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SOME THOUGHTS ON CONSTRAINTS TO SSE DEVELOPMENT IN THE MAHAWELI AND PROPOSED ACTIONS FOR 1992

by
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The Mahaweli Enterprise Development Project

The Government of Sri Lanka and the international donor community have given high priority to the development of the natural and human resources of the Mahaweli river basin. The first phase of this development, the construction of dams, irrigation and power systems, roads and other physical infrastructure, is largely complete. The second phase, settling the land and forming an agricultural production base, is well under way. The third phase, the major challenge for the 1990's, is the building of a diverse and dynamic economy, improving employment and income prospects for Mahaweli settlers and their families. In this phase the private sector has a leading role to play.

The Mahaweli Enterprise Development Project (MED) is a USAID-supported initiative of the Mahaweli Authority of Sri Lanka to promote investment and business development in agribusiness, manufacturing, tourism, minerals and services. MED directly assists small, medium and large-scale investors with technical assistance, marketing support, training, business advisory services and credit. MED also provides policy assistance to improve access to resources, such as land, water and capital, and the legal and institutional framework for enterprise development.

The official MED implementing agency is the Employment, Investment and Enterprise Development Division of the Mahaweli Authority. The main MED technical consultancy is provided by a consortium led by the International Science and Technology Institute, Inc., a private consulting firm with head offices in Washington DC. Other firms in the consortium are Agroskills, Development Alternatives, Ernst and Young, High Value Horticulture and Sparks Commodities. Marketing services are provided by SRD Research and Development Group, Inc.

PREFACE

This report has been prepared by Paul Bundick, the MED Small Scale Enterprise Advisor. Based on MED experiences to date, it reviews constraints and suggests actions to improve small scale enterprise development.

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I. INTRODUCTION

The MED project has now been in operation for more than a year. As we develop the workplan for the coming year, it is important to take time and reflect upon constraints to enterprise development in the SSE sector. What factors are the most important impediments to the growth and development of SSEs in the Mahaweli and what steps can we take to remove these obstacles and accelerate the rate of employment creation?

In an attempt to answer these questions, this paper draws on the insights and experience of many: Mahaweli entrepreneurs, EIED Staff, ISTI FBCs, colleagues both in and outside the MED project. It is not meant to be a definitive statement on the subject but only provide some contribution to the development of the 1992 work program.¹

II. CONSTRAINTS IN THE SSE SECTOR²

The SSE sector is very heterogeneous. Enterprises differ in size, type, location, technology employed, linkage to markets, organization, management expertise, and even entrepreneurial motivation. They vary in their potential for growth and, not surprisingly, in both the type and seriousness of constraints they face. Any discussion of constraints must take this wide diversity of enterprises and related factors into account.

In discussing constraints to SSE development, it may be useful to differentiate them into the following categories or levels: 1) constraints related to the individual entrepreneur, 2) firm-level constraints, 3) sector level constraints, and 4) constraints arising from the overall policy environment and business climate.

A. INDIVIDUAL-LEVEL CONSTRAINTS

There is a vast literature on entrepreneurship qualities and the social-psychological and psychological characteristics of successful entrepreneurs. Behavioral science research has discovered a number of personality characteristics which are regarded as being unique to high-performing entrepreneurs. A few of the more important are: a) strong achievement motivation; b) unwavering determination and commitment; c) self-reliance and independence; d) willingness to try out new things; e) ability to learn from mistakes. Some studies have shown that entrepreneurs think differently than non-entrepreneurs. They tend to be pre-occupied with goals, how to reach these goals and how they are going to feel if they don't.³

In the MED project we tend to equate the term "entrepreneur" with any person who has started a business or is aspiring to do so. This broad definition ignores the fact that not every businessman has strong entrepreneurial traits and the required motivation to succeed. Those who have these qualities and traits will be more likely to identify new opportunities in the environment, marshal resources and carry out initiatives to maximize those opportunities. Since businessmen and women with strong entrepreneurial characteristics will be more likely to perform better in their business than those who do not, the deficiency of certain characteristics in some would-be "entrepreneurs" may be considered a constraint, especially in the start-up of new enterprises.⁴

Recent evidence suggests that motivations which underlie the management strategies of entrepreneurs vary according to gender. Women have generally been shown to be more security-oriented than men. Research has shown that women (at the micro enterprise and self-employment levels of business activity) tend to use earnings to diversify into a variety of economic activities rather than expand the size and productivity of a single enterprise. This tends to intensify management problems, produce meager increases in productivity, and create little, if any, employment.

On the other hand, male entrepreneurs, (again at the micro enterprise level), as a generalized group, seem more likely than their female counterparts to adopt a growth orientation and reinvest profits in their principal activity. A growth-oriented strategy is more likely to result in increased specialization, higher productivity and higher income. Increases in output per unit of input (rising productivity) is fundamental to the growth of per capita income and overall employment creation.⁵

To what extent this global pattern is true for the Mahaweli is not known. What we do know is that the entrepreneur is a key variable in the successful start-up, expansion or transformation of an enterprise. Motivations and goals underlie actions of entrepreneurs and the rates at which their firms grow and develop. Women do face greater security risks than men in the Mahaweli as well as elsewhere given the meager resources to which they have access, their primary responsibility for feeding the family and the threat of abandonment and divorce. Men, typically, have greater access to capital, greater mobility for marketing and obtaining inputs and more freedom in how and where they invest. It is therefore likely that women in the Mahaweli will follow these same gender-specific behaviors which, unless it is addressed, will in a subtle way constrain the growth and development of new jobs in the micro-enterprise sector.

In addition to these psychological characteristics and gender-related behaviors, several socio-economic variables have been empirically linked to successful management of micro and small enterprises (measured in terms of firm performance). Not surprisingly, both the educational background and prior business experience of entrepreneurs have been positively correlated with business performance. Formal education, however, is often negatively correlated with business success.⁶

Thus, we may assume the lack of prior business or management experience of many aspiring entrepreneurs constitutes a constraint to enterprise formation in the Mahaweli. This may be especially true in the case of educated unemployed youth many of whom would prefer to work in a government office job rather than go into business for themselves.

B. FIRM-LEVEL CONSTRAINTS

The Agrarian Research and Training Institute (A.R.T.I.) in their 1988 survey of Mahaweli Enterprises attempted to identify major constraints at the level of the firm by interviewing entrepreneurs from various firm sizes. In Table 1 and 2 below, tabulations are provided of the major constraints by enterprise size and sector respectively. The percentages given are based on the number of entrepreneurs in the interview sample who identified a certain constraint to their business expansion. The list includes only those constraints identified as a critical factor by more than 10% of the respondents.⁷

Table 1
Constraints to Expansion by Enterprise Size
from 1988 ARTI Survey

Self-Employment	Micro Enterprise	Small Enterprise
Capital (30%)	Capital (75%)	Capital (56%)
Other (45%)	Other (48%)	Other (40%)
Marketing Facilities (19%)	Marketing Facilities (24%)	Skilled Labor (16%)
Raw Materials (12%)	Raw Materials (14%)	Marketing Facilities (12%)
	Plant and Machinery (13%)	

Table 2
Constraints to Expansion by Enterprise Sector
from 1988 ARTI Survey

Agriculture/ Animal Husbandry	Manufacturing	Commerce	Services
Capital (65%)	Capital (78%)	Capital (81%)	Capital (86%)
Other (43%)	Other (47%)	Other (42%)	Other (59%)
Raw Materials (12%)	Raw Materials (22%)	Marketing (25%)	Equipment (19%)
Marketing (11%)	Marketing (21%)		Raw Materials (17%)
Know-how (11%)	Plant and Equipment (14%)		Marketing (12%)
			Skilled Labor (11%)

¹ Self-employment is defined as an income generating activity where the owner is the principal worker and he/she employs none or less than one full time person. Micro-enterprises are defined as employing at least 1 but less than 5 full time employees. Small enterprises are defined as employing 5 to less than 25 full time employees. Medium and large are lumped together and constitute those firms employing 25 full time employees or more. Full time employment is defined as 1800 hours or more of paid labor (225 x 8 hours). Employees working less than 1800 hours a year are classified as part-time employees.

B.1. Capital

"Capital" is the most frequently cited constraint at the level of the firm regardless of size or sector. Caution, however, must be exercised in interpreting the responses too literally. In most surveys, respondents name lack of cash or credit as the most important problem facing their firm. Credit and cash-flow, however, problems are often symptoms of more fundamental management problems. In such cases, the "need" for a bank loan could be corrected by better management of existing assets. Nonetheless, access to credit continues to be a major constraint to SSE development in the Mahaweli, one which is perceived as the most serious obstacle by the entrepreneurs themselves.

The MED study of SSE credit in the Mahaweli undertaken by MED consultants, M.W. Panditha and Geoffrey Peters, found that even though there are many specialized credit programs in the Mahaweli areas, access to credit is constrained by four primary factors: limited borrower capacity and capability; 2) inadequate business advisory services; 3) inadequate bank branch organization and staffing problems; and 4) problems with the internal operating procedures of banks and financial institutions. These issues have been dealt with at length in their paper.³

B.2. Land

The high "Other" response in the above tables is almost assuredly land related. Access to land is a major constraint to SSE formation and expansion. Much of the land problem is rooted in policy orientations which restrict land ownership. Since settlers cannot own land or legally transfer it to other parties they cannot use it to collateralize loans. The lack of collateral coupled with limited financial capability on the part of most Mahaweli settlers seriously constrains the flow of capital for new investment and skews entrepreneurial activity towards short term investment cycles. Unless the land problem is alleviated, the SSE sector, in my view, will not evolve in the direction of a more diversified and dynamic regional economy. Firms will remain very small at low efficiency levels. Fewer jobs will be created for the second and third generation settlers.

In addition to policy-level constraints, which will be discussed below, there is the question of land availability and the lengthy process an entrepreneur must go through to obtain land for commercial and industrial purposes.

Land for small-scale commercial and industrial use have been set aside in townships and village centers in 5, 10, 20, 40 and in some cases 80 perches plots. Generally, land near town centers and prominent village centers is in short supply in the older systems like H and G but still available in newer settlement areas such as B and C. There are other potential lands for SSE investment in unsurveyed areas though they are often situated in areas not conducive for commercial purposes at this point in time.

Industrial parks for SSE investors have been established in Tambuttegama, Welikanda, Girandurukotte and Dehiattakandiya with additional sites identified near Embilipitiya and Athanakadawala (System G). The plan for development of the industrial parks includes building internal access roads, storm drains as well as providing three-phase electricity and water to each plot. The infrastructure has been basically completed for 3 parks.

Land is a scarce resource, but at present, we do not know how scarce it is in relation to SSE investment opportunities. A land audit is now being conducted to make an inventory of available land for MLE investment. Some land appropriate for SSE investment may be identified by the audit but a complete inventory will not be forthcoming. We really do not know the extent or availability of land for SSE investment in the Mahaweli areas. This constrains MED's ability to attract and encourage SSE investment from both inside and outside the Mahaweli systems.

The process by which an entrepreneur can acquire a plot of land is often tedious and slow unless there is direct access to Mahaweli decision-makers. The normal channels of applications and review can take considerable time to finalize. The process often requires 6 months to 1 year to complete. Moreover, the Mahaweli land policy for SSE investors is unclear especially in regards to regulations governing the leasing of land to non-Mahaweli settlers. This will be discussed below under policy. Suffice it to say for the moment in my opinion, this confusion surrounding land availability for outside SSE investors is one of the primary constraining factors to SSE development in the Mahaweli.

B.3. Infrastructure

In addition to land matters, the high "Other" response in the A.R.T.I. survey suggests problems with infrastructure as well. The expense and difficulty involved in obtaining electrical hook-ups is a major constraint in some areas especially for small industries which require three-phase electricity to run

motors. The difficulty in obtaining telephone connections is another obstacle to investment especially for small and medium firms. Entrepreneurs want to stay in close touch with their foremen and field managers, especially in the critical years of start-up. Also serious is the scarcity of rental housing and places for investors to stay in the Systems while inspecting investment opportunities. The building of rental housing by the private sector should be encouraged under MED.

Even when infrastructure facilities are promised by the MASL, the actual reality may fall far short of investor expectations. On a recent trip to Girandurukotte, I was talking with a investor from Matale who has set up a steel furniture manufacturing unit in the industrial park. Although water and electricity lines are in place in the industrial park, they have not yet been turned on. Despite assurance of infrastructure, the entrepreneur was forced to drill his own well and make arrangements for his own electrical hook-up in Girandurukotte township nearby, even though the inactivated water and power lines were only several meters away from his site.

B.4. Marketing

Marketing has also been identified by nearly 20% of the SSEs as a constraint to their business. This consistent response can be attributed to several factors. First, the thin and fragmented markets common to so many rural areas constrain the quantity of any single product an entrepreneur is able to sell. To survive, small businesses must diversify their products to fill a number of market niches. This may be a good survival strategy but it makes market development more difficult, and usually constrains specialization and growth of a micro-enterprise, as noted earlier.

Second, micro-enterprises are often fully integrated vertically, performing all tasks from procurement of raw materials through to sales to the final consumer. As a result, such enterprises can face serious competition from larger, fully integrated producers or from more specialized micro-enterprises which rely more on other enterprises for supplying inputs and marketing. Competition will reduce the market share of the less-specialized and efficient firms, whether they are producers or traders.

Third, the Mahaweli Authority, at times, subsidizes marketing activities for self-employed persons or micro-enterprises. The resulting dependency relationships constrain the development of necessary management skills to cope with competition within a business environment. This approach is evident in the Mahaweli Stores. Entrepreneurs should be weaned off these

subsidies and be encouraged to integrate into the emerging private market system. Training may be required to develop their management skills related to market development strategies as in the case of the Kotmale Kitul Treacle Association.

Continued development of aspiring entrepreneurs and self-employed should not focus on traditional low-return enterprises characterized by strong competition from other self-employed and which rely on selling to a "thin" localized market. Such home-based enterprises in many subsectors are vulnerable to displacement. The relative ease of entry into such activities as small retail shops (due generally to lower requirements for capital and technical skills) increases the likelihood that clients who are assisted by the MED project may achieve improvements at the expense of others in the same business. If one enterprise increases its production or sales under conditions of static demand, then another firm's output or price must fall. Assistance is not required to such enterprises since entry barriers are low and employment objectives are unlikely to be realized.

Support for self-employment and micro-enterprise should focus instead on activities with a strong potential for growth. These include activities that will continue to grow in importance as the economy matures. This includes a range of service sector jobs and small industries like garment making for the domestic market with good demand elasticities. This might also include newly introduced or traditional activities transformed to serve a modern, dynamic market, such as high quality handicraft items for tourists.

B.5. Raw Materials

Problems surrounding raw materials procurement are related to the same dynamics mentioned above with the addition of a number of sector specific policies which hinder access to required materials, such as wood for furniture making, rush and reed for handicraft and gold for jewelry producers. The entire issue of raw material supply must be addressed on an industry and site specific basis

B.6. Skilled Labor for SSEs and Services

Skilled labor at the firm level is a constraint mentioned by 16 percent of the SSE and 11 percent of the service sector businesses. This finding should assist MED in targeting needs assessments for ad hoc training.

B.7. Efficiency and Firm Size

In concluding the discussion on firm-level constraints mention should be made of the correlation between efficiency and enterprise size. Available data shows that SSEs which use hired labor and operate in workshops away from the home tend to be more efficient than household businesses which rely on family labor alone. In addition, SSEs which operate in towns and larger localities have been shown to be generally more efficient than businesses operating in more limited environments. Evidence also indicates the smallest firms (the self-employed) are less efficient in their use of capital and labor inputs than somewhat larger small-scale businesses. Labor productivity (value added per employee) has been shown to be higher for manufacturing firms (across subsectors) which employ more than 5 workers than those employing less than five.⁹

The reasons for this variability in efficiency are complex and relate to a number of factors including overall managerial competence, specialization of function, technology, type of product or process, access to services, materials and markets, policy environment, among others. Also there are noted exceptions to these general rules--as some self-employment projects are quite efficient and doing well. But for the purposes of this paper, the data suggest that smaller firms, particularly the self-employed and micro-enterprises generally face more serious constraints to efficiency and rising productivity than larger small enterprises. The evidence also suggests that investment in larger small enterprises which employ hired labor will be crucial given our objective of raising per capita income and creating employment.

C. SECTORAL LEVEL CONSTRAINTS

Little data exist on constraints that would help MED to prioritize interventions at a sector level. Cross-section surveys, like the A.R.T.I. study, can help identify constraints from the point of view of the entrepreneur and the firm size, but cannot be expected to uncover sector level relationships which reveal opportunities and constraints in a single product market. To do this, we need to adopt a commodity or subsector approach which examines the relationships between suppliers, primary producers, processing firms, the distribution system, and markets so that the bottlenecks limiting a whole industry can be identified and targeted.

Subsector studies should focus on business sectors having the greatest number of forward and backward linkages and the largest number of indirect multiplier effects on the regional economy as a whole. Among others, this would include food preservation and processing industries, production and repairs of small farm machinery and tools, and building construction.

Micro and small enterprise start-ups, survival and growth will naturally be highest in those subsectors which are growing rapidly. Services seem to be growing fast in the Mahaweli in response to rising household expenditures. Demand is increasing for transportation services, equipment and vehicle repairs, and entertainment related goods and services.

MED should sponsor several commodity sector studies in 1992 to shed light on constraints and probable effective interventions to alleviate them.

D. POLICY AND BUSINESS CLIMATE

Land policy has received much attention in the MED project for medium and large investors but, to my knowledge, the policies affecting SSE investment has been barely addressed. Since access to land is major constraint to SSE development (as well as MLEs), a closer look at the land policy seems warranted.

As mentioned above, land for small-scale commercial and industrial use have been set aside in townships and village centers in 5, 10, 20, 40 and in some cases 80 perches plots. As townships and village centers are laid out by town planners, the plots are surveyed and frequently designated for specific types of commercial establishments, eg. laundries or milk bars. In most cases, prospective entrepreneurs can apply for plots of land only if they intend to develop the same type of business for which the land has been designated. For instance, planners determine how many laundries or barber shops a given population might be able to support and permits are given for only the number of enterprises in each category as determined by the planners. This leads to inefficiency in the existing enterprises as competitors are kept out of the marketplace. This policy should be reviewed.

As I understand it, commercial plots are allocated to applicants after screening by a committee at the block and project levels consisting of representatives from MEA (RPM, Block Manager for Lands and often Community Development) MECA and EIED. The criteria for selection is largely based on the applicant's ability to finance the start up of a new business or expansion of an existing one, previous experience in running a business, employment generation potential of the proposed business and other special

qualifications such as skills, training and family background. Priority is given to settlers and second and third generation family members. A small percentage of non-settlers or outsiders are given land. They are mostly MEA employees or people associated in some way with the Mahaweli program.

If selected, applicants for land receive an annual permit with the understanding that the land must be improved (generally this means constructing a small building) and used for the designated purpose. Annual rent is charged at 6% of the unimproved value of the land to the MEA. If, within an unspecified time frame, all regulations have been complied with, the tenant entrepreneur can apply for a long term lease of 30 years. I have been told by several MEA land officers that only about 10% of the small-scale entrepreneurs actually apply and receive a long term lease.

In the past, many small plots of commercial land were allocated on a permit basis to settlers who did not have the resources or the financial standing to develop the land. Many of these lands have subsequently been rented (against Mahaweli policy) to other tenants who then start businesses. In such cases, the MASL can revoke the permit and give a new permit to the entrepreneur who is occupying the premises. But the enforcement of these rules appears to be arbitrarily applied.

The unpredictable tenure and risk associated with annual renewable leases has the effect of dampening longer term investment in the SSE sector. As a consequence of this policy, the profile of enterprises will likely remain tiny household-based activities engaged in retailing, trade and local services. Larger small enterprises requiring more start-up capital, technical skills and employing hired labor such as manufacturing, construction and larger service businesses will not develop to the extent they should due to these insecure tenure arrangements. Transferable titles would greatly stimulate private sector development in the SSE sector and move the entire profile of enterprises towards more efficient and productive concerns.

In discussing land availability and policies with the various land officers at the block and project levels, I have not been able to get a clear idea as to the current land policy for SSE investors who reside outside the Mahaweli systems. For example, in Kotmale, the current practice is not to lease land to investors outside the Kotmale project area but rather reserve all the available land for settlers. In System B, I have been told that 10% of small scale plots are reserved for outsiders (generally MEA employees) and 90% for settlers. In Uda Walawe, they are following a "policy" laid down on August 10th 1990 which states that:

- i. A minimum of 30% of the land should be leased to residents of the Mahaweli areas and 70% will be allocated to others.

- ii. The residents who lease land should have assets worth Rs. 100,000 and an annual income of Rs. 20,000.
- iii. Outside applicants should have resources worth Rs. 300,000 and annual incomes of Rs. 50,000.¹⁰

Regardless of what the actual policy is, in practice only a very small number of commercial and industrial plots are leased to non-Mahaweli residents. Unlike land for MLE investment, SSE commercial plots are generally designated for Mahaweli settlers and their families. In some cases exceptions are made, (especially in the case of industrial parks or for those who have access to key decision-makers) but, in general, available lands are not leased to "outside" investors, even though they might have the entrepreneurial capacity and financial backing to quickly establish enterprises creating numerous jobs for the second and third generation settlers.

This fact is constraining the investment capital coming into the Mahaweli. Accelerating the rate of employment in the Mahaweli will necessarily mean accelerating the rate of investment, much of which must come from non-Mahaweli entrepreneurs willing to capitalize small as well as the medium/large enterprises. Commercial and industrial land must be leased to those who have the resources and know-how to develop it, especially if employment generation is the objective.

In addition to land, another policy area which should be reviewed is the extent to which import duties discriminate against small producers when they purchase machinery and equipment. In the project paper, mention was made of a 5 percent import duty on "industrial" sewing machines certified by the Ministry of Industry and a 25 percent duty on "home" sewing machines. Since many of the small-scale garment makers use "home" sewing machines in their workshops, there is a policy bias against them. Other such biases should be identified for other types of small-scale industries which rely on imported equipment.

In sum, the SSE component needs to give far more attention to land and other policy level constraints in the coming years. In doing so, policy studies should generally focus on sector specific issues rather than addressing the overall Mahaweli policy framework. Experience has shown that it is easier to influence government policies affecting small enterprises when representation is made on behalf of a trade or sector. These policy studies should be integrated with MED institutional support to private associations and chambers.

III. RECOMMENDATIONS FOR 1992

After discussing some of the important constraints to the growth and development of SSEs in the Mahaweli, what steps can we take to overcome some of these obstacles (or at least lessen their affects) and accelerate the rate of employment creation in 1992? Based on the above discussion, I would like to make the following recommendations for general consideration and possible incorporation into the MED strategy and 1992 work program.

1. Assist the "entrepreneurial" self-employed to expand into micro-enterprises

The entrepreneur is a key variable in the successful start-up, expansion or transformation of an enterprise. Motivations and goals underlie actions of entrepreneurs and the rates at which their firms grow and develop. Considerable investment has been made in training aspiring entrepreneurs in 1991. One of the objectives of 1992, should be to identify the most entrepreneurial among those who have started an enterprise and give them priority field business assistance. The goal should be to expand and transform the self-employed into micro-enterprises.

2. Assess needs of women micro-entrepreneurs and design specialized training on enterprise management

Since research has shown that women (at the micro enterprise and self-employment levels) tend to adopt strategies of over diversification and thereby intensify their management problems, produce meager increases in productivity, and create little, if any, employment, special attention must be given to management training of women entrepreneurs who own and operate tiny enterprises. Mahaweli women are also a special target group for MED assistance.

3. Target clients most likely to create new jobs

Field Business Advisory Services must give greater priority to entrepreneurs with more potential to create jobs. This should be accomplished by introducing modest fees for business center services in 1992 (which will help allocate scarce resources to those who are willing to pay for it) and by targeting "winners" both within and outside the Mahaweli systems.

Targeting "winners" can be a difficult exercise and hard and fast rules should be avoided. But certain general guidelines should be applied. Entrepreneurs whose motivations are focussed on growth should be given priority over security-oriented businesses. The former is likely to reinvest any profits in their primary activity with the aim of increased specialization, higher productivity and higher income. Micro-enterprises which use some hired labor should be given priority assistance over household based firms using family labor only unless special entrepreneurial abilities are identified in the latter.

Faster growing sectors, like the service sector should be given priority. Demand is increasing for transportation services, equipment and vehicle repair, and entertainment related goods and services. Interventions should also focus on sectors having the greatest number of forward and backward linkages and the largest number of indirect multiplier effects on the regional economy as a whole. Among others, this would include food preservation and processing industries, production and repairs of small farm machinery and tools, and building construction.

4. Assess skilled labor requirements in larger SSEs and enterprises in the service sector and design ad hoc training courses to address the identified needs

The growth of the service sector in the Mahaweli coupled with the fact that 16% of the small enterprises (firms with 5 or more employees) and 11% of the service sector businesses identified the lack of skilled labor as a constraint, underlines the importance of a needs assessment in this area. A number of courses can be designed and implemented based on the findings of such an assessment.

5. Identify, survey, and zone available lands for SSE investment

Top priority in 1992 should be given to identifying, surveying and zoning available lands for SSE investment. Each system and block should have an inventory available for promotion to local and outside investors.

6. Review and clarify land policy for SSE investment

SSE investors will require land for start-ups, diversifications and expansions on terms and conditions which translate into acceptable levels of risk. This will require MASL to provide more land for commercial and industrial investment as well as clarification and some modification in the policies surrounding the leasing and allocation of these lands. The issue of allocation of land to non-Mahaweli SSE investors is of particular priority.

7. Promote larger SSE investment

Prospects for accelerating employment in the Mahaweli would seem to favor support for larger SSEs. This support should include not only identifying needs of existing enterprises and providing relevant assistance but also promoting new larger-scale SSE start-ups by offering land and technical assistance. Attracting investment from larger SSEs will require a scaled down version of the MED PIPs targeted to SSE entrepreneurs who have know-how and financial resources to invest, whether they reside within the Mahaweli systems or outside the Mahaweli in nearby market towns and urban centers.

8. Foster links with regional economic centers

Regional towns on the periphery of the Mahaweli systems represent centers of entrepreneurship and commercial dynamism. Entrepreneurs from these areas should be contacted and actively encouraged to invest in the Mahaweli areas. The numerous family-owned businesses, small and medium firms that have accumulated some wealth are potentially a major source of investment capital. It is this middle-range investor who merits more attention from the MED project.

9. Design and carry out two subsector studies

At least two subsector studies should be undertaken focusing on particular crops or product/service groups, looking at production and distribution systems with special attention devoted to marketing patterns. Once bottlenecks are identified, interventions can be designed to address them. Potential subsectors worthy of study include rice processing and distribution, agrochemicals and the seed business, production and repair of farm machinery and tools, and the construction and building materials industries.

10. Design and carry out study on import policies that discriminate against small manufacturing firms in the Mahaweli

This study would focus on the manufacturing firms which are prevalent in the Mahaweli such as the garment industry and auto and motorcycle repair shops which use imported machinery as a key element in their business.

ENDNOTES

1. An earlier draft of this paper was presented at the MED 1992 planning session at Riverina Hotel, October 17-20, 1991. This final version incorporates issues raised at that session and subsequent comments by Dr. Jim Finucane, Chief of Party, MED Project.
2. The term "SSE" denotes private enterprises which employ less than 25 persons. For the purpose of this paper the SSE category is further divided into 3 subcategories: self-employment, micro-enterprise and small enterprise. Self-employment is defined as an income generating activity where the owner is the principal worker and he/she employs none or less than one full time person. Micro-enterprises are defined as employing at least 1 but less than 5 full time employees. Small enterprises are defined as employing 5 to less than 25 full time employees. Medium and large are lumped together and constitute those firms employing 25 full time employees or more. Full time employment is defined as 1800 hours or more of paid labor (225 x 8 hours). Employees working less than 1800 hours a year are classified as part-time employees.
3. Vilorio, P.T. (1987) "Entrepreneurship Selection" in Making Small Enterprises More Competitive through More Innovative Entrepreneurship Development Programs, Proceedings of the 1st Asia-Pacific Symposium on Small Enterprise and Entrepreneurship Development, February 1987. Manila.
4. While much of the entrepreneurship literature would support a more discriminating selection process in terms of psychological characteristics for EDP trainees and clients, caution should be exercised in this regard. Expert opinion varies as to what degree "entrepreneurs are born or are made". While many studies have related the development of these qualities to early childrearing practices, early life experiences, religion and cultural values, it is now widely believed that people, in spite of their initial traits, can be trained in adulthood to develop greater entrepreneurial characteristics and therefore increase the likelihood of innovation and business success. It is also likely that different types of enterprises at different stages of development will require different personality characteristics, skills and training. This complicates greatly the design and implementation of selection processes based on entrepreneurial traits alone.
5. For an interesting analysis of gender-based strategies of diversification and specialization, see Jeanne Downing (1990)

Gender and the Growth and Dynamics of Microenterprises, GEMINI WORKING PAPER # 5: Bethesda Maryland: Development Alternatives Inc.

6. Chuta, E and Liedholm, C. (1985). Employment and Growth in Small-scale Industry: Empirical Evidence and Policy Assessment from Sierra Leone. St. Martins Press.

7. Tables were taken from a report by Agroskills Ltd (1991) Report on Reconfiguration of the A.R.T.I. Survey. Submitted to the MED Project

8. See the report by M.W. Panditha and Geoffrey Peters of the MED project entitled: NonFarm, Small Scale Enterprise Credit in Selected Mahaweli Systems. December 1990.

9. Carl Liedholm and Donald Mead, (1987) "Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications" Michigan State University. Liedholm and Mead use a total efficiency measure, the social benefit cost ratio, which relates total value added to a composite of labor and capital inputs, both valued at their shadow prices.

10. This policy is taken from a translation of a MASL Document in Sinhala, issued August 10, 1990. This policy paper was given to me by a Manager of Lands in Uda Walawe. The full text of the policy is given in Annex A.

POLICY OF ALLOCATING COMMERCIAL LAND
IN THE MAHAWELI PROJECT

These policies will not have an impact on the village and small village centres but will effect the townships.

1. When allocating commercial land in Mahaweli townships
 - a) a minimum of 30% to relevant residents in Mahaweli areas
 - b) and 70% to other people will be allotted to others.
2.
 - i) The residents in systems should have resources worth of Rs. 100,000.00 and an annual income of Rs. 20,000.00
 - ii) Outside applicants should have resources worth of Rs. 300,000.00 and an annual income of Rs. 50,000.00.
3. All the applicants should be 18 years of age and citizens of Sri Lanka.
4. These commercial land will be allocated by calling for applications buy notifying in the news papers.
5.
 - i) Competence in participating in project activities, the proposed onset of business/proficiency in business/the applicant should have the initial resources to run the business and the relevant business/having a project report on the business and a plan will be the main criterion.
 - ii) when calling for applications from those qualified, the particular commercial land will be allocated to the applicant who has the highest bid.
6. The applicants should make a deposit of Rs. 2,500.00 with the Mahaweli Authority before taking over the land and if the particular business commences within the said period, the said deposit could be obtained within a year.
7. The construction of the buildings should commence within 3 months of taking over the land and the construction should be completed within 6 months and start the business. The licence of those who do not do so will be cancelled.

The Ministry of Land, Irrigation and Mahaweli Development has the authority to enforce conditions other than mentioned above and to effect policies to restrict the said conditions.

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