indicate the theme they belong to, with some belonging to two. The size of the arrows does not generally indicate their duration, but their position in relation to each other does indicate the order in which steps will be taken, with the programme’s start at the top of the page and its end at the bottom, and the activities in arrows closer to the top affecting those that follow it across the three themes. This chart presents only the main activities.



- A social marketing campaign promoting enterprise culture in the four districts. This will make use of local radio, television, events (such as a “Week of the woman entrepreneur”), and interactive theatre. In interactive theatre easily recognisable problems to which starting an enterprise could be a solution are brought to audiences who are invited to comment and join in at different stages during the play. The campaign will be designed around three or four basic messages that promote entrepreneurship by women and men among the poor and those living in more rural areas, and will create two characters (a man and a woman) who will serve as role models. It will also showcase actual success stories from the area. The campaign will be closely linked to the development of small business radio or television programmes at the national level in that those programmes will address related topics as they arise, and to the promotion of business services through the media.
- Training for public servants that promotes the private sector, MSEs and women entrepreneurship in particular.
- Well-publicised awards for “officials of the year” who have played an important role in facilitating the development of MSEs.

Ensuring media coverage of events organised by the programme and of the successes it has achieved will be part of this strategy. As promoting enterprise culture is a relatively new area of work internationally, the programme may develop innovative approaches that go beyond the activities indicated above. If at the national level the Government initiates action to include promotion of entrepreneurship in the curriculum of primary, secondary and tertiary education, this may include pilot testing of possible models in selected schools in the districts covered by the programme.

#### **4.2 The national level**

Development of a market for business services has aspects that need to be addressed nationally, as the districts do not exist in isolation from the broader trends and changes in this area. This is true as well, of course, for the policy environment, but it is in business services that the programme is particularly well-placed due to the prior involvement of Sida and the ILO through the SIYB project. Work on a national SME policy, on the other hand, seems well covered through the Ministry of Advanced Technology and National Enterprise Development/ADB project. In addition, the programme can make a broader contribution to MSE development in the country by sharing its experience in the districts with policy makers, service providers and private sector organisations at the national level as well as in other districts. The programme therefore will:

- Support the implementation of the sustainability strategy for SIYB and EYB<sup>6</sup>. This will include:
  - Technical advice and capacity building to the Association of trainers, Master Trainers and Partner Organisations, the SIYB Association, to enable it to implement its business plan and achieve full autonomy and sustainability, including with regard to quality control, equal opportunities for women, marketing, and a role in the promotion of good practice in the development of a services market for MSEs. The programme will gradually hand over functions to the Association in accordance with its growing capacity. It will also strengthen the

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<sup>6</sup> This section is based on the SIYB review report by George Manu and Lars Rylander (August 2003), as well as “Towards a sustainable SIYB Sri Lanka Programme” (April 2004), prepared by SIYB project management.

association by involving it in its work in the districts as a business services facilitator.

- Further development of a countrywide sustainable capacity to provide EYB.
- Support to the marketing of SIYB and EYB in the North and East of the country.
- Development of commercial radio and/or television programmes that will provide information on markets, legislation and regulations, business development and financial services providers, and news items of concern to the small business community. The ILO's experience demonstrates that such programmes can play an important role in strengthening demand for business services and meeting the need for information. They also offer an opportunity for MSEs to voice their concerns and so affect policy makers. The work at the provincial level will provide stories and news items. Given the nature of the media, development of these programmes is better addressed at the national than at the provincial level.
- Feed back experience gained at the district level to the national level. The programme's experience will be well documented, and impact assessments will be conducted, in order to generate knowledge that can have a broader effect. Workshops will be held for national level stakeholders, and opportunities provided for representatives of other provinces to learn from the work in the North-West and North-Central provinces. The Ministry for Advanced Technology and National Enterprise Development will be an important conduit for lessons learned, as well as the Federation of Chambers of Commerce and Industry and the Sri Lanka Institute for Development Administration. Exchange of experience with the GTZ project in Central Province will be important because it is the only other province-based programme for the sector.

#### **4.3 Cross-cutting issues**

##### **Promoting gender equality**

The MSE sector presents significant gender imbalances, in terms of biases against women among public servants and in Sri Lankan society in general (especially in rural communities), and other barriers to equal opportunities. This results in a lack of confidence among women with regard to starting or expanding a business, weak social support networks for women who do start a business, and women's lower access to financial and other services. The programme will ensure that gender imbalances will be addressed through each of its key entry points, i.e. improving market access, developing an enabling policy, legislative and regulatory environment, and promoting enterprise culture. It is based on a gender-disaggregated analysis, spells out gender-specific targets for its outputs and activities and will use gender-disaggregated measures to monitor and evaluate impact. Women will be well represented in the programme's steering mechanisms, with the programme promoting affirmative action in this regard if necessary.

In summary, the programme will work with MSE representatives, the authorities and service providers to:

- Promote full participation of women in programme events such as the MSE service fairs and policy days.
- Support gender sensitive market research to identify business opportunities for women and build capacity for the provision of services that support women in making use of these opportunities.
- Select sub-sectors that offer opportunities for women in particular.
- Develop services that are specifically geared towards the needs of women, e.g. by

including confidence building and issues related to family responsibilities in training programmes.

- Ensure that the training materials and other services it introduces will be gender sensitive.
- Develop approaches to marketing and promoting services that are more likely to reach women, e.g. through direct promotion at market places and homes, through service fairs, in the context of radio programmes women listen to, and by presenting women as role models.
- Develop modalities for delivery of services that enable women to benefit from them, e.g. part-time training spread out over longer periods of time, bringing training to communities instead of requiring trainees to come to institutions.
- Ensure that service providers make available women staff and that male staff are sensitised on gender issues.
- Promote the establishment of childcare arrangements, for instance for groups of self-employed women.
- Ensure the inclusion of associations that are mainly or partly made up of women, and promote leadership by women.
- Capacity building for the SIYB Association to promote measures that will enhance the impact of SIYB training and support on women, where currently there is a significant gap between women and men.

Progress and impact data will be gender-disaggregated.

### **Promoting equal opportunities for different ethnic communities**

The programme's direct and ultimate target groups include members of all main ethnic communities in Sri Lanka. The programme will make every effort to ensure that its interventions promote an environment for MSE development that provides equal opportunities for all ethnic groups. It is expected that doing so will enable the programme to contribute to a durable reconciliation in the four districts it will target.

A detailed and concrete strategy to ensure this, will be developed as a result of a Peace and Conflict Impact Assessment that will be conducted as part of the programme's inception phase. This may result in changes in the programme's activities. The assessment will be conducted by a PCIA consultant in overall accordance with the attached Terms of Reference (Annex 6).

At a general level, the programme will promote the effective participation of different communities in its planning and implementation process. This may require making available translations into Tamil and Tamil interpretation at events where the mother tongue of the majority of participants is Sinhala. It will also require making available training materials in Tamil as well as in Sinhala, working with Tamil and Sinhala medium business services providers and radio and television stations, and employing Tamil language national consultants.

When selecting target areas and sub-sectors within the districts, the programme will consider the ethnic make-up of the towns and villages it will target, in order to ensure an equitable ethnic balance among those who are likely to benefit.

Where communities have been affected by ethnic conflict, the programme will take special care to be seen to promote participation by all ethnic communities.

## HIV/AIDS

Sri Lanka's estimated HIV infection rate among adults, between the ages of 15 and 49, is low, at 0.07 per cent. However, risky situations and behaviour are relatively widespread, with respect to commercial sex, low condom use, high prevalence of sexually transmitted diseases, and high migration to countries with higher infection rates.<sup>7</sup> Awareness is quite low. In some sub-sectors (such as long-distance transport), the risks of transmission are particularly high. The programme will therefore contribute to reducing the spread of HIV/AIDS and mitigating the impact on employers and workers in MSEs, including in terms of discrimination, within the overall framework of responding to local priorities, i.e. without imposing specific interventions. This will be achieved through the following measures:

- Ensure that all programme staff has an awareness of HIV/AIDS, its transmission and prevention and how it affects MSEs and their communities. This will enhance the programme's capacity to identify the need for HIV/AIDS related interventions.
- Consider HIV/AIDS risks and the (potential) impact on MSEs in the programme's studies, such as value chain analyses.
- If the sub-sectors selected present high infection risks, work with service providers to develop and implement action plans that reduce such risks.
- Raise awareness among stakeholders, to enable them to recognise high-risk behaviour and possible infection, and to provide first-line advice to reduce such behaviour and deal with the consequences of infection in MSEs; and to reduce discrimination of People Living With HIV/AIDS. Such awareness raising will be included in capacity building exercises where appropriate.
- Develop a leaflet that raises awareness among MSEs of high-risk behaviour, prevention, and a code of behaviour towards infected persons, workers in particular. This could be used by service providers where they recognise a need.
- Develop case-studies or "stories" of MSE owners and workers who have had to confront HIV/AIDS infection, to give the issue a human face, for use in awareness raising.

The programme will collaborate with UNAIDS and the Association of People living with HIV/AIDS to implement these strategies. It will ensure that full account is taken of cultural sensitivities with respect to issues related to sex and disease.

### 4.4 Building on experience

Each of the areas mentioned in the programme strategy are areas in which the ILO has core competencies, and in which a programme in Sri Lanka could build on experience gained elsewhere, including in South and South-East Asia. The ILO has a particular mandate in promoting social dialogue and building representative organisations, including for MSEs, and in employment generation for poverty reduction. To the extent that there is an expressed demand for them, the programme will be able to make use of ILO approaches and tools that have proven to be effective elsewhere. These tools will be adapted to specific local needs and conditions, together with the stakeholders concerned, to ensure that they are appropriate and relevant, and meet the demand in the first place of the MSEs, and secondly of the programme's direct

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<sup>7</sup> [Sri Lanka HIV/AIDS update](http://lnweb18.worldbank.org/sar/sa.nsf/0/7db037e81492cb4585256a9b0054699d?OpenDocument), the World Bank  
(<http://lnweb18.worldbank.org/sar/sa.nsf/0/7db037e81492cb4585256a9b0054699d?OpenDocument>)

beneficiaries such as government bodies, service providers, and private sector organisations. Such tools could include (but will not include all):

- Get Ahead, a women's entrepreneurship programme originally developed in South-East Asia.
- Training programmes that link improving the quality of jobs with higher productivity – Improving Business through Better Working Conditions (for self-employment or micro enterprise), Improve Your Work Environment and Business (IWEB, for micro enterprise in services and manufacturing), Work Improvement in Neighbourhood Development (for rural micro enterprise) and Work Improvement in Small Enterprise (WISE, for larger small enterprises). The programme could also draw on the experience of the Factory Improvement Project in Sri Lanka, which is addressing productivity and working conditions issues in medium-size garment manufacturing enterprises.
- Tools for the formation of self-help groups, the strengthening of business associations and the development of associations of women entrepreneurs.
- Training guides for local authorities, on Local Employment and the Informal Economy (which is currently being adapted for use in Sri Lanka), as well as a manual on Creating an Environment Favourable to Small Enterprise Development.
- Know About Business, a business awareness programme for vocational institutions – this is already being piloted in Sri Lanka.

The programme can also draw on the ILO's experience with social marketing, in India and Ghana. The work on a basic business skill programme for women and men with little formal education that the ILO is carrying out globally will benefit the programme directly.

The programme will be able to build ILO's work on integrated enterprise development programmes, including in a local economic development context. Most recently participative, holistic approaches to improving the environment for small enterprise development have been applied successfully in Viet Nam, India, Bolivia, Mozambique and Ghana. Each of these projects ongoing, and the programme will link up to them through the ILO's knowledge management programme.

These programmes have grown out of the realisation that programmes that affect the complex realities in which MSEs operate can be more effective if they address the interconnected issues at different levels that make up such realities. E.g. strengthening business associations is a key element of improving dialogue between the private sector and the government, which is a precondition for a sustainable enabling policy and regulatory environment. At the same time, associations may be important for promotion of services and facilitating market access; while positive government policies may facilitate the development of such services. The problem tree presented in Annex 1 is of course a vivid illustration of some of these interconnections and opportunities for synergies that could enhance impact.

The present programme will build on and make use of the good practices that have come out of these programmes. These include:

- MSE programmes that are brought to the local level, close to the ultimate target groups and the environment they make their livelihoods in, are more likely to have the intended impact in terms of local economic development and poverty reduction. Such programmes gain a better understanding of local conditions, develop stronger local networks and collaboration, and achieve greater local acceptance. Programmes do, however, need to

have the flexibility to contribute to change at the national level, when improvement at the local level depends on it (e.g. when national legislation or the absence of it makes progress at the local level impossible).

- Programmes need to be locally-owned and locally-driven to the largest extent possible, and therefore need to make use of participatory planning and implementation mechanisms. This does not just ensure a higher degree of relevance to local needs, but also facilitates a stronger sense of local involvement, which increases the contributions in time and effort that stakeholders are willing to make. Local ownership also enhances the potential for longer-term sustainability, as stakeholders come to consider the programme independent of project support.
- Programmes need to address the expressed demands of MSEs and the poor who could improve their livelihoods through enterprise, rather than externally identified needs. Such programmes are more likely to gain acceptance and generate a response. However, not all actors at all levels are aware of systemic issues beyond their locality that affect their lives. Programmes therefore also have a role in revealing such issues and creating awareness. This may result in some “needs” becoming effective demands.
- Programmes that aim to address the expressed demands of MSEs need to be flexible in design and implementation, and to some extent open-ended. Economies and societies evolve, at the local as much as at the national level. So do therefore the conditions in which MSE operate, the demands they express, and the opportunities to meet these demands. Planning projects at the start up to every activity and indicator imposes a straightjacket that may result in outputs being realized, without, however, the intended impact being achieved.
- Close collaboration with the private sector, micro and small enterprises and their organizations in particular, is essential to the success of MSE programmes. Close involvement of MSEs is the best guarantee that programmes develop and maintain a systemic, holistic approach – MSEs do not perceive their reality in the fragmented way that development practitioners do (“this is BDS”, “this is policy”, “this is finance”, “this is family, not enterprise”) and can therefore help programmes see the connections between the issues that affect them.
- However, addressing systemic issues requires working with a range of stakeholders, at all levels, and, most importantly, developing a dialogue between them. Issues that affect MSEs may have their roots in real conflicts of interest between the different stakeholders, for instance, where business taxes are concerned. When stakeholders enter into dialogue, such conflicts may at least be partly resolved, and some common interests identified, e.g. when local governments and entrepreneurs venture into public private partnerships. In other areas, for instance when business services do not meet the demands of MSEs, there is no real conflict of interest but a lack of communication which results in market failure. Again, dialogue can contribute to addressing this.
- Some of the most important effects of integrated, participative programmes lie in the stakeholders learning from the development processes that are initiated, as opposed to skills for applying specific tools. In terms of technical support, this takes programmes beyond training into a role of coaching and moderating (with reference to contentious situations of opposing interests of stakeholders).
- Initiating a concrete activity that has relatively immediate benefits for MSEs, is an effective way of building credibility and confidence. Most MSEs and other stakeholders have little patience with programmes that require their participation for a long period of time without demonstrating that they can also take action.

These good practices, and lessons learned with respect to more specialized areas of expertise, such as market development for business services, are reflected in the programme design and the consultation and implementation process that form part of it (and indeed that was part of the programme design process). Most of the specific elements of the proposed process, e.g. the use of events to initiate dialogue, have proven their effectiveness elsewhere. However, the programme is also innovative in bringing within one framework some elements that have not been combined before. In particular, the proposed work on enterprise culture, although building on ILO and other experience, has not earlier been part of an integrated approach to MSE development. Its inclusion here creates strong opportunities for enhancing the impact of work with regard to the policy and regulatory environment and market development for business services, as positive attitudes towards business underpin an enabling environment and demand for business services.

The programme will make full use of the expertise and experience available in Sri Lanka itself. It will collaborate closely with private sector organisations and MSE development organisations in the private as well as the public sector. It will make full use of the expertise available in the Ministry of Advanced Technology and National Enterprise Development. It will draw on the expertise largely concentrated in Colombo and the Western province to build capacities in the two targeted provinces, as well as, for the SIYB programme, the North and East. Where appropriate tools are already available in Sri Lanka, these will be used to the extent possible.

#### **4.5 Monitoring, evaluation and impact assessment**

The programme's monitoring and evaluation system will be based on its logical framework, the indicators of achievement this includes, and the work plans that will be developed on that basis. Progress towards implementation will be measured in relation to timed work plans that will be developed in the programme's inception phase. This will comprise a global work plan for the three year period, and a more detailed annual work plan that will be updated on a quarterly basis. In addition, work plans per District will be prepared that will reflect the detailed activities that will come out of the consultation processes with local stakeholders. These will also be a reference for monitoring and progress reporting. The programme will support the transfer of District level monitoring to District Secretariats.

Given the dispersion of the programme team over five sites, it will be considered to establish a web-based, real-time monitoring system, which will also alert programme management immediately to implementation problems.

Impact assessment will be a significant concern in this programme. Establishing how specific MSE development interventions, such as training, affect MSEs is fraught with difficulties, most of which relate to the issue of attribution, i.e. to what extent observed improvements can be attributed to the intervention rather than to other factors, such as changes in economic environment. Another difficulty relates to the fact that projects are often relatively short, while economic impact and poverty reduction take time to be realised. Such difficulties are even greater in programmes such as the present, which comprise a complex range of interventions which aim to improve the environment for all MSEs rather than providing direct benefits to a selected group. The ILO and others have developed approaches to assessing impact in such situations, which address some of the theoretical and methodological issues. However, many are still "work in progress". The programme will draw on this work, but will contribute to its further development as well, by designing approaches that are geared to its specific requirements.

The impact assessment methodology will be developed at the very start of the programme, drawing on specialised expertise in this field. At present it is foreseen that:

- The methodology will focus on assessing the impact of the combined as well as of single interventions, on MSEs in the Districts in general as well as those directly affected by an activity.
- Appropriate impact indicators will be developed in relation to each of the objectives and outputs, based on those included in the logical framework matrix (Annex 2), which will need to be refined and operationalised, and may still need to be changed.
- Impact on poverty will be assessed on the basis of the household poverty surveys that are periodically carried out under the PRSP, as well as at the enterprise level through income questions to workers and owners. The extent to which this is sufficient will be considered at the start of the programme with the impact assessment specialist.
- Impact on the performance of MSEs will be assessed through a survey of a random sample of MSEs in the four Districts, conducted at the very start as well as at the very end of the programme. The usefulness of an interim survey will be considered with the impact assessment specialist, as well as the extent to which a control group in a District outside the programme would add to the validity of the findings, and the cost of such an approach.
- Quantitative data will be complemented by qualitative information collected through inquiry group discussions and in-depth case studies. This will contribute to establishing the extent to which improvements can be attributed to the interventions – if the MSEs link better performance to changes that can be traced to the programme, the probability that there was such influence is greater.
- Where the numbers of people affected by interventions over a short period of time may be relatively small, the effects will be assessed by questioning such people directly. E.g. an improvement in a District government procedure may be best measured by interviewing entrepreneurs who have been directly affected.
- Improvements in access to services will be measured by establishing whether and to what extent providers have delivered more services. For services embedded in business relationships, the programme will rely on case studies.
- Improvements in with regard to the dialogue between MSEs and authorities will be assessed qualitatively, through meeting minutes and interviews, as well as through increased membership of associations and Chambers of Commerce and Industry.
- Impact of the commercial radio and/or television programmes will be assessed through listener surveys and inquiry group discussions.
- The programme will assess the effect of its work with the SIYB Association with regard to institutional, financial and technical sustainability indicators related to its business plan, and through the Association's monitoring and evaluation system through progress on the implementation of the Association's business plan.
- One SIYB/EYB impact assessment will be supported.

Progress and impact data will be gender-disaggregated to ensure that possible inequalities can be addressed.

## **5. GEOGRAPHICAL COVERAGE**

The district-level component of the programme will be implemented in **two of the poorest provinces of Sri Lanka, North-West and North-Central province**. The Poverty Reduction Strategy ranks the two districts that make up North-West Province, Kurunegala and Puttalam, as number 14 and 10 respectively in a wealth ranking of 17 districts (17 being the poorest). The North of Puttalam has been affected by the armed conflict. Both these districts do have a significant base of small enterprise, with 7.3 and 6.4 percent respectively of the total number of formal sector small enterprises in the country (Western Province and Colombo have 36.9 percent). Kurunegala has an active district Chambers of Commerce and Industry, which is interested in increasing organisation in the small enterprise sector, and some well-established business development and financial services providers, whose outreach is, however, mostly limited to urban centres. Puttalam has a nascent Chambers as well. Business development and financial services providers are present in both districts and at district and provincial authorities at the highest level are positive about the need to support MSE development, although few funds have been allocated. The province therefore provides good opportunities for poverty reduction through MSE development.

North-Central Province is made up of two districts as well, Anuradhapura and Polonnaruwa. The Poverty Reduction Strategy ranks them 12 and 9 respectively in the above mentioned wealth ranking. The small enterprise base in both is small, with 1.3 and 1.0 percent of the total of the country. The economy of both districts is largely based on agriculture. However, if a lasting peace is established, significant investment in infrastructure, housing and business can be expected in this province, including in the tourism sector, which has good potential here. This will definitely provide opportunities for small enterprise, including through backward and forward linkages to larger enterprises. Chambers of Commerce and Industry have been initiated in both districts, and there are a number of sector-based associations. There is a good presence of service providers as well.

Anuradhapura, Polonnaruwa and Puttalam districts have all been affected by the ethnic conflict, and are home to all the main ethnic communities of Sri Lanka. Reducing poverty and working with all ethnic communities in a balanced and equitable manner is likely to offer opportunities to contribute indirectly to reconciliation and lasting peace.

Neither of the two provinces is covered by programmes of a nature similar to what is here envisaged. There would, however, be good opportunities to build on the experience of the SIYB project, and for synergies with the Sida/Federation of Chambers of Commerce and Industry project, the ADB/Ministry of Advanced Technology and National Enterprise Development Business Services Support Facility, and the Swisscontact programme, all of which have expressed willingness to collaborate.

Stakeholders in each of the districts were consulted on the programme's problem analysis and design, during validation workshops held on 11 and 12 October 2004. Participants included MSEs and other private sector representatives, including the Chambers of Commerce in each district, associations, business services providers and authorities. The level of participation and the participants' feedback indicated strong support for the programme and its approach.

## **6. TARGET GROUPS**

The programme's direct beneficiaries will be enabled to fulfil their appropriate role in developing and maintaining an enabling policy, legislative and regulatory environment for MSE development at the district level, and to guide, develop and implement programmes that enhance small

enterprise growth through improving market access and, in relation to this, productivity. The direct beneficiaries will be:

- Ministry of Advanced Technology and National Enterprise Development.
- The District Secretariats.
- Provincial Councils, and municipal authorities.
- District Chambers of Commerce and Industry.
- MSE and other member-based groups such as cooperatives.
- The SIYB Association.
- Business development and other service providers.

The direct beneficiaries, women and men, will benefit through capacity building, support in developing new, more market-driven services, and assistance in service marketing. They will also benefit through the establishment or strengthening of mechanisms that promote more effective MSE development, i.e. stronger and more inclusive private sector organisations, mechanisms for dialogue, consultation and coordination, market assessment, and a more vibrant market for business services.

The programme's ultimate beneficiaries will be:

- Women and men who own and/or manage MSEs, including the self-employed.
- Women and men who work in MSEs as paid or unpaid employees
- Women and men who want to start an MSE.

The ultimate beneficiaries will gain in terms of more and better jobs, and higher incomes, which will also improve living standards in their households. Communities will benefit indirectly from the additional economic growth made possible by a more dynamic and faster growing MSE sector.

## **7. PROGRAMME FRAMEWORK**

### **7.1 Development objective**

The programme will contribute to the generation of pro-poor economic growth and quality employment for women and men, through an integrated programme for the development of micro and small enterprises that focuses on the North-West and North-Central provinces. The reduction in poverty and unemployment will indirectly contribute to the sustainability of peace and reconciliation.

### **7.2 Programme objective**

The micro and small enterprise sector in the North-West and North-Central provinces is diversified, contributes to local economic development, and provides sustainable livelihoods for urban and rural families.

### **7.3 Immediate objectives, outputs and activities**

#### ***District level - Immediate objective 1***

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

### **Output 1.1**

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

#### **Activities**

- 1.1.1 Conduct a Peace and Conflict Impact Assessment for the interventions foreseen under the programme.
- 1.1.2 Ensure that the available mapping of stakeholders in each of the four districts is complete and still valid.
- 1.1.3 Following individual consultations and joint meetings, support the District Secretariat to take the lead in establishing MSE forums in each of the four districts with representation of MSEs, service providers, women's organisations, relevant provincial and district officials.
- 1.1.4 Provide training to the forums on guiding and coordinating inclusive participative planning processes, with a specific focus on inclusion of the poor, women and youth.
- 1.1.5 With the forums, organise MSE service fairs in on average two locations per district, bringing together MSE representatives, service providers and authorities. Use these events to launch the programme and decide on priorities for service market development, and to identify one intervention per district for immediate implementation
- 1.1.6 Support implementation of the one intervention per district identified.
- 1.1.7 With service providers and MSE representative organisations, carry out gender-specific service market research and analysis related to the priorities identified, developing their capacity to conduct such research as required.
- 1.1.8 Review and analyse available economic opportunity studies to identify 3 to 4 priority sub-sectors per district, giving priority to those with specific potential for women and youth.
- 1.1.9 Present economic opportunity analysis and sub-sector recommendations at district-level workshops with relevant government agencies, service providers and private sector organisations, for tentative selection.
- 1.1.10 Conduct value chain analysis in priority sub-sectors to identify key interventions required for their growth. Consider the need for HIV/AIDS-related interventions.
- 1.1.11 Present value chain findings at a second series of district-level workshops with authorities, service providers and MSE organisations, to decide on recommendations for action, including, if relevant, in relation to HIV/AIDS.
- 1.1.12 Conduct separate consultations with organisations of women's entrepreneurs or other women's organisations to ensure their views are expressed.
- 1.1.13 Conduct a second series of MSE events, where the result of activities 1.1.5 to 1.1.9 are presented and discussed, priorities for action in service market development for women and men determined and the interest of providers and MSE representative organisations to participate in addressing priorities is determined.
- 1.1.14 Follow up by developing and signing MOUs with groups of providers and MSE representative organisations for the development, or adaptation, and testing of new services, ensuring inclusion of specialists on women enterprise development.

- 1.1.15 Identify specialists, women and men, at the national level who can constitute multi-disciplinary teams to provide support to service and capacity development in the districts.
- 1.1.16 Provide technical and financial support to service development and testing, including of services embedded in business-to-business relationships, with an emphasis on the priority sub-sectors, and the specific needs of women and youth. This will include:
  - Integrated support to MSE start-ups.
  - Services such as training, counselling, consultancy services, information, transfer of technology that aim at productivity improvement.
  - Services that inform MSEs about requirements of national and international markets and enable them to respond, including through product design and quality improvement.
  - Services that establish linkages of MSEs to new markets, as well as among MSEs for joint marketing.
  - Services that enable MSEs and local authorities to set up public private partnerships for public services provision.
  - An HIV/AIDS awareness raising brochure for use with different services.
- 1.1.17 Work with providers to develop a broad capacity to provide the new services, including through female staff. Include HIV/AIDS awareness raising for providers' staff.

## **Output 1.2**

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

### **Activities**

- 1.2.1 With the MSE forums, develop an overall strategy to promote and increase demand for services among MSEs that takes into account the differences between women and men, based on international good practice.
- 1.2.2 Strengthen the capacity of service providers to market their services to women and men and assist them technically and financially in developing and implementing effective marketing strategies and tools that target MSEs.
- 1.2.3 Support the organisation, by the MSE forums, of annual services fairs (including for financial services) in each district.
- 1.2.4 Support the promotion and marketing of their services by providers through Chambers of Commerce and Industry and other representative organisations.
- 1.2.5 Support service marketing through mass media, including commercial small business radio or television programmes set up under the programme's national component.
- 1.2.6 Ensure coherence and linkages with the social marketing campaign to promote enterprise culture, especially with regard to developing role models who promote the use of business services.

## **Output 1.3**

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

### **Activities**

- 1.3.1 Support the MSE forums to bring together MSE representative organisations, business service providers and financial institutions in each district to design a market assessment or other study (possibly action research) that will identify and analyse the main obstacles to female and male-owned MSEs' access to financial services, including credit.
- 1.3.2 Support the implementation of the studies and the development of recommendations. Consider the need for measures to reduce discrimination by lenders of People Living With HIV/AIDS.
- 1.3.3 Conduct a workshop at which the results are presented and discussed and areas for action at the district and national level are identified.
- 1.3.4 Support MSE organisations, service providers and financial institutions to address the areas for action at the district level, including through developing formal linkages among them, the design of appropriate financial products, and measures at the policy and regulatory level. Draw on national level programmes for financial systems development to the extent possible and give priority to measures that enhance access for women.
- 1.3.5 Support the stakeholders to present their recommendations for action at the national level at appropriate national bodies and forums.

### ***District level – Immediate objective 2***

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

### **Output 2.1**

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

### **Activities**

- 2.1.1 Support the MSE forums in organising “MSE policy days” in each of the districts, which bring together provincial, district and local authorities, MSE representative organisations, service providers and women’s organisations to identify issues of concern in the MSE policy and regulatory environment.
- 2.1.2 Conduct business climate surveys and other research, if necessary (of licensing procedures for instance), to help design interventions that will improve the environment. Ensure that the research takes into account gender differences.
- 2.1.3 Conduct separate consultations with women entrepreneurs’ or other women’s organisations to ensure their views are expressed.
- 2.1.4 Conduct sensitisation workshops for MSEs and officials on the role of private sector and workers’ representative organisations and the function of dialogue, resulting in recommendations on permanent mechanisms for dialogue.
- 2.1.5 Support the MSE forums in holding “MSE dialogue days”, where the results of these activities are fed back to the stakeholders, resulting in recommendations for gender specific action on priority policy, regulatory and dialogue issues.
- 2.1.6 Support the establishment and functioning of a sustainable and inclusive dialogue mechanism that ensures participation of women, through advice and training of

officials and MSE representatives – this could include giving a more permanent status to the MSE forums, possibly under the District Coordinating Committees.

### **Output 2.2**

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

#### **Activities**

- 2.2.1 In collaboration with MSE organizations and Chambers of Commerce and Industry, design an overall strategy to increase the level of MSE organisation that takes into account the differences between women and men, paying particular attention to the role the Chambers may play in facilitating the formation and strengthening of associations.
- 2.2.2 Constitute a small team of service providers and MSE representatives to adapt and translate the ILO training manuals on MSE association building (including basic organisational skills, facilitation of access to business, financial and other services, advocacy and negotiation, gender concerns, the role of women in representative functions), and building associations of MSEs owned by women, and approaches that promote the formation of associations, initially around concrete issues such as marketing. Include material for HIV/AIDS awareness raising.
- 2.2.3 Support the adaptation and translation, field-test and finalise.
- 2.2.4 Develop a capacity to provide the training at the Chambers of Commerce and Industry and selected service providers, ensuring the availability of female staff.
- 2.2.5 Support the training and formation of inclusive associations.

### **Output 2.3**

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

#### **Activities**

- 2.3.1 With the Sri Lanka Institute for Development Administration, selected service providers, and MSE representatives, adapt available ILO tools for training officials on good practice in establishing an enabling environment for MSE development by women and men; include information on Sri Lankan national policies relevant to MSEs. Also ensure inclusion of material for HIV/AIDS awareness raising.
- 2.3.2 Train trainers to enable them to provide such training.
- 2.3.3 Carry out such training throughout the four districts (an estimated 20 workshops).
- 2.3.4 Support the MSE forums to work with District Secretariats and Provincial governments in drawing up brief policy statements on MSE development by women and men that translate national policies into district and provincial realities, and that draw on the results of the service and policy consultations under the programme. Support the implementation of these policies through service market development is included under Immediate objective 1; support to

concrete improvements in the policy, regulatory and legislative environment under Output 2.4

- 2.3.5 Support presentation of these policies to District Coordinating Committees and coordinating committees at the Sub-divisional level.
- 2.3.6 Establish computerised MSE databases at each of the district planning departments.

#### **Output 2.4**

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

##### **Activities**

- 2.4.1 Support officials to take action on the priority policy and regulatory issues identified, e.g. by simplifying licensing or land allocation procedures, or by including the development of public private partnerships in plans for improving public service provision.
- 2.4.2 With appropriate Sri Lankan partners, provide training to officials to enable them to implement the improvements (e.g. training of officials on simplified procedures) – related to Output 2.3
- 2.4.3 When necessary, support officials and MSE representatives to present the case for changes in national policies, legislation, regulations at relevant national bodies and forums.

#### ***District level – Immediate objective 3***

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

#### **Output 3.1**

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

##### **Activities**

- 3.1.1 Include content that promotes the private sector in general and MSEs in particular in workshops and training activities under immediate objective 2.
- 3.1.2 Support MSE organisations in conducting learning visits for officials to successful rural MSEs.
- 3.1.3 Support the District of Chambers of Commerce and Industry to establish well-publicised awards for “Best official of the year”.
- 3.1.4 Develop and publicise male and female role models among officials.

#### **Output 3.2**

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

##### **Activities**

- 3.2.1 Ensure intensive media coverage of programme events.

- 3.2.2 Drawing on the pilot experience under the SIYB project, finalise a Sri Lankan version of the Know About Business (KAB) package.
- 3.2.3 Reach agreement with District Secretariats, relevant central level ministries and vocational training institutions to introduce KAB in the two provinces.
- 3.2.4 With the SIYB Association, train trainers to provide KAB.
- 3.2.5 Provide follow up support to trainers.
- 3.2.6 Support the inclusion of entrepreneurship development training that takes into account the differences between women and men in the services packages of providers – linked to Immediate objective 1.
- 3.2.7 Consider, and if positive, establish collaboration with Young Entrepreneurs of Sri Lanka to provide students, including especially girls, in selected schools with practical business education and training.
- 3.2.8 Identify non-formal education providers that could integrate entrepreneurship and business management-related topics in their courses.
- 3.2.9 Bring these and selected business training providers together to modify curricula.
- 3.2.10 Test and revise.
- 3.2.11 Build a broad capacity to use these curricula by training of trainers.
- 3.2.12 Promote the concept of a social marketing campaign to key stakeholders, and set up an Advisory Committee in which they are represented.
- 3.2.13 With a team of MSE specialists and creative media staff identify the key messages of the campaign – include messages that address gender biases.
- 3.2.14 Discuss these with MSE focus groups to ensure they are appropriate.
- 3.2.15 With the team, conceptualise and develop the campaign's strategy, messages, tools, and formats, including interactive theatre and events.
- 3.2.16 Test on MSE focus groups.
- 3.2.17 Produce campaign materials with local media firms and theatre groups.
- 3.2.18 Implement the campaign.
- 3.2.19 Ensure coverage by MSE radio or television shows and other media (linked to Output 4.4).
- 3.2.20 Develop further innovative approaches drawing on emerging international and local practice.

#### ***National level – Immediate objective 4***

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

#### **Output 4.1**

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

#### **Activities**

- 4.1.1 With the Board and the CEO, establish a schedule for transfer of all SIYB programme management and coordination functions to the Association, with a matching capacity building programme to make this possible.
- 4.1.2 Implement this schedule, including through training of the CEO, the Board, and a quality control officer recruited by the Association.
- 4.1.3 Include Association staff in HIV/AIDS awareness creation activities, and work with Association staff to consider and develop ways to develop HIV/AIDS-related interventions.

- 4.1.4 Translate and launch the Association's website in Sinhala and Tamil.
- 4.1.5 Review and simplify the M&E tools, and establish an Internet based interactive M&E database when the state of interconnectivity makes this appropriate.
- 4.1.6 Train relevant staff and members of the Association on the use of the revised M&E tools and web portal.
- 4.1.7 Support the Association in setting up the Master Trainer licensing system that has been developed for the international SIYB programme.
- 4.1.8 Enable the Association to facilitate access of Association members and their staff to trainer development, training manager development programmes, marketing training, training on good BDS practice.
- 4.1.9 Carry out an SIYB gender review and gender mainstreaming activities, including capacity building for the SIYB Association, to ensure better impact of the programme on women.
- 4.1.10 Enable the Association to continue the incentive scheme for high performing master trainers and trainers; support it to identify sponsorships for such incentives.
- 4.1.11 Enable the Association to conduct and publicise impact assessments through sample surveys.
- 4.1.12 Support the Association in continuing to play a leadership role in the promotion of good practice in business services, through participation in the BDS forum, the organisation of BDS events, and by involving it where appropriate in activities in North West and North Central province.

#### **Output 4.2**

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

##### **Activities**

- 4.2.1 Support the Association to carry out market research on the supply of, and demand for basic business start-up and management training in the North and East.
- 4.2.2 Make adaptations to the generic SIYB package if required.
- 4.2.3 Support the Association and interested Partner Organisations in developing a marketing strategy for the North and East based on the market research.
- 4.2.4 As part of the strategy, develop and implement a promotional campaign that targets MSEs and potential business starters themselves, as well as potential sponsors, authorities, potential providers, Chambers of Commerce and Industry and emerging representative organisations of MSEs.
- 4.2.5 Facilitate selection of new trainers and Partner Organisations based in the North and East.
- 4.2.6 Facilitate trainer, training manager, and other staff development.
- 4.2.7 Support the Association in following up and monitoring training activities.

#### **Output 4.3**

A commercially, technically and institutionally sustainable EYB programme under the national SIYB programme<sup>8</sup>.

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<sup>8</sup> A second version of EYB based on feedback from the first generation of clients will be produced under the final six months of the SIYB project, and refresher training of trainers will be conducted with that version.

### **Activities**

- 4.3.1 Print EYB Tamil version.
- 4.3.2 Support the Association and Partner Organisations in reviewing the EYB delivery strategy in terms of market responsiveness, outreach, equal access for women, quality of services and sustainability.
- 4.3.3 In consultation with the international EYB programme and other projects develop an approach that will enable quality control and provider development to continue after programme completion.
- 4.3.4 Revise the delivery strategy if required and include results of 4.3.2.
- 4.3.5 Enable the Association and Partner Organisations to market the programme effectively.
- 4.3.6 Build up an EYB alumni network.
- 4.3.7 Support the Association and Partner Organisations in strengthening and expanding linkages to other services.
- 4.3.8 Agree with trainers on criteria for re-certification and licensing two years after first certification.
- 4.3.9 Depending on how the programme expands, select a third batch of EYB providers, with a focus on private sector providers and representation of women.
- 4.3.10 Train trainers.
- 4.3.11 Assess trainers and certify those that qualify.
- 4.3.12 Monitor training and identify quality concerns if any.
- 4.3.13 Towards the middle of the programme conduct a refresher training to address quality issues, and transfer lessons learned from EYB elsewhere.
- 4.3.14 Towards the end of the programme, re-assess and re-certify or license trainers to ensure that only high-quality active trainers remain certified.
- 4.3.15 Develop a small pool of EYB Master Trainers if this becomes part of the international strategy for sustainability.

### **Output 4.4**

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

### **Activities**

- 4.4.1 Promote the concept of small business programmes among stations in North West and North Central province as well as elsewhere in the country.
  - 4.4.2 Select up to 10 who are interested and have the basic capacity required.
  - 4.4.3 Conduct a training course for radio journalists and producers on interactive current affairs programmes for MSEs.
  - 4.4.4 Provide on-the-job technical and marketing support to the stations, including through identification of potential sponsors, production of demonstration tapes, facilitation of contacts.
  - 4.4.5 Conduct workshops bringing together radio stations and MSE development stakeholders, to improve their access to information and news.
  - 4.4.6 Conduct workshops bringing together radio stations and business associations to enhance interaction between the stations and the MSE community.
  - 4.4.7 Pursue other, related mass media options for reaching MSEs, such as commercial distribution of VCDs.
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### **Output 4.5**

Experience gained and lessons learned on district-level integrated MSE development incorporated in the Ministry of Advanced Technology and National Enterprise Development knowledge base, shared with relevant institutions at the national level, as well as with relevant authorities, MSE representative organisations and service providers in other districts.

#### **Activities**

- 4.5.1 Set up an effective monitoring and evaluation system that will enable the programme to assess the extent to which its activities are being carried out as planned and are resulting in the expected outputs.
- 4.5.2 Design an impact assessment methodology to assess key indicators in the districts, including with respect to gender, for the effectiveness and sustainability of the interventions at different levels.
- 4.5.3 Conduct a baseline enterprise survey and periodic interim impact assessments.
- 4.5.4 Feed back the result to the MSE forums and District Secretariats for adjustment of strategy and activities, as well as the Ministry of Advanced Technology and National Enterprise Development.
- 4.5.5 Assess the possibilities for transferring the monitoring function to the District Secretariats.
- 4.5.6 Depending on findings of this assessment, build a monitoring capacity in the District Secretariats.
- 4.5.7 Conduct final impact assessment, analyse information, write report for wide dissemination.
- 4.5.8 Throughout the programme, with the Ministry of Advanced Technology and National Enterprise Development, document experience and lessons learned and disseminate through publications, videos, guidelines, case studies, and manuals.
- 4.5.9 Organise study visits to the districts of national level stakeholders as well as officials, MSE representatives and service providers from other districts.
- 4.5.10 With the Ministry of Advanced Technology and National Enterprise Development, conduct workshops and seminars on key lessons learned for national and international audiences.
- 4.5.11 Support participation of district and national stakeholders in international forums.

## **8. IMPLEMENTATION FRAMEWORK, WORKPLANS, MONITORING AND EVALUATION, REPORTING**

This will be a multi-partner programme under the aegis of the Ministry of Advanced Technology and National Enterprise Development, which will be the programme's primary partner. The Ministry is the main driving force behind the government's policy development for SMEs, which also will be reflected in the review of the SME White Paper and the likely inclusion of its main recommendations into an SME Policy. The Ministry is expected to play a crucial role in implementation of such a policy, as can be partly seen from the launching of the BSSF programme. The Ministry's Secretary is the co-chair of the cluster on SME development under the National Committee for Economic Development. The Ministry is therefore the natural partner for this programme at the national level.

The Ministry will have an important function in the implementation framework, in particular with regard to facilitating access to the four Districts and ensuring that the experience gained and lessons learned there are fed back to the national policy level, donors, as well as to other Districts.

At local level, the programme's direct partners will be the District Secretaries in the four selected districts. It is at this level that most of the decentralised resources are allocated and activities planned, and that coordination with regard to resources that central level ministries assign to districts takes place. District Secretaries and (province level) Chief Ministers jointly call meetings of the District Coordinating Committee, which is an instrument for coordinated and coherent planning, implementation and monitoring of activities at district level, where also Central Ministries and Agencies at local level and Provincial Ministries are represented. The DCCs thus have a vital role to play in district development planning, bringing together authorities operating at different levels in the district. It could be argued that the private sector, Chambers of Commerce and Industry or well-established BDS-providers could be a more suitable home for the programme at the local level. However, the main strategy of ensuring dialogue between public and private partners and the importance of enhancing the policy and regulatory environment for MSEs, make the District Secretaries a more appropriate focal point. Stakeholder involvement in planning and decision-making is crucial for the successful outcome of the programme, and district level MSE forums will function as the programme's steering committee. Meetings of these forums will serve as the main vehicle for coordination and ownership. The programme will aim at gradually transforming the forums into more permanent bodies, possibly MSE sub-committees of the DCC, but this will depend on how well they manage to establish themselves, the legitimacy they manage to gain, and the extent to which the DCCs function effectively.

There will also be need for a national steering committee with representation of the Ministry, the private sector through selected Chambers of Commerce and Industry, the districts, the SIYB Association, Sida, the ILO (Colombo and Sub Regional Offices) and programme management. The national steering committee will be responsible for setting overall strategic direction and for exchanging ideas and experiences between districts as well as between the district and national level. It will also enable coordination with BSSF and other related MSE programmes being coordinated by the Ministry, as well as Swiss Contact, GTZ and others who are under other ministries. It will meet twice a year. Meetings will be called by the ILO Colombo office. At least two weeks before each meeting, programme management will provide the Steering Committee with a brief progress report that includes strategic issues to be discussed, as well as with an updated work plan.

The technical assistance will be organised in such a way that an international CTA will serve as manager of the programme, and coordinator of the technical assistance. S/he will be assisted by four national experts (Assistant Programme Managers) serving as coordinators of the activities in each respective district. At the national level the programme will be supported by two national experts, one of whom will initially be partly assigned to support to the SIYB Association. In addition to the long-term staff, there will be funds for international and national short-term experts in subject matters.

An inception report will be prepared by the programme within the first half year. One of the inputs to the report will be the results of the Peace and Conflict Impact Assessment that will be carried out during the inception phase. Depending on this assessment and the initial experience, this report may be the basis for adjustments in the direction the programme takes. Based on the Programme Document and the consultation process it envisages, annual work plans will be developed for each district and for the national component to be approved and monitored by the respective steering committees. Programme management will prepare and submit to the Steering Committee and ILO half-yearly progress reports as well as annual self-evaluation reports. Depending on the extent to which the programme is proceeding as planned, an independent mid-term review and/or an end-of-project evaluation will be conducted.

Impact will be monitored and assessed in accordance with section 4.5.

Overall technical backstopping will be provided primarily by the ILO's sub-regional office in New Delhi, the Senior Enterprise Development Specialist in particular and other members as required. Additional expertise in specific technical areas will be provided by IFP/SEED in Geneva at the request of the programme and the New Delhi office.

## **9. ASSUMPTIONS**

The main assumptions on which the programme's design is based are specified in the logical framework matrix attached as Annex 2. They can be summarised as follows:

- There will be no return to the armed conflict in the North East.
- The provision of infrastructure (roads, energy, water) will not worsen and so have a negative effect on the business environment for MSEs.
- Financial institutions will accept other forms of collateral than land.
- The national Government continues to promote a more conducive policy, legislative and regulatory environment for MSEs.
- The education sector will be open to promoting a business orientation in the education system.
- The Government and the donor community continue to promote more market-led business services.

None of these assumptions is considered to carry a high risk.

## **10. INPUTS**

The total budget for this three-year programme is estimated at US\$ 4,724,625, including agency cost, and a provision for cost increases. A budget per output and budget line, and an annualised budget, are attached.

The programme will be staffed by an international Chief Technical Adviser (36 w/m), two national professionals in Colombo (36 w/m each) and one professional staff member each in the four districts (36 w/m each).

Administrative support in the Colombo programme office will comprise an accountant/administration officer, secretary and driver/messenger. The national professionals in the district offices will be supported by a driver/messenger.

Four small offices will be rented and equipped in the provinces, and four-wheel drive vehicles provided. In Colombo the programme will rent office space and a vehicle from the SIYB Association. Additional office equipment will be purchased for the Colombo office, as the equipment available to the current SIYB project will be transferred to the Association.

Expertise in specific technical areas will be provided by international and national consultants (31 w/m in total). Their main function will be in tool development and capacity building for private sector organisations, service providers, and government officials. The international consultants

will bring in specialised expertise, experience and knowledge in those areas where national expertise is still relatively weak, to transfer this to national experts, consultants and organisations. This also includes the cost of a mid-term review and evaluation.

Mission cost includes the cost of technical support missions from the ILO Sub Regional Office in New Delhi and Headquarters in Geneva.

The in-service training budget line provides further funds for capacity building for the direct target groups. This is the main focus of the programme.

Subcontracts include the social marketing campaign and contracts to the SIYB Association to carry out the main activities relating to SIYB and EYB. A subcontracting relationship rather than the programme taking direct financial and management responsibility will build the Association's autonomy.

Some equipment (training equipment, computers) will be provided in the context of strengthening the capacity of programme partners, representative organisations and the district administration in particular.

The Ministry of Advanced Technology and National Enterprise Development will contribute in kind, through staff time, for missions to the districts, and to contribute to training and knowledge-sharing events. District Secretariats will also contribute through staff time and allowances for staff to participate in events. They will make available meeting venues and provide the MSE forums with an office and make their facilities and equipment available to them.

## **11. ASSESSMENT**

### **11.1 Relevance**

It was mentioned in the Introduction that the Poverty Reduction Strategy of Sri Lanka describes the main underlying causes of poverty. Low productivity, particularly in rural areas and in the small enterprise sector where many self-employed people are occupied, is regarded as a major such cause. The specific problem analysis done as part of the programme formulation confirms this basic explanation of poverty in the four intended programme districts. The analysis also found other aspects, which specifically explain why micro and small enterprises are not providing a better opportunity for income generation and growth, but low productivity and low profitability must be seen as the core problem.

The macro economic growth observed over the last few years is mainly a result of the liberalisation of the economy and has primarily benefited the export sector and urban and populous areas around Colombo and the Western Province. The new government now wants to spread growth more evenly, and the establishment of ministries both for small and medium industries and for rural and micro enterprises is a token hereof.

Although the draft SME White Paper has not yet been endorsed, it is expected that it will serve as an important policy foundation for the encouragement of micro and small enterprises as an important instrument for poverty reduction in the country. The Poverty Reduction Strategy also recognises the need for an enabling environment for MSEs and the role the sector can play in

reducing rural as well as urban poverty. Increasing productivity, including in MSEs, is seen as the main road out of poverty. The new Government's concerns for equity and spreading the benefits of growth are well reflected in the proposed programme's direct targeting of the poor and some of the poorest regions of the country.

The proposed programme is thus very much in line with the Government's policies on poverty reduction. Moreover, as it complements the national policy with discrete policy and regulatory improvements at the local level at the same time as it aims at improving the service market for MSEs, it also has good opportunities to become an effective vehicle for implementing national policies at local level.

For Sida pro-poor growth through development of the private sector is one of the main objectives of development cooperation with Sri Lanka. The proposed programme builds on Sida's successful collaboration with the ILO on the SIYB programme. It complements other support to MSE and regional development.

## **11.2 Feasibility**

As mentioned above, the programme rests on a solid policy foundation for SME development. The precise content of the SME policy is yet to be formulated and proposed to parliament for approval. Policy and regulatory improvements for micro and small enterprises will be a focal point, as well as institutional and financial improvements. The Business Services Support Facility will become effective during 2004 and will provide a network of SME facilitation organisations at regional level with linkages to existing BDS-providers and SMEs.

The proposed programme will be embedded in the district administration and aim at improving coordination and planning for effective MSE development. The programme will work with locally based organisations - such as state and local administrations affecting the business environment, with district chambers of commerce and industry and other business associations, with development banks and others - to strengthen their capacity to become more effective stakeholders for MSE development in each district. Thus, the programme will not propose new institutions or solutions that change or challenge the institutional framework. Instead, it will make them more effective and facilitate coordination and linkages among them.

However, the question may arise why the existing organisations and market actors cannot improve the business climate without external support? The main reason is that the incentives are not there or not strong enough to make it happen. As mentioned above, becoming an entrepreneur is not regarded as a first opportunity for income and employment generation, but rather as the last choice when no other options are available. Most large BDS providers such as business management training or market development providers, see the potential or existing funding agency, rather than the MSEs themselves, as their clients. Financial institutions are discouraged from lending to MSEs for formal reasons. Public sector institutions are not used to or encouraged to facilitate the development of enterprises, but have a bureaucratic and legalistic approach to them. So the core of the programme is to provide ideas, examples, tools that will improve business environment in general and the demand and supply of services that will enable micro and small enterprises to foster and grow.

### **11.3 Cost-effectiveness**

The proposed programme focuses on capacity building of organisations at district level. It has a rather limited input of technical assistance: one international long term adviser, six national MSE advisers and a pool of national and international short-term experts in subject matters. The TA component will have an extended district network to work with, involving both public and private sector institutions and a large number of individuals. The funds available for operations will finance activities and tools that also aim at increasing the capacity of all relevant stakeholders to make more effective use of present institutions and resources by combining them together in a more holistic way, and to improve the market for MSEs in general.

The benefits of the programme will be more indirect than direct, and longer term rather than short term. However, provided that the programme succeeds in improving the conditions for MSE growth it will have lasting and extensive benefits, involving thousands of enterprises and tens of thousands of households.

From this perspective, the programme should be seen as a provider of seed capital for poverty eradication through improvements of the business environment affecting micro and small enterprises. It has the potential of generating a substantial contribution to in the first place the local economy, and eventually to the economy at large.

There are no obvious alternative and/or better ways of addressing the issues at stake here. More supply of resources through the network of BDS providers or through public institutions would not be more effective, since the main problem is that the markets both for small enterprises and for business support organisations are not effective.

### **11.4 Development Cooperation Framework**

Poverty eradication through private sector MSE development is a priority area both for the Government and Sweden's strategy for development cooperation with Sri Lanka. There is a quite long experience of cooperation in the sector, both regarding reform and capacity building of national institutions (Central Bank, Chambers of Commerce, arbitration and certification institutions), and MSE development. The proposed programme builds on past experience, and also combines support to the private sector with a clearer and more direct poverty focus.

ILO has been a partner to Sri Lanka in MSE development since the late eighties, with assistance provided to the National Design Centre, followed in the early nineties by the first introduction of Improve Your Business, advice in the policy area, and an in-depth sectoral review conducted at the Government's request. Substantial assistance was also provided to upgrade MSEs in the food-processing sector and to improve training for the hotel and tourism sector. Since then the focus has been on building a nation-wide capacity to offer training with the revised and full SIYB package. In addition, assistance has been provided to improve working conditions and productivity in medium as well as small enterprises in the garment sector.

The Government, Sida and ILO have good experiences from previous cooperation in the field of SME development, especially from the current SIYB programme, which is intended to be phased out to become a component of this programme. SIYB is now established as a national programme, with an independent SIYB association, involving around 30 partner organisations and a large number of SIYB master trainers and SIYB trainers.

In addition, the ILO has a long and wide international experience in the field of enterprise development for the creation of decent employment and the reduction of poverty. It has developed a wide range of tools and approaches that it has used in forms adapted to local conditions, and it continues to develop new tools in response to specific local conditions and new and changing demands. This includes experience with such tools in programmes that aim to address barriers to MSE growth and increasing incomes at different levels at the same time. MSE development tools and approaches have also been used in the context of Local Economic Development programmes, from which the present programme lends some of its local participatory planning features, though keeping a clear focus on MSE development<sup>9</sup>. The ILO is a leader in the field of market development for business services, where it has played a major role in formulating the donor guidelines as well as designing and implementing programmes that apply them<sup>10</sup>. Especially over the past 5 years, it has also built up a strong capacity in the MSE policy development area<sup>11</sup>. Promoting entrepreneurship and, more broadly, enterprise culture and decent work in MSEs is a relatively new area internationally, in which the ILO is now gathering international good practice. It has contributed to such practice through its training programmes and social marketing pilots<sup>12</sup>. In women entrepreneurship much progress has been made through the ILO's Women Entrepreneurship Development and Gender Equality Programme (WEDGE), in terms of strengthening the knowledge base, tools development, and advocacy<sup>13</sup>.

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<sup>9</sup> [http://mirror/dyn/empent/empent.portal?p\\_prog=L&p\\_lang=EN](http://mirror/dyn/empent/empent.portal?p_prog=L&p_lang=EN)

<sup>10</sup> [http://www.sedonors.org/html/bds\\_guidelines.html](http://www.sedonors.org/html/bds_guidelines.html)

<sup>11</sup> [http://www.ilo.org/dyn/empent/empent.Portal?p\\_prog=S&p\\_subprog=PE](http://www.ilo.org/dyn/empent/empent.Portal?p_prog=S&p_subprog=PE)

<sup>12</sup> Some of this is reflected in Seeley, C. "Social Marketing for better job quality in micro and small enterprises in Ghana", Geneva 2004, SEED working paper 65, on

[http://www.ilo.org/dyn/empent/empent.Portal?p\\_prog=S&p\\_subprog=JQ&p\\_category=PUB](http://www.ilo.org/dyn/empent/empent.Portal?p_prog=S&p_subprog=JQ&p_category=PUB)

<sup>13</sup> [http://www.ilo.org/dyn/empent/empent.Portal?p\\_prog=S&p\\_subprog=WE](http://www.ilo.org/dyn/empent/empent.Portal?p_prog=S&p_subprog=WE)



## Annex 2: Logical framework matrix: Small enterprise development for pro-poor growth in Sri Lanka

**Target groups:** Owners, managers and workers, women as well as men, of micro and small enterprises, including the self-employed.

**Intermediaries:** Private sector organisations, provincial, district and local governments, small enterprise development organizations, the Ministry of Advanced Technology and National Enterprise Development.

Break-down of goals	Intervention logic	Indicators of achievement	Sources of verification	Important assumptions
<b>Overall objective/ Development objective</b>	The programme will contribute to the generation of pro-poor economic growth and quality employment for women and men, through an integrated programme for the development of micro and small enterprises that focuses on the North-West and North-Central provinces. The reduction in poverty and unemployment will indirectly contribute to the sustainability of peace and reconciliation.	1.1 Two to three years after programme completion, poverty in the targeted districts has reduced more than in comparable districts not included in the programme, among women as well as men.	Periodic household poverty surveys under the PRSP.	
<b>Programme objective</b>	The micro and small enterprise sector in the North-West and North-Central provinces is diversified, contributes to local economic development	1.1 GDP in the targeted districts has grown more than in comparable districts not included in the programme.  1.2 An increase in the number of types of economic activity in the targeted district.	District economic growth data.  Programme baseline and impact assessment enterprise survey.  Business registry.	There is no return to the armed conflict.
<b>Programme purpose/ Immediate objectives</b>	1. Expanded markets for services and products of micro and small enterprises of women and men in the North-West and North-Central provinces, through increased productivity and competitiveness, a stronger demand orientation, and better market linkages.	1.3 Sales figures of MSEs in the two provinces increased by 20 percent or more, for MSEs owned by women as well as those owned by men.	Programme baseline and impact assessment enterprise survey.	There is no return to the armed conflict.  Infrastructure (roads, energy, water) will not badly affect the business environment for MSEs

	orientation, and better market linkages.			Financial institutions will accept other forms of collateral than land
	2. A policy, legislative and regulatory environment in North-West and North-Central province that is conducive to the growth of micro and small enterprises by women and men, and will bring more of them into the formal economy.	<p>2.1 25 percent or more of MSEs in the two provinces, those owned by women as well as those owned by men, report that regulations and legislation have improved.</p> <p>2.2 Business registration in the two provinces in the programme's final year is up 15 percent or more compared to the first year, among MSEs owned by women as well as those owned by men.</p>	<p>Programme baseline and impact assessment enterprise survey.</p> <p>Business registry.</p>	<p>There is no return to the armed conflict.</p> <p>The national Government continues to promote a more conducive policy, legislative and regulatory environment for MSEs.</p>
	3. Authorities and communities in which the poor predominate regard starting and growing micro and small enterprises by women and men as a socially and economically attractive activity.	<p>3.1 At least 25 percent of MSE owners, women and men, report more positive treatment by local, district and provincial government staff.</p> <p>3.2 25 percent of women who own MSEs report a decrease in gender-based discrimination.</p> <p>3.3 An increase in annual MSE start-up rates of at least 20 percent in the targeted communities, among women as well as men.</p>	<p>Programme baseline and impact assessment enterprise survey</p> <p>Programme baseline and impact assessment enterprise survey</p> <p>Programme baseline and impact assessment enterprise survey</p>	<p>The education sector will increasingly address business orientation in the basic education system</p> <p>Successful MSEs will serve as role models</p>
	4. Greater access country-wide to market-led, sustainable business services for micro and small enterprises owned by women and men.	<p>4.1 An increase in the annual provision of SIYB and related services of at least 10 percent, to women as well as men.</p> <p>4.2 An increase in the annual provision of EYB services of at least 30 percent, to women as well as men.</p>	<p>SIYB association M&amp;E system.</p> <p>SIYB association M&amp;E system.</p>	<p>The Government and the donor community continue to promote more market-led business services.</p>

		4.3 40 percent of MSE owners, women as well as men, listen/watch regularly the MSE radio and/or television programmes.	Listener surveys	
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<b>Break-down of goals</b>	<b>Intervention logic</b>	<b>Indicators of achievement</b>	<b>Sources of verification</b>	<b>Important assumptions</b>
<b>Results/ outputs</b>	<p>Immediate objective 1: Expanded markets for MSE services and products</p> <p>1.1 The supply strengthened of business services and skills training that enable women and men in MSEs to increase their productivity, offer more market-led products and services, and develop market linkages.</p> <p>1.2 The demand strengthened for business services and skills training that enable MSEs to increase their productivity, offer more market-led products and services, and develop market linkages.</p> <p>1.3 MSEs' and MSE starters' access to financial services improved through the development of linkages between representative organisations and service providers on the one hand and financial institutions on the other.</p>	<p>1.1 Business service providers in each District offer at least four new services, of which at least one benefits women specifically.</p> <p>1.2 An increase of at least 20 percent in the number of MSEs who access business services, with a greater share of this increase coming from women.</p> <p>1.3 An increase of at least 10 percent in the number of MSEs and MSE starters who access credit, with a greater share of this increase coming from women.</p>	<p>Records of participating providers.</p> <p>Records of participating providers.</p> <p>Records of microfinance institutions and banks.</p>	

	<p>Immediate objective 2: A conducive policy, legal, regulatory environment</p> <p>2.1 A dialogue established and sustained between provincial, district and local authorities, MSEs, and business service providers</p> <p>2.2 Representative organisations of female and male-owned MSEs developed and strengthened to enable them to participate effectively in dialogue with the authorities and to facilitate their members' access to services and markets.</p> <p>2.3 The capacity of provincial, district and local authorities strengthened to create and maintain an enabling policy, legislative and regulatory environment for MSE development by women and men, within the framework of national policies for poverty reduction and MSE promotion.</p> <p>2.4 Concrete improvements in the policy, legislative and regulatory environment realised benefiting women and men.</p>	<p>2.1 MSE representatives, including women, authorities and business services providers meet at least twice in the final year of the programme.</p> <p>2.2 An increase of at least 25 percent in membership of MSE organisations, of which more than 50 percent from MSEs owned by women.</p> <p>2.3 Officials who participated in programme events express greater confidence in their capacity to provide a conducive environment for MSE development.</p> <p>2.4 At least 80 percent of MSEs who are affected express satisfaction with the improvements carried out.</p>	<p>Meeting minutes.</p> <p>Membership records of associations, Chambers of Commerce and Industry.</p> <p>Event evaluation sheets.</p> <p>Programme baseline and impact assessment enterprise survey</p>	<p>Prevailing unsupportive attitudes concerning MSEs in general and women in particular will be reduced</p> <p>Provincial, district and local governments make available staff for training.</p>
	<p>Immediate objective 3: MSEs regarded positively</p> <p>3.1 Appreciation strengthened among local, district and provincial level government staff of the importance of MSEs for local economic development and poverty reduction, with specific emphasis on MSEs owned by women.</p>	<p>3.1 At least 40 percent of officials who participate in programme events express increased appreciation for the MSE sector, including for women who start/own MSEs.</p>	<p>Evaluation sheets of events.</p>	<p>Provincial, district and local governments make available staff for training.</p>

	<p>3.2 Appreciation and confidence developed in poor communities with regard to women and men starting and growing MSEs.</p>	<p>3.2 At least 40 percent of members of communities targeted by programme events express increased appreciation for women and men starting and growing MSEs.</p>	<p>Evaluation sheets of events.</p>	
	<p>Immediate objective 4: Greater BDS access nationally</p> <p>4.1 The SIYB Association enabled to technically fulfil all its mandated functions with regard to sustaining the national SIYB programme.</p> <p>4.2 The SIYB Association and Partner Organisations supported in marketing the SIYB programme in the North and East of Sri Lanka.</p> <p>4.3 A commercially, technically and institutionally sustainable EYB programme under the national SIYB programme</p> <p>4.4 Commercial small business radio and/or television programmes established that provide information, offer a forum for discussion, and strengthen the demand for business services.</p>	<p>4.1 In the programme's final year, the SIYB Association makes no use of technical assistance from the programme.</p> <p>4.2 SIYB providers run at least 10 programmes in the North and East in the programme's final year.</p> <p>4.3 In the programme's final year, EYB providers run EYB programmes without technical, management or financial assistance from the programme.</p> <p>4.4 At least 4 radio and/or television stations run MSE programmes without financial support from the programme.</p>	<p>Programme records.</p> <p>SIYB Association M&amp;E system.</p> <p>SIYB Association M&amp;E system.</p> <p>Listener surveys</p>	<p>The Association's Board continues to provide strong leadership for the programme.</p> <p>Commercial distributors will serve as retailers of EYB</p>



**DRAFT**

**Terms of Reference for a Peace and Conflict Impact Assessment on  
“Micro and small enterprise development for pro-poor growth in Sri Lanka”**

**1. Background**

In keeping with Sida’s Guidance notes<sup>14</sup>, conflict analysis should be carried out for all projects in countries where the developing co-operation aims at supporting a process towards peace. In Sri Lanka the country strategy states that one of the main objectives is to promote peace and that the conflict perspective should permeate all development co-operation with Sri Lanka, irrespective of the particular sector involved.

The programme proposal “Micro and small enterprise development for pro-poor growth in Sri Lanka” states that the programme will make every effort to ensure that its interventions promote equal opportunities for different ethnic communities, i.a. through translation into Tamil and through ensuring “an equitable ethnic balance” when selecting target areas and sub-sectors.

There seems to be a general but rather vague conflict sensitivity awareness in the programme document. A more strategic and detailed Peace and Conflict Impact Assessment (PCIA) is needed in the light of the size of the programme and that three of the districts Puttalam, Anuradhapura and Polonnaruwa have been severely affected by the conflict, in particular by internal displacement.

**2. Purpose and scope of the PCIA**

The purpose is to make a Peace and Conflict Impact Assessment (PCIA) of the ILO programme “Micro and small enterprise development for pro-poor growth in Sri Lanka” in order to improve the design and implementation of the programme from a peace and conflict perspective. In particular concrete opportunities for reconciliation should be sought for.

**3. The assignment**

The assessment could look into possible impact, positive and negative, on the conflict dynamics and the relationship between the three communities (Sinhala, Muslims and Tamils) in the four districts.

The assessment should include – but not necessarily be limited to – the following:

- Analysis of current ethnic pattern in terms of owners of small and medium size enterprises in the four districts.
- The possible impact on internally displaced persons (IDPs).
- Can the programme contribute to a durable reconciliation? How?

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<sup>14</sup> Conflict-Sensitive Development Co-operation: How to Conduct a Conflict Analysis, Guidance Notes for Sida.

- How can the programme not only be conflict sensitive (ensure equal opportunities, translation etc.) but also more proactively introduce “connectors” between the different communities?
- Perhaps equitable ethnic balance will not be possible as the capacity is only available in one of the ethnic groups? What strategies have been considered to address this dilemma?

The assignment shall result in practical proposals on how to address these issues in the implementation of the programme.

#### **4. Methodology**

The consultant shall propose a methodology for the assignment.

#### **5. Time frame**

It is foreseen that the assignment will take place immediately after the programme has started, most likely between April and June 2005.