Third Party Evaluation – Professor Buddhadasa Hewavitharana

Small and Micro Industries and Entrepreneur Promotion Project (I) (II)

The Relevance of enhancing access to finance for SMEs through banking institutions, attempted by this project, has now gained in redoubled policy recognition. The SME Bank proposed in the White Paper was established as a Licensed Specialized Bank (LSB) in 2005. In addition, the SME Bank was merged with the Lankaputhra Development Bank (LDB) established as an LSB in 2006 to cater to the financial needs of domestic entrepreneurs, since the objectives and coverage of the two LSBs were the same. Simultaneously, the National Enterprise Development Authority (NEDA) was established to formulate policy programmes and to coordinate SME promotion. It will facilitate the work of the LDB and also the work of the likes of this Project, all of which are destined to enjoy continued relevance and policy support as vehicles of regional development in the recently liberated Eastern Province and the soon to be liberated Northern Province.

From the standpoint of Efficiency, expansion in finance for the promotion of Micro-Small-Medium enterprises (MSMdEs) has to go hand in hand with Business Development Services (BDS) that must cater to their felt-needs in the development of the enterprises. A survey of BDS for MSMdEs in the Central Province shows that only a minimal proportion of the enterprises make use of these services available due to weaknesses in the nature of the services provided and failures of service providers, which were compounded by disinterestedness of the entrepreneurs. All these weaknesses are reflected in the failure of the Project's Technical Transfer Loan Scheme. To infuse efficiency into the scheme, its scope should be broadened to include appropriate BDSs which should be transformed into a demand-oriented one. The recent *Vidatha* centres should also be involved in the scheme as they are devoted to development through propagation of appropriate technology at the local level, by the Provincial BDS providers in industry (there are several good ones) and by Industrial Associations. Also, the training for individual entrepreneurs should be replaced by group training so as to reap the benefits of peer learning. Such non-financial services can be packaged with the general loan.

Project's Effectiveness is reflected in the achievements of the enterprises in increasing their productivity, profitability and whether they make reinvestments. It provides two insights into the expansion dynamics of MSMdEs. How entrepreneurship skills get improved in these firms, given the financial support, has apparently been through a process in which the company owners relied on their own innate business acumen. In addition to it, they used pragmatism, practical sense, what was learned through experience, self-confidence and a measure of optimism to take calculated risks, even though there was no contribution from any technical/BDS support. With the formation of these skills, reinvestment and expansion of investment, a critical force in MSMdE growth dynamics were increased. From the study of Niki Garments it can be inferred that the resultant growth path proceeds on the continuum of micro→small→possible medium, which is a drive-force in enterprise growth. In such conditions, a micro firm, having started with the help of a bank loan, builds up its investment in machinery further with a PCI(Participating Credit Institutions) loan and then reinvests its own funds (presumably surpluses from preceding operations) in additional machinery and in conveyor belt technology.

It will be instructive to evaluate Project's Impact in the context of Sri Lanka's legacy of Structural Dualism. From colonial times, banks in the modern/formal sector, though with ample liquidity, did not lend to the capital-starved traditional/informal/rural sector due to "barriers of dualism" such as inability to assess credit worthiness of that sector's projects or borrowers, and lack of collateral security acceptable to banks. Evidently, the PCIs have pierced these century and a half old barriers by expanding their clientele among micro and small enterprises in the business environment where formerly projects were not regarded to be viable. It is this cumulative learning process herein and its spread effects that taught the banks themselves to reorient their attitudes enough to start operating loan programmes on their own for MSMdEs.

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Kukule Ganga (K-G) Hydroelectric Power Project

The Relevance of the K-G project can be brought out in relief by looking at its place in the situation of the hydropower sub-sector. The project (70 MW) was commissioned in 2003 and it was 8 years after the last hydropower project, Samanalawewa (120 MW), was commissioned in 1995. From 2003 onwards, no additional hydro-power generation could be expected for another 8 years until the Upper Kotmale project (150 MW), which started in 2007, generates electricity by 2011. Thus the K-G project, placed in the middle of a 16-year time span as the standard bearer of hydropower development, looks back at 8 years of non-addition to hydropower capacity and also looks into a future of another 8 years with no prospects of any new additions. National energy policy is to provide electricity at affordable prices and also to rely on domestic resources for power generation. K-G relates effectively to this policy as hydropower is a lower-cost source of energy. Hydropower generation relies not on any imports but on domestically available water. K-G's position in the hydropower scenario comes out even in sharper relief when it is considered that the country's hydropower potential is about 2000 MW, out of which 500 MW is left (excluding Kothmale presently under construction) to be exploited by 4 medium scale projects, which, as of 2008, are still being studied.

While demand for electricity grew at 7-8% per year, the power generation capacity could grow only at 3% per year because the country wasted about two decades while debating on the pros and cons of lower cost coal fired generation project (MW 300) and the above mentioned hydropower project, without implementing any of them. In an attempt to get out of this situation, increasing recourse was made to diesel oil fired generation, the cost of which kept on rising. The average cost of a unit of electricity rose to Rs. 14 KWH, equal to US 13.6 cents and the average electricity tariff applicable to industry rose to US 7-7.50 cents, which was double the costs of South East Asian countries. The power sector failed to serve the national energy policy objective of providing electricity at affordable prices to create a favourable investment climate for industries, because of the excessive delays in expanding power generation capacities. K-G, which should have been commissioned by March 2000, was able to be commissioned only in September 2003, after a delay of 3 ½ years. Probable shortage of generation capacity was projected to be 200 MW in 2007 and 405 MW in 2008. Had K-G (70 MW) not been completed even by 2003, the capacity shortage would have increased to 270 MW in 2007 and to 475 MW in 2008, due to all the compounding problems of costs of production as discussed above. There is relevance here based on "better late than never" of the K-G to the power sector situation.

Regarding socio-economic Impact, attention gets drawn to the access road for the mobility facilitated by the project. It has improved access to and delivery of services needed for economic activities and for human and social development. Of special significance are the intangible benefits accruing to a hitherto isolated community by enabling them to communicate and interact with the outside world, and by gaining some control over their environment, which amounts to an "enlargement of choices" in current thinking on development. In this sense, this project was so very contributory to personality development. Not yet completing to electrify some houses in the vicinity is a sure means of alienating those people from the project whereas it is a sense of participation in the development process that should be fostered at any cost.