Sri Lankan – German Development Cooperation

Priority Area "Promotion of a Dynamic Market Economy and Qualified Employment"

Impact Analysis 2005 and 2006
of the Application of the Nucleus Approach

Promotion of Small and Medium Enterprises (SMEs)
and
Organizational Development
of Business Associations and Chambers

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Acronyms

BDS	Business Development Service
BMZ	German Federal Ministry for Economic Cooperation and Development
CCC	Ceylon Chamber of Commerce, Colombo
CCICP	Chamber of Commerce and Industry Central Province, Kandy
CCISS	Chamber of Commerce and Industry of Southern Sweden
CCIUP	Chamber of Commerce and Industry Uva Province, Badulla
CEFE	Competency based Economies through Formation of Enterprise training didactic for SMEs (www.CEFE.net)
CEO	Chief Executive Officer of a business chamber
CP	Central Province
CPWCIC	Central Province Women's Chamber of Small Industry and Commerce, Kandy
ESSP	Sri Lankan – German Economic Strategy Support Programme
FCCISL	Federation of Chambers of Commerce and Industry Sri Lanka
GoSL	Government of Sri Lanka
GTZ	German Technical Cooperation
ILO	International Labour Organization
MDCCIA	Matale District Chamber of Commerce, Industry and Agriculture, Matale
MSME	Micro, Small and Medium Enterprise or Entrepreneur
m&e	monitoring and evaluation
NCHSL	National Chamber of Handicrafts of Sri Lanka, Kandy
NGO	Non-governmental organization
OD	Organizational development of chambers and associations
PAEA	Protected Agriculture Entrepreneurs Association, Kandy
PMSME	Sri Lankan – German Promotion of Micro, Small and Medium Enterprises Project
SIDA	Swedish International Development Cooperation Agency
SIYB	Start and Improve Your Business, ILO applied training didactic for SMEs
SME	Small and Medium Enterprise or Entrepreneur
SL	Sri Lanka
TO	Turnover = sales

Currencies

Rs	Sri Lankan Rupees
TRs	thousand Sri Lankan Rupees
€	Euro
T€	thousand Euro

Exchange rates in 2005 / 2006:

1 US$ ≈ 100 Rs
1 € ≈ 130 Rs

Acknowledgement

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- MDCCIA and NCHSL – Mr. Ranga Padmasiri
- NCHSL – Mr Prathap Jayasinghe
- PAEA – Mr Sanjeewa Hingulwela and Mr. Thilanka Gunarathna
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And last not least, we thank all the Nucleus and non-Nucleus entrepreneurs. Half of them were interviewed twice. We thank them for investing their time and contributing openly with their experiences within and without chamber Nucleus membership during the last years.

Executive Summary

The Sri Lankan German Economic Strategy Support Programme (ESSP) in Kandy, Sri Lanka, is a German supported programme for regional economic development and SME promotion. The ESSP is a joint initiative of the Sri Lankan Ministry of Nation Building and the German Federal Ministry for Economic Cooperation and Development (BMZ). The German Technical Cooperation (GTZ) implements the German contribution.[1]

Since 2002, ESSP applies the Nucleus Approach, involving five business chambers, one association and one national NGO as implementing partners:

A “Nucleus” is a working group of entrepreneurs (e g carpenters, hotel owners, exporters, women entrepreneurs) within a business chamber or association, which is moderated, organized and accompanied by a counsellor employed by the implementing institution.

The Nucleus Approach is based on two hypotheses.

- The core problem of SMEs impeding their socioeconomic development is not the supply of, but the demand for business development services due to the characteristics of the entrepreneurs and their enterprises. The Nucleus in a chamber serves as platform for the SMEs where they identify common problems in the enterprises, exchange ideas and experiences and start common activities in order to find solutions. The SMEs define their needs and structure and organize their demand for services bottom up through the chamber. The effects are positive changes in the enterprises.
- Sustainable organizational development processes in chambers occur only if its members request qualitative and quantitative performance and results from fulltime and honorary staff, if they claim ownership of the chamber and if they actively engage themselves in its development. Organized in Nuclei, SMEs have more chances to successfully stimulate changes.

This impact analysis aims to assess the impact of the Nucleus Approach in the context of ESSP between 2002 and 2007 and to derive at lessons learned as well as recommendations. The results present a mirror to the participating entrepreneurs and chambers to stimulate respective reflections and further developments.

The analysis is based on interviews of 852 entrepreneurs, of whom 50% had been interviewed twice in 2005 and 2006. Twelve percent of them belong to a control group who are chamber members, but did not participate in Nuclei. In addition, m&e data, experiences from other countries and individual observations are utilized.

The development of Nuclei and Nucleus entrepreneurs

At the end of 2006, the participating chambers had organized about 180 Nuclei with 2,700 entrepreneurs. The new chamber services through Nuclei attracted especially startups as 40% of the sample enterprises were founded after the year 2000 as well as female entrepreneurs with 40% of the interviewed entrepreneurs.

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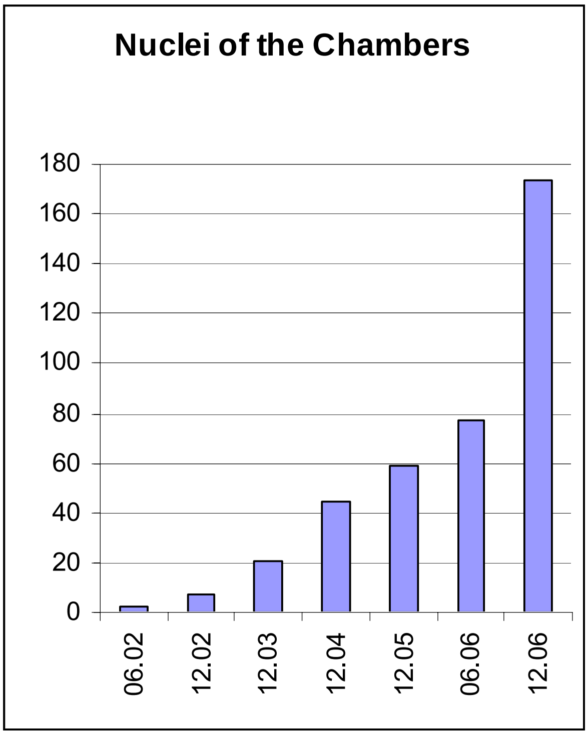
1 Annex 10.1 contains a short description of the ESSP.



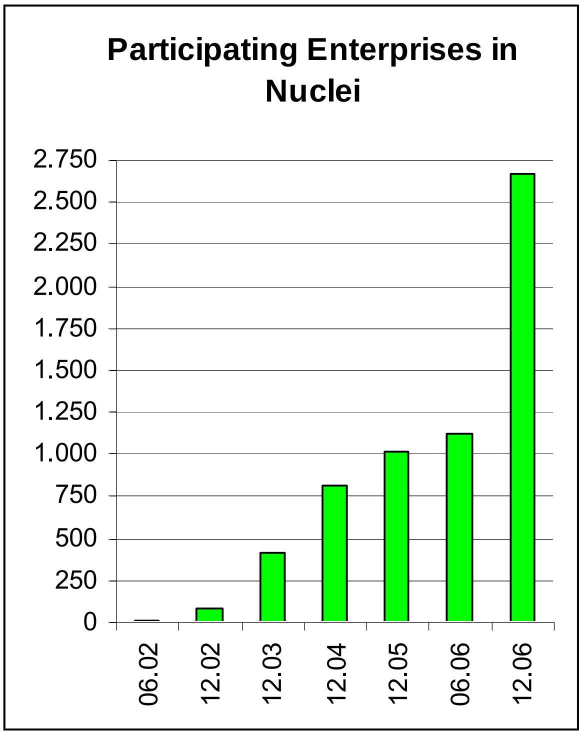


Figure 01: Nuclei and participating entrepreneurs

Results

The Nucleus Approach has worked successfully and has caused many positive impacts on all intervention levels.

a) Changes on the micro level

Micro level impact 1
Economic development of Nucleus enterprises in terms of turnover between 2002 and 2005

Between 2002 and 2005 the Nucleus members increased the monthly turnover on average by 52%. This is considerably above the inflation rate (30%) and much higher than the non-Nucleus SMEs (19%). In addition, those best 53% of the Nucleus entrepreneurs who entered into a higher turnover category increased the turnover by 336%. The respective smaller group of 26% of the non-Nucleus members increased the turnover by 236% only.

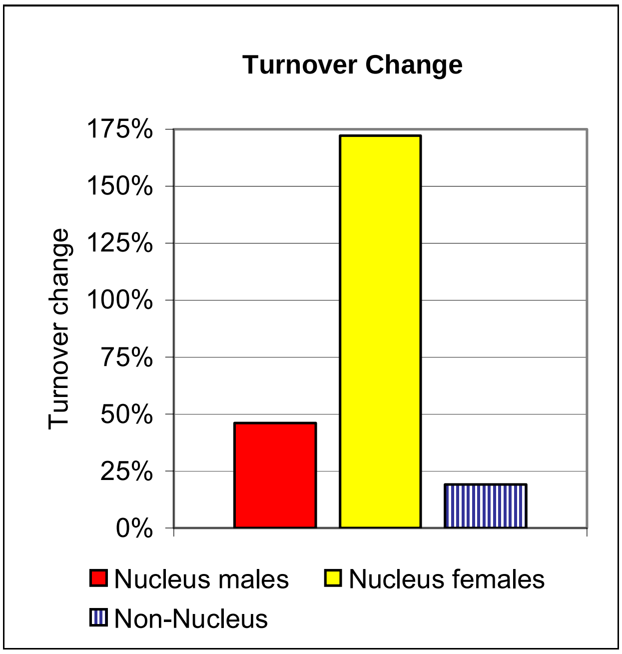


Figure 02: Turnover change 2002 to 2005

For the average unregistered enterprise, the figure looks rather weak with a turnover increase of 8% compared with the registered ones (63%). However, about half of them worked very successfully and showed a lot of entrepreneurial potential.

Starting from a low turnover basis, the female entrepreneurs show with 172% a much higher turnover change than the male entrepreneurs with 46%.

Due to the attribution gap, these facts do not scientifically prove that participation in Nuclei leads automatically to a positive economic impact in the enterprises. But there are many strong indications that the Nucleus' work contributed considerably to this development (Chapter 4.7.2)

Micro level impact 2
Economic development of Nucleus enterprises in terms of productivity between 2002 and 2005

Under competitiveness considerations more important than the turnover change is whether the enterprises managed to improve their productivity.

Measured in turnover per employee the Nucleus members increased the productivity on average by 29% (males 27%, females 85%). The non-Nucleus members rather stagnated with a low 4% increase. Those best 53% Nucleus enterprises with the mentioned higher turnover increased their productivity by 185%.

The unregistered Nucleus enterprises suffered on average with minus 13% a decrease of the productivity. But the better half of them managed to increase it by 222% (Chapter 4.7.4).

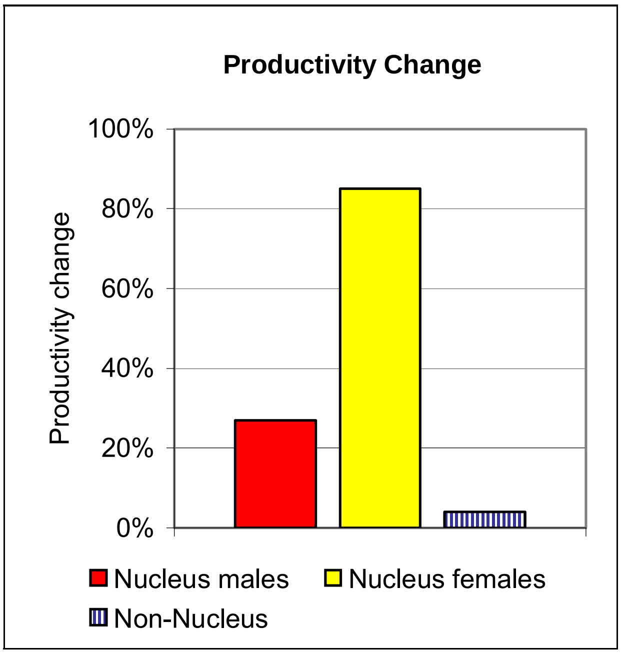


Figure 03: Turnover change 2002 to 2005

Micro level impact 3
Factors influencing the success of the entrepreneurs

There are clear positive correlations.

- Entrepreneurs with a higher education performed much better concerning turnover and productivity than those with a lower education (Chapter 4.7.4).
- Longer and better trained entrepreneurs performed better than those without training (Chapter 4.7.4).
- Entrepreneurs who rent their workshop premises performed better than those who own their premises. Those who rent the premises locate their business where the market is. They seem to have a higher level of entrepreneurial understanding and spirit.

No correlation was found between credits and enterprise performance. Partially, those entrepreneurs working without credit were even more successful than those with credits. This might confirm one of the hypotheses in the context of the Nucleus Approach that the development of enterprises does not start with money but with ideas, knowhow, management, organization and leadership (Chapter 4.9.4).

Micro level impact 4
Increased employment generation by Nucleus enterprises between 2002 and 2005

In total, of the 658 interviewed Nucleus entrepreneurs with respective data 62% increased the employment by 770 (+45%) new jobs. An extrapolation of this figure to the total number of Nucleus entrepreneurs in March 2006 results in about 1,500 new jobs.

Differentiated per gender the increased employment of enterprises run by women is very significant (+128%) due to 112 (44%) new business founders since 2002.

The control group of non-Nucleus members increased the employment by only 31%. Almost half of these non-Nucleus enterprises worked with the same number of employees.

The ESSP investment per each new job created was about 530 €. Due to the fact that these are sustainable long term employments, this points at an efficient utilization of funds and is a comparatively low figure in the framework of development cooperation (Chapter 4.6.3)

Micro level impact 5
Stimulation of changes in the enterprises

….in terms of capital invested

About 50% of the owners of smaller Nucleus enterprises as well of the bigger ones invest a lot in relation to their economic capacities. Nucleus entrepreneurs with a turnover of less than 80,000 Rs per month stem partially huge investment amounts, which correspond to a range of 1.2 up to 7.2 months' turnover. But there is roughly one third of the Nucleus SMEs and 40% of the non-Nucleus entrepreneurs who did not invest at all neither in 2004 nor 2005 (Chapter 4.8)

… in general

The Nucleus entrepreneurs introduced many improvements in their enterprises. They themselves assess their enterprises as having improved a lot since their participation in Nuclei. About 80% perceive their enterprise now as “Good / Great”. Before participation in a Nucleus, only 30% gave this positive assessment (Chapter xxx). The entrepreneurs are more courageous and optimistic regarding their own enterprise, even though they perceive their overall economic environment rather pessimistic.

Micro level impact 6
Increased usage of BDS

Nucleus entrepreneurs used roughly four times more trainings than the non-Nucleus members. On average, every Nucleus entrepreneur used 0.6 trainings or consultancies per year. ESSP survey results on “BDS market assessment in the Kandy District 2003” show that SMEs in the Kandy District on average used only 0.15 BDS per year. This indicates that the BDS market stimulation of the Nucleus Approach and the networking between BDS providers and entrepreneurs function very well.

Micro level impact 7
The Relationship between the Nucleus entrepreneurs changed

An economic “community” does not prosper when there is a hostile relationship between isolated actors. The goal of the Nucleus Approach is an improvement of the relationship among the entrepreneurs. When they realize that even under conditions of competition they have much in common and can gain from working together, they cooperate, counsel one another and stimulate joint endeavours.

The mutual perception of Nucleus entrepreneurs shifted considerably from “competitor” and “enemy” to “professional colleague” and ”personal friend“ since their participation in a Nucleus. 80% confirm an improved relationship. This is an improvement of the business environment and increase of the locations’ competitive advantage (Chapter 5.9).

b) Changes on the meso level

The Nuclei and their entrepreneurs caused considerable organizational changes in the chambers since 2002. The chambers made decisive steps into the direction of professionalized service institutions. The increased membership participates more actively in the development of their chambers. Under this aspect the Nucleus Approach worked successfully – its logic is functioning.

Meso level impact 1
Entrepreneurs have an improved perception about the chambers

Chambers are increasingly regarded as organizations open to SMEs, efficient service providers and active in lobbying. Before the participation in a Nucleus 69% of the entrepreneurs did not know the chambers, 11% saw them as useless and only 20% as useful (red / dark columns). Now, 92% view them as useful organisations (yellow / light columns). This is a very significant change in perception. (Chapter 6.1).

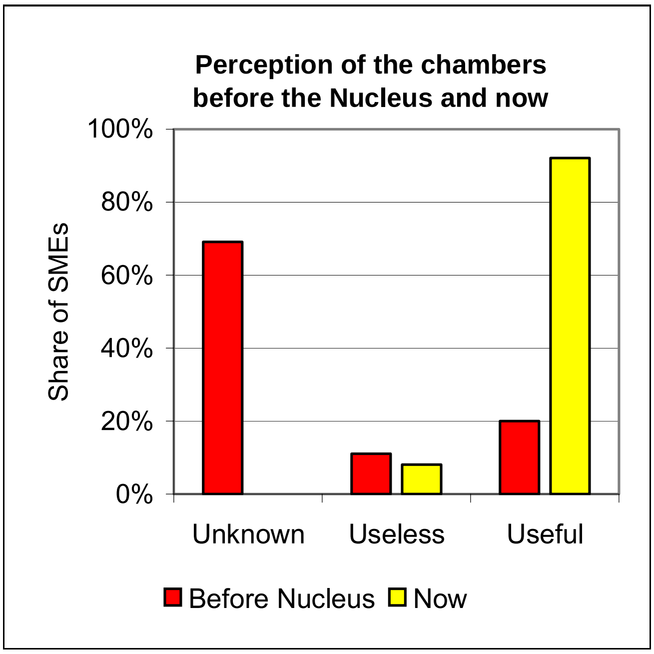


Figure 04: Entrepreneurs’ perception of the chambers

Meso level impact 2
Chambers’ performance has improved since the introduction of Nuclei

The chambers become more member oriented and more efficient in their organization. Concerning their performance especially the lobbying function was assessed as considerably improved by the Nucleus entrepreneurs. In 2005, only 56% viewed the lobbying as fair, good or great and one third of entrepreneurs did not know about lobbying at all. Among Nucleus members this changed tremendously in 2006: 72% assessed the advocacy function of the chambers as fair, good or great and only 7% did not know about it. The entrepreneurs have become more aware of the lobby function of a chamber and a Nucleus, which may well be due to the ESSP and FCCISL training courses conducted with the chambers (Chapter 6.2).

Although the number of lobbying activities of the cooperating chambers has increased, they still have a long way to go to gain and exercise real lobbying power.

Meso level impact 3
Nuclei make the chambers more attractive to a bigger membership

The chambers increased the membership considerably by between 92% and 500% after the introduction of the Nucleus Approach.

But 72% of the Nucleus members are not yet membership fee paying chamber members. It means that most chambers used the new access to the entrepreneurs as potential chamber members only to a limited extent (Chapter 6.3).

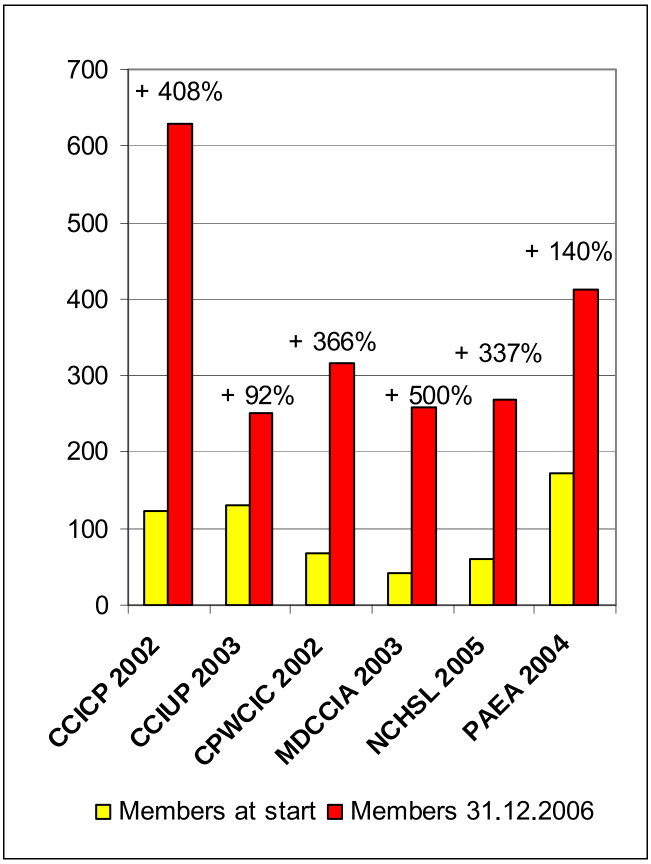


Figure 05: Development of the chamber membership between the start of Nuclei and 31.12.2006

Meso level impact 4
Financial sustainability of the chambers is not yet reached

The chambers increased their income through more membership fee paying members and through service fees. But almost all members pay the same membership fee, on average 100 Rs / 0,70 € per month. This is still not enough to finance a professional service and lobby institution. ESSP proposed a tier system that is common in many other countries where the members are charged in reference to their economic strength. Bigger enterprises pay more, smaller less. Due to various reasons this recommendation was not taken up either by the chambers or by the Federation (Chapter 6.4).

c) Other important findings:

Access to finance

- In 2005 half of the entrepreneurs had some kind of credit, in 2006 one third. Considering that 78% of the enterprises have only up to five employees, 90% up to ten employees this is a higher share than expected.
- With 80%, the banks play the major role in financing the SMEs.
- Surprisingly relatives play a minor role in credit financing the SMEs with only 10% although 48% of the enterprises were founded after the year 2000, and even 67% of the ones run by females.

The share of credit takers decreased considerably from 51% in 2005 to 35% in 2006. This change reflects the worse economic expectations in 2005 after the tsunami in December 2004, expressed also by a stagnation of employment and an extremely low investment climate index.

43% of the registered companies took a credit, 28% of the unregistered. The common believe that only formal companies can qualify for a bank loan cannot be confirmed by these results (Chapter 4.9).

Entrepreneurs' level of preparation when starting or inheriting a business in Sri Lanka is poor

The entrepreneurs are in general not well prepared in terms of education, professional training and work experience when starting their businesses (Chapters 3.4, 3.5 and 3.6).

Chapter 8 contains a list of recommendations for the promotion and development of SMEs addressed to entrepreneurs, parents, schools, training institutes, chambers, business development providers, local and national governments and administrations, real estate investors, banks and donors.

d) Impact

d1) Significance

The impact caused by the introduction of the Nucleus Approach in business chambers clearly led to significant changes in the Nucleus enterprises and the chambers (Chapter 7.1).

d2) Broad effects

Broad effects have been reached. Nuclei are now run in many parts of Sri Lanka by chambers, associations and in one big national NGO (Chapter 7.2).

d3) Institutional sustainability

Institutional sustainability in the context of the Nucleus Approach means that the entrepreneurs and chambers self-dynamically continue the stimulated change processes.

The chambers are still not very stable. In most cases, frequent changes of professionals and honoraries prevent a continuous organizational development. This coincides with our original expectations in 2002 that at the end of 2006 the chambers would probably not yet be "ready". Like in other countries, their organizational development into the new paradigm of a service and lobby enterprise takes more time.

Currently the chambers still need external interventions in the form of counselling and training in order to keep the started processes ongoing.

Chapter 7.3 describes several options how these external interventions can be organized and financed in the future. But close to the end of the German support to the ESSP there still is no final solution.

Instead of Bothering You with an Introduction …

… we recommend to see, to listen to and to have fun with

Terry Smutylo's

Output Outcome Downstream Impact Blues

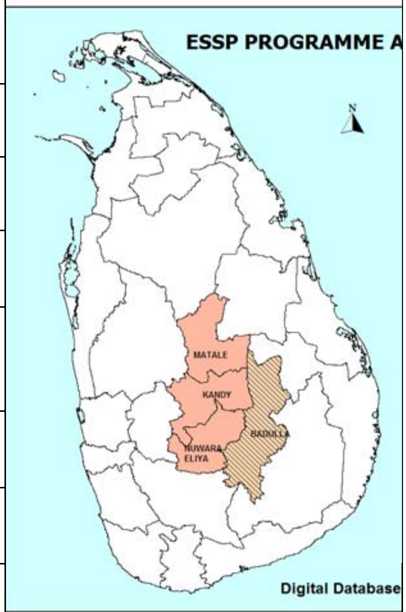
www.idrc.ca/uploads/user-S/10960530301karaoke.swf

1 The Nucleus Approach in ESSP

The Sri Lankan German Economic Strategy Support Programme (ESSP) in Kandy, Sri Lanka, is a German supported programme for regional economic development and SME promotion. The ESSP is a joint initiative of the Ministry of Nation Building and the German Federal Ministry for Economic Cooperation and Development (BMZ). The German Technical Cooperation (GTZ) implements the German contribution.[2]

Since 2002, ESSP applies the Nucleus Approach, involving five business chambers[3], one association and one national NGO as implementing partners:

Implementing partners: Organization and location of office		**Founded in the year**	**Nuclei since**
Chamber of Commerce and Industry Central Province, Kandy	CCICP	1990	2002
Chamber of Commerce and Industry, Uva Province, Badulla	CCIUP	1997	2003
Central Province Women Chamber of Industry and Commerce, Kandy[4]	CPWCIC	1993	2002
Matale District Chamber of Commerce, Industry and Agriculture, Matale	MDCCIA	2001	2002
National Chamber of Handicrafts of Sri Lanka, Kandy[5]	NCHSL	2004	2005
Protected Agriculture[6] Entrepreneurs Association, Kandy	PAEA		2004
Sarvodaya Economic Enterprise Development Services, Kandy, Matale, Badulla and Nuwara Eliya[7]	SEEDS		2006



ESSP Programme Area

Table 01: Implementing partners

Since 2005 the Sri Lankan – German Promotion of Micro, Small and Medium Enterprises (PMSME) project supports the application of the Nucleus Approach in six chambers and SEEDS in six eastern and southern coastal districts that were affected by the tsunami of December 2004.

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2 Annex 10.1 contains a short description of the ESSP.

3 For a short description of the chamber's development and situation in 2002 see Durrant, Steve, and others (2003), p 175

4 CPWCIC was set up in 1993, but was with no chamber related activities until the start of the FCCISL – SIDA – CCISS project in 2001. See Karlstedt, Cecilia / Herath, Gamini B. (2005), Annex 4, p 66

5 The FCCISL partnership project with the Koblenz Chamber of Crafts and Small Industries, Germany, promoted the foundation of NCHSL.

6 'Protected agriculture' = production of vegetables and fruits in poly tunnels under controlled conditions.

7 SEEDS is the economic initiative of the Lanka Jathika Sarvodaya Shramadana Sangamaya, which is the largest and the oldest development organization in Sri Lanka.

1.1 The Origin of the Nucleus Approach

The Nucleus Approach aims on the one hand at mobilizing individual enterprises, especially SMEs, on the other hand at stimulating organizational development processes in business chambers and associations.[8] It has been designed and developed since 1991 within the framework of the partnership project between the Chamber of Crafts and Small Industries for Munich and Upper Bavaria, Germany, and some Brazilian chambers of commerce and industry in the federal state of Santa Catarina.[9] In 1996, the 20 chambers involved created the Fundação Empreender / Foundation Entrepreneur as a kind of regional federation. The Fundação Empreender became the official partner for the German chamber with the objective to disseminate the Nucleus Approach in Brazil and other countries.

The national confederation of chambers of commerce, CACB, and SEBRAE, which is the national SME promotion institution, took on the approach in 1999 and spread it as “Projeto Empreender” all over Brazil. In June 2004, 866 chambers of commerce and industry were involved with about 3,200 Nuclei and more than 43,000 entrepreneurs.

Chambers and technical cooperation projects in numerous other Latin American countries experimented with the Nucleus Approach. In Uruguay, for example, there are presently some

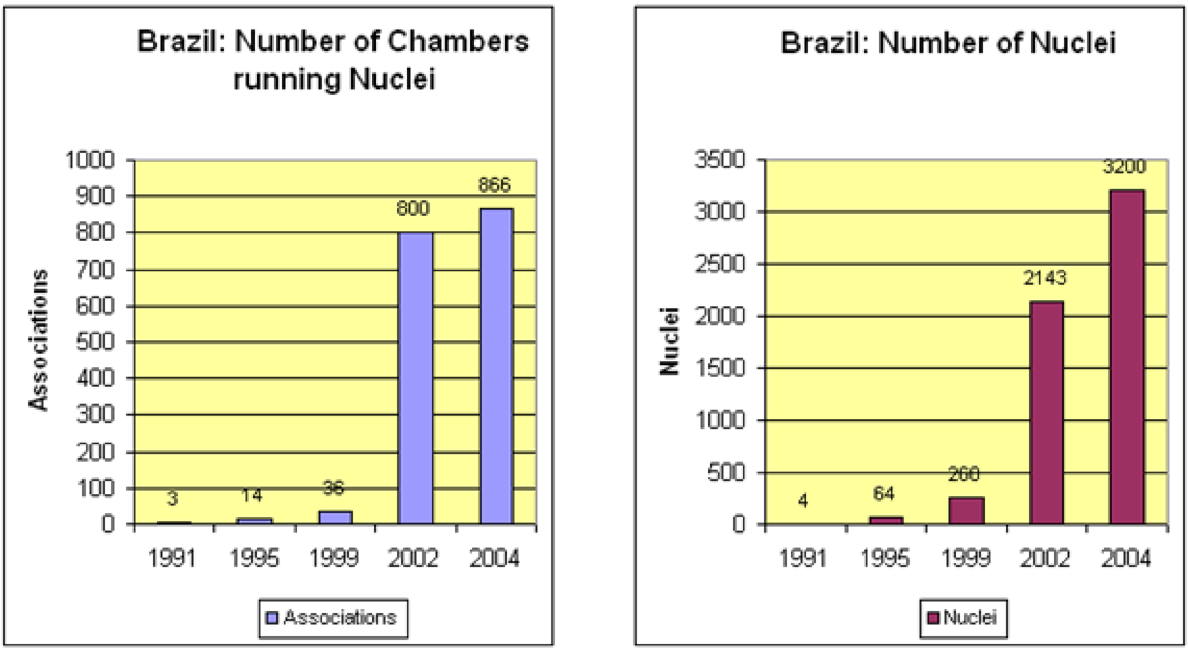

Figure 06: Chambers, Nuclei and Nucleus entrepreneurs in Brazil

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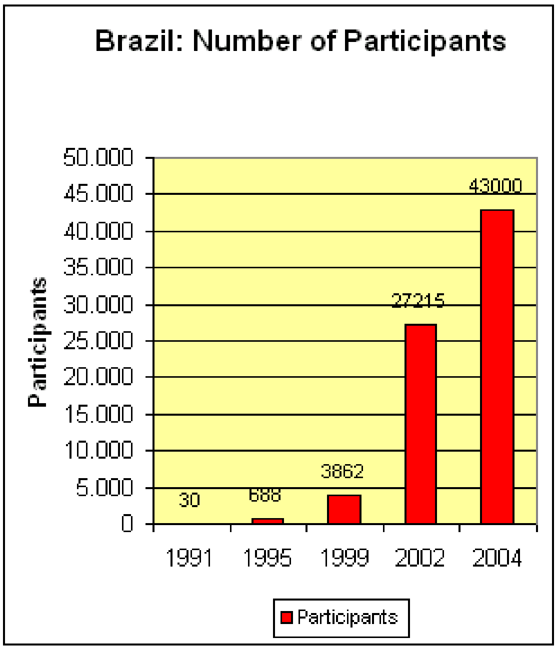
8 “Chamber” is defined as an aggregation of enterprises in one geographical mostly political / administrative unity. “Associations” are organized sector wise. In Portuguese speaking regions an “associação” – translated directly “association” – corresponds to a chamber. In many countries, chambers and associations exist side by side having partially the same and partially different functions.
To ease reading in the following we speak only of chambers addressing the involved five chambers plus PAEA as sector association.

9 The German Technical Cooperation (GTZ), SEQUA gGmbH – Partner of the Industry, = Foundation for Development and Qualification, Bonn, maintained by several confederations of the German industry, and the German Federal Ministry of Economic Cooperation and Development promoted the project.
Müller-Glodde, Rainer (1993), describes the process of the development the Nucleus Approach and the first implementation steps (in German).

100 Nuclei with close to 1,000 participants.



In 2006, the application of the Nucleus Approach started in the Senegal and Algeria. In other Asian and African countries, its introduction is in discussion.

At a world meeting of business chambers in South Africa in 2005, the Brazilian CACB received an award for the “Projeto Empreender” as one of the best SME promoting initiatives. CACB announced in March 2007 the training and support of chamber stakeholders in the application of the Nucleus Approach / Projeto Empreender in Chile, Colombia, El Salvador, Mexico, Mozambique and South Africa.

In February 2007 the institutions which had been involved in the development of the Nucleus Approach – Fundação Empreender, Chamber of Crafts and Small Industries for Munich and Upper Bavaria, GTZ and SEQUA – signed the “Statement Regarding the Nucleus Approach and its Dissemination”[10]. It says that

“All signing parties have a core interest in the Nucleus Approach being disseminated in developing countries by as many business chambers, business associations and NGOs as possible.

- The signing parties have so far not defined any legal property rights. They do not intend to do so in future.
- Also any other institution or person is kindly requested not to claim any property rights in order to ease the dissemination of the Nucleus Approach.
- Every other institution or person is authorized to adopt, further develop and implement the Nucleus Approach worldwide without consultation.
- Each institution or person implementing the Nucleus Approach should indicate the following in terms of the approach’s origin:
  - ➢ The Nucleus Approach was developed by the Fundação Empreender, Joinville, Brazil, within the partnership project with the Chamber of Crafts and Small Industries for Munich and Upper Bavaria, Germany.
  - ➢ The partnership project was financially supported by the German Federal Government.
  - ➢ The Nucleus Approach is primarily a Brazilian approach.
- Each institution or person is requested to make available to all other institutions all ideas, developed materials (concepts, statistics, reports, impact analysis) and experiences regarding the further development of the Nucleus Approach free of charge.”

10 Fundação Empreender / HWK Munich / SEQUA / GTZ (2007), p 3

1.2 The Nucleus Approach in Comparison to Other SME Promotion Approaches

For some time the Business Development Services Approach (BDS) dominated the economic development cooperation as mainstream methodology.

The BDS Approach and the Nucleus Approach differ in their basic assumptions concerning the development of SMEs.

- BDS Approach: the core problem is the supply of qualified BDS.
- Nucleus Approach: the core problem is the demand of the SMEs for BDS.[11]

For more about the relation between the Nucleus Approach and BDS see Chapter 4.5.

The latest mode of delivery in private sector development runs under the label “Enabling Environment”. In reference mainly to the private sector development aspect the Nucleus Approach right from the beginning aimed to create an environment, which stimulates changes in the enterprises. More efficient chambers are part of an improved entrepreneurial environment. In addition, collectively generated entrepreneurial lobby activities through business chambers contribute to improving the framework conditions.

Basic Elements of the Nucleus Approach

The Nucleus Approach aims at the stimulation

- of changes in micro, small, medium and big enterprises and
- of organizational development processes in chambers.

Both elements are interlinked with one another and cannot be separated.

The application of the element “group counselling of SMEs” only without institutional development of business organizations leads to a reduction of the Nucleus Approach to a pure SME promotion instrument targeting changes at the micro level only. Its potential for supporting regional economic development is not fully utilized.

[11] For more details see Müller-Glodde, Rainer / Lehmann Simone (2006), p 5

1.3 The Nucleus of Entrepreneurs[12]

A “Nucleus” is a group of entrepreneurs (e g carpenters, hotels, exporters, women entrepreneurs) within a chamber or association, which is moderated, organized and accompanied by a counsellor employed by a chamber.[13]

The optimal size of a Nucleus is 12 to 30 entrepreneurs.

It is important that the groups are sufficiently homogeneous, with the members sharing daily life and work experiences but also sufficiently heterogeneous enough to allow the entrepreneurs to exchange their different ideas, problems and solutions. Under the counsellor’s guidance the entrepreneurs start to

- identify their subjectively perceived problems
- determine their causes
- look for solutions within their group (motto “entrepreneurs counsel entrepreneurs”)
- start common activities in order to arrive at further reaching ideas and solutions beyond the initial problem scenario; these can also be lobby activities in order to improve the economic framework conditions.

This results in the SMEs’ demand for services being generated from bottom up which in turn influences the service providers’ supply of services offered.

Tested instruments are

- to motivate and support SMEs in reducing mutual distrust and in raising awareness of common features and potentials by e g organizing visits and excursions
- to introduce participatory methods of learning, group work, planning and organization, “action learning” wherein practitioners learn from practitioners, benchmarking with the best colleagues’ companies
- to offer counselling services at workshops instead of seminar rooms
- to promote upgrade training and practical training for entrepreneurs and for their staff
- to stimulate common events, purchases, marketing activities, expositions and trade fairs, tenders for orders
- to initiate vertical and horizontal value chains upgrading through linkages between different Nuclei.

The possibilities are virtually inexhaustible; see the list in Annex 10.2 and the catalogues of activities started by Nuclei.[14]

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12 This and the following chapter are extracts from Müller-Glodde, Rainer / Lehmann Simone (2006), p 3

13 Compared to organizational structures in German chambers, a Nucleus can be considered as a guild within a chamber without legal status.

14 ESSP (2004/1), Fundação Empreender (2000), Fundação Empreender (2001)

1.4 Organizational Development of Business Chambers

Efficient chambers and associations, being elements of the meso level of a national economic system, can play an important role in the development of local, regional and national economies.

Chambers are founded primarily on basis of problems perceived in the entrepreneurial environment, which is to be improved by lobbying activities. In developing countries it is often not known that chambers have a second core function, i e providing services. This is what SMEs are most interested in because they expect and require an immediate return for their membership fees. If services are not offered, most entrepreneurs are not interested in the chamber.

Figure 07 shows the linkage of chamber services and lobby. Better services lead to more member entrepreneurs, which increases the chances for successful lobbying due to the weight of the quantity of entrepreneurs.

The hypothesis of the Nucleus Approach is that sustainable organizational change in chambers occurs only if members request qualitative and quantitative performance and results from fulltime and honorary staff, if they claim ownership of the chamber and if they actively engage themselves in its design.

Consequently, the Nucleus Approach aims at influencing the relations among the chambers' board of directors, staff and members. A single member usually has not enough influence on the chamber. Members organized into a Nucleus, however, influence the chamber directly as well as indirectly. Thus, a constructive field of tension develops within the organization. Once the Nucleus entrepreneurs experienced a certain performance level of fulltime and honorary staff, chances are high that they will insist on this level being maintained also after personnel changes.

The members, and not external donors, provide the essential stimulus for the activities of a chamber and its organizational development.

- The foundation of Nuclei often is the first real service a chamber provides for its members. With Nuclei, the chamber becomes more attrac-

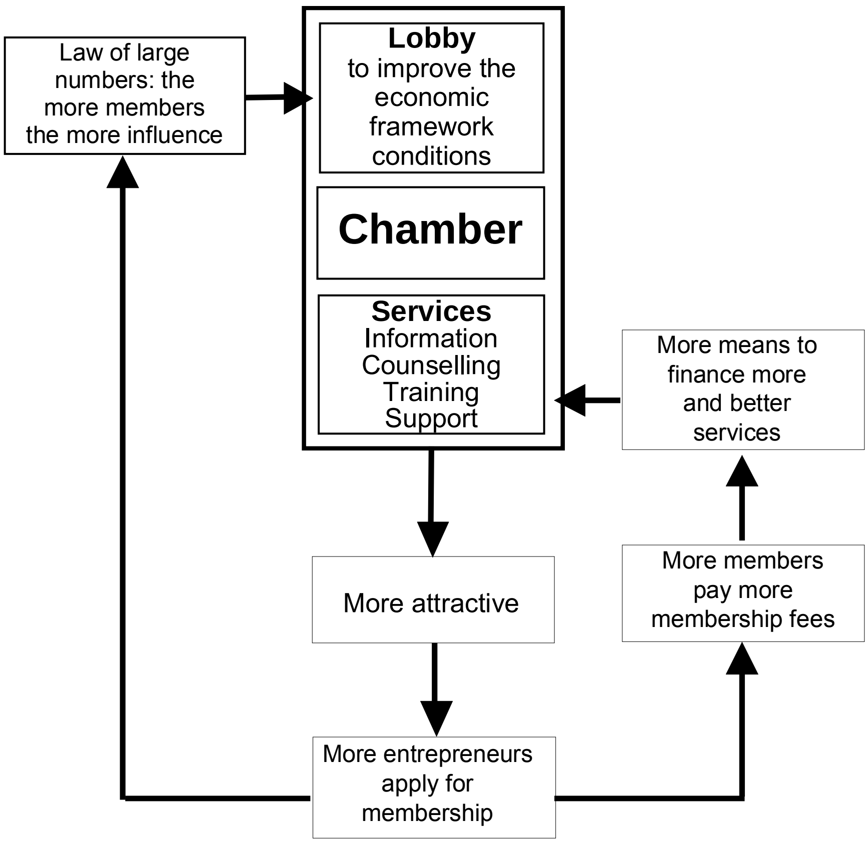

Figure 07: Development logic of a business chamber

tive for SMEs and consequently can increase their membership.

- Nuclei with their counsellors require a new type of staff in the chamber. This results in new leadership requirements at management level.
- Nuclei bring along new demands to the board’s and the management’s performance both in the field of lobbying and in service provision.
- New activities lead to changes in the public relations work.
- Growing membership requires organizational changes.

From many small changes, all with their inherent dynamics, gradually an organizational change process emerges. This does not just lead to simple adjustments of the governing paradigm but results in a new one. Now the chamber no longer acts as a “business club” but as an efficient lobby institution and professionally managed service provider.

This change process must be designed with a long-term vision in order to have sustainable impact. It often requires an entire new generation of fulltime and honorary actors.

Gem and Jewellery

CPWCIC Bridal Show

1.5 The Organization of the Implementation of the Nucleus Approach

The ESSP Nucleus team in Sri Lanka consisted since June 2002 of between two and five national and international experts. The applied instruments are

- training of chamber counsellors, CEOs, members of the board of directors and other honoraries about Nuclei and all other aspects of a chamber
- training of BDS providers (trainers and instructors) in how to work with Nuclei
- networking through monthly meetings of the chamber counsellors and – sometimes together with them, sometimes separated – of the CEOs in order to exchange information and experiences, but also to enable performance comparisons among the participants and the institutions (benchmarking; stimulation of a kind of competition)
- individual counselling of chambers and Nuclei
- dissemination of the Nucleus Approach through information letters ("The Nucleus – The Entrepreneur Network", 16 editions until February 2007), web site (www.NucleusSL.com) and events, presentations, etc.
- organization of regional and national "Nucleus Events" in 2004 (150 participants), 2005 (800 participants) and 2006 (2,400 participants) with presentation of the best Nucleus activities, chamber competitions, etc.
- financial support to the chambers and Nuclei – see the next chapter.

The general strategy also concerning the work efficiency of the team is

- to concentrate as much as possible on the "core product": all activities need a direct link to the development of Nuclei and the chambers; everything else – even if it is "good" for enterprises and / or the country – is evaded;
- to avoid any contradictory strategies, not only concerning the Nucleus Approach but the whole ESSP programme; this did not always function successfully;
- to develop as much as possible routine procedures, to disseminate them among the chambers and Nuclei and to strictly apply them.

The latter contradicts partially the not only in Sri Lanka prevailing idea "Each case is a case"[15] which means the request for individualized solutions. The arguments against this are

- casuistic solutions cause much work time and costs
- a different treatment of the participating chambers and Nuclei provoke costly conflicts, because they watch and compare each other intensively.

It took some time, but then the chambers started to understand and accept the rules of the game formulated in published guidelines and contracts.

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[15] The respective "Cada caso é um caso" is a common saying in Brazil and serves together with the claim for "flexibility" and the "Jeitinho Brasileiro" to justify the rupturing of rules and regulations up to a policy of individual favours.

1.6 Gifts, Grants and Subsidies

The chambers cooperation project in Brazil subsidized neither individual enterprises nor Nuclei nor chambers.[16] If the Brazilian entrepreneurs are convinced that something is good for them, they find ways of financing it.

The situation in Sri Lanka however is different. There is prevalence – boosted by the government and donors – to expect grants (“recipient dependant mentality”).

It was clear right from the beginning that grants for individual entrepreneurs would be in diametrical contrast to the Nucleus Approach and should not be done under any circumstances: individual grants automatically reduce the entrepreneurs’ interest and motivation to engage in a Nucleus, they undermine their self-help efforts and they hardly cause sustainable impact. In addition, the entrepreneurs do not do what they think is good for the enterprise but what they think will be subsidized.

To start the Nucleus Approach without any financial support for entrepreneurs and chambers was also not possible. ESSP had a history of providing matching grants and individual financial support for innovative entrepreneurs thus stimulating respective expectations from involved stakeholders. The ESSP team was used to it and the distribution of such matching grants to innovative enterprises, the CCICP and a number of sector associations was one as its main task.

In economic terms, subsidies present interventions in markets. The subsidizing institution influences market prices in order to stimulate desired socioeconomic and / or technological developments. Subsidies are a common instrument in most countries including the industrialized ones.[17]

Characteristics of Grants

- Contain elements of a present or gift: “If you are my friend you get something, if not, you don’t!”
- Are based on a top-down decisions of the giver
- Serve to “help” individual persons and / or organizations
- The first goal is not to improve the economy but individuals
- Do not require self-help endeavour of the entrepreneurs
- Are frequently used (misused) to create interdependences between giver and beneficiary (I help you and you help me ...)

Characteristics of Subsidies

- Do not contain elements of a present or gift
- Everyone who corresponds to the defined criteria has the right to receive the subsidy
- Are based on a mutual contract
- Serve for the stimulation of economic and social processes defined by the investor
- Aim on the improvement of the economy through better SMEs and chambers
- Require self-help endeavour: no subsidy without own contribution
- Change market prices, eases the access to products and services
- Have the character of a “positive” tax

Table 02: Characteristics of grants and subsidies

Therefore, the point is not to subsidize something or not – the whole development cooperation is a kind of subsidization – but how: to subsidize in an efficient way and on low costs in order to promote desired changes so that the objectives are reached.

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16 SEBRAE later changed this during national dissemination of the approach by temporarily financing costs of the chambers.

17 This is stressed here because among BDS apologists it is partially popular to claim a non-subsidy policy.

1.6.1 Subsidization of Nucleus Activities

In the context of the Nucleus Approach, subsidization can be justified for a limited time with the following arguments.

- Subsidizing Nucleus activities presents a means of motivating the initially distrustful entrepreneur to try out participation in a Nucleus by reducing the entry barriers to a low level. In other words: most entrepreneurs have some money. But on their priority ladder investments in chamber Nucleus activities and services such as training, consultancies, visits to enterprises and other institutions, marketing, fairs and expositions rank extremely low. The entrepreneurs do not know and / or cannot imagine the relevance and value for them and their enterprises. When a chamber offers its services with subsidies for decreased fees / prices, they become more attractive for entrepreneurs. They risk a lower loss in case of a perceived useless investment. The services climb up on the priority ladder. The expectation then is that due to positive experiences with the chamber services they keep their position on the priority ladder even when the subsidies decrease and gradually the entrepreneurs have to pay market prices.
- Only group activities are subsidized, not individual ones. This puts pressure on the Nucleus participants to identify interesting common activities, which they are all able to finance. Nuclei did not execute some proposed activities because they were too costly for some members even with subsidies. 2,000 Rs is a lot of money for an entrepreneur with a monthly turnover of 20,000 Rs. We will see that many entrepreneurs operate at this level.
- The subsidies gradually decrease (exit strategy): in the first year of participation, the Nucleus activities are subsidized by 75%, in the second year by 50% and in the third year by 25% of defined total direct costs.
  The decisive and most difficult point was the definition of the starting subsidy. The share financed by the entrepreneur must be high enough that s/he feels it as a burden and investment and low enough that it is stimulating rather than hindering participation.
- Few Nuclei with some members will not lead to sustainable impact. The cost-benefit-effect of the project would be negative. One inherent element of the Nucleus Approach is therefore its massive dissemination. Only many Nuclei with many participants will lead to structural changes in chambers and later improvements in framework conditions. The same holds true for visible economic effects through improvements in the Nucleus enterprises. The cost-benefit-result of the project will only be positive, when the dissemination of the Nucleus Approach gains momentum. SMEs convince other SMEs to join Nuclei. The subsidization strongly speeded up this process. It led to faster visible impacts in Sri Lanka after only three years compared to Brazil where the visible impact came about after six years.

Some organizational rules and procedures ease the management of the subsidy system and keep the costs relatively low. So even tiny activities can be subsidized thereby permitting fast decisions.

- The “Nucleus Subsidy Guidelines” describe the conditions for subsidies and the procedures.[18]

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[18] For more details about the subsidization rules and procedures see the respective guidelines; ESSP (2003/01)

- Easy to handle standardized forms for applications, contracts, statements and reports keep the administrative costs relatively low.
- A “Nucleus Subsidy Committee” takes the decisions about the subsidies. It consists of one representative of the chambers (changing once in six months from chamber to chamber), one of the GoSL and one of the donor. Each member has the right for a veto. The meetings are public.
- Each Nucleus has a subsidy budget per half year in reference to the number of participants and the year of foundation. It is not possible for a Nucleus to accumulate or carry forward unutilized budget shares in order to keep the system financially under control.
- The chambers and / or the Nucleus members prefinance the activity. ESSP pays the subsidy only after the execution of the activity against presentation of the report and the original receipts. This dispenses with the management of advance payments, which as a rule cause a lot of administrative work.
- Only those direct costs of an activity are subsidized which lead to a payment to a third party (instructors, services, material, transport, accommodation, etc.). They are easy to verify. Administration costs etc. of the chambers are excluded because their verification provokes endless discussions. Consequently, the subsidy covers less than the above mentioned percentage rates of the total costs.
- The chambers are free – and are even invited – to include their administration costs and a surplus into their price calculation of a Nucleus activity per participant in order to generate income and to become accustomed to run such activities business like. It took the chambers some time to understand and manage this adequately but it improved after the introduction of respective cost and price calculation sheets.
- For transparency, the Nucleus team publishes regularly the subsidizations at the website www.NucleusSL.com. Such an open information policy avoids destructive rumours and provokes competition between the participating chambers.
- All data are entered into a database permitting a permanent overview about all subsidized activities and many statistics.

The participation of a representative of the beneficiary side in the decision about the subsidies caused much surprise in the ESSP team. It contradicted the traditional view of things: the target group trying to get as much as possible on the one hand, and the government / donor team trying to defend its funds against sometimes dubious requests on the other. Ending this two party game through the integration of the chamber representing the beneficiary side into the decision process, acting always publicly and thus treating the chambers as equal partners avoided confrontations and destructive rumours about decisions perceived as unfair and avoided unfruitful disagreements.

In addition, most of the chamber representatives contributed considerably to a high standard of the assessment of the applications. This is due to the simple reason that they knew more about the business world, prices and common economic practices than the government and the donor representatives. In general, most of the chamber representatives did not understand themselves as pure lobbyists for the chambers and were often more critical than the GoSL and donor committee members about the Nucleus proposals.

The reluctance on the part of the ESSP staff was caused by the fact that compared with the previous procedures the power structures changed. Before, an entrepreneur contacted an ESSP staff member concerning an application and sometimes successfully, sometimes not, the staff member convinced the ESSP management to grant it. Consequently, the entrepreneur had to be grateful.[19] After introduction of the Nucleus Subsidy Committee, it did not work like that any more.

A subsidy system – as well a tax system – provokes almost naturally manipulations, also in this case. For example, it had to be included in the contracts, that the chambers do not request kick back payments from trainers and others. In general, we assess the number of attempts and successful manipulations as extremely low due to the fact that the steadily increasing database permitted better comparisons of the costs of typical activities.

One can see from Table 03 the continuous reduction of the ESSP subsidization from 72% / 73% subsidy share in the first year to 66% in the second year and 55% in the third year. The actual subsidy percentages are not 75%, 50% and 25% because during the years permanently new Nuclei with the 75% initial subsidy started. In 2006, the subsidization for the Nuclei created first ended.

The subsidies per chamber (Table 04) reflect on the one hand the different financial capacities of the Nucleus members of the individual chambers. CCICP had the highest subsidy per participant. The CPWCIC relative to the number of Nuclei and members was the most active chamber with almost four activities per Nucleus. Due to a very engaged CEO and counsellor, CPWCIC was the first to run Nucleus activities subsidized and not subsidized business like.

Year	**Nuclei with >0 activities**	**Activities**	**Number of participants**	**Total costs in TRs[20]**	**Nucleus share in TRs**	**Financed per participant in TRs**	**ESSP Subsidy**			
							in TRs	**per participant in TRs**	**per activity in TRs**	**in % of total costs in Rs**
2003	4	8	118	969	267	2.3	702	5.9	88	72%
2004	37	71	963	4,826	1,285	1.3	3,541	3.7	50	73%
2005	36	63	1,145	8,305	2,858	2.7	5,447	4.7	86	66%
2006	70	120	1,883	14,347	6,491	3.4	7,856	4,2	65	55%
Total	**97**	**262**	**4,109**	**28,447**	**10,901**	**2.7**	**17,546**	**4.3**	**70**	**61%**
Total in T€				219 T€	84 T€	21 €	135 T€	33 €	538 €	
Without Nuclei supported by SEEDS that started only in 2006										

Table 03: Subsidization of reported Nucleus activities from 10/2003 until 12/2006[21]

[19] In other countries and projects, this led to kick back payments.

[20] The amounts do not include the chamber's administration costs and an eventual surplus of together up to 10%, partially integrated into the prices for the participants.

[21] These and the following figures refer to all Nuclei, not only to those whose participants had been partially interviewed; ESSP (2006/01)

Chamber	Nuclei with >0 activi-ties	Subsidized Nucleus activities		Number of participating SMEs		Total subsidy in TRs		Subsidy per	
								partici-pant in TRs	activ-ity in TRs
CCICP	23	62	24%	1,028	25%	4,883	28%	4.8	79
CCIUP	19	41	16%	781	19%	3,300	19%	4.2	80
CPWCIC	15	56	21%	925	23%	3,641	21%	4.3	65
MDCCIA	10	25	10%	466	11%	1,799	10%	3.9	72
NCHSL	10	30	11%	301	7%	1,001	6%	3.3	33
PAEA	20	48	18%	608	15%	2,922	16%	4.8	61

Table 04: Subsidization of Nucleus activities from 10/2003 until 12/2006 per chamber[22]

When the entrepreneurs start to participate in a Nucleus, the majority has in mind that financial means in form of grants are the solution of their problems. Consequently, as Table 05 shows, subsidized investments in equipment are attractive for them (20% of the activities, 37% of the total amount of subsidies) although only few admitted that possible subsidies motivated them to participate (Chapter 5.5). To favour subsidized hardware investments changed. Their share decreased from 50% of all activities in 2002 / 03 to about 25% in 2004

Activity type	Activities		Number of participants in activities		Total sub-sidy in TRs		Subsidy per	
							partici-pant in TRs	activity in TRs
Individual consulting	5	2%	72	2%	69	0%	1.0	14
Investment in buildings	2	1%	24	1%	125	1%	5.2	63
Investment in equipment	53	20%	645	16%	6,610	37%	10.2	125
Missions to other countries	8	3%	79	2%	3,299	18%	41.8	413
Trade fairs, marketing	9	3%	202	5%	1,119	6%	5.5	124
Training CEFE	10	4%	120	3%	564	3%	4.8	61
Training in technology	115	44%	1,643	39%	4,593	26%	3.1	41
Training in business administration	13	5%	163	4%	441	2%	2.7	34
Visits to enterprises, trade fairs, training institutions and others	45	17%	552	14%	373	2%	0.6	8
Special events	3	1%	704	14%	353	5%	28.6	296

Table 05: Subsidization of Nucleus activities from 10/2003 until 12/2006 per activity type

22 ESSP (2006/1) – NCHSL since beginning of 2005.

and 2005 and to 13% in 2006. More entrepreneurs became aware that the "soft" activities like training, consulting, trade fairs and visits to other enterprises and institutions in the context of the Nucleus work are more relevant for them. The number of "soft" activities is four times higher than the one of hardware investments.

The subsidization of trade fairs organized by chambers and Nuclei proved to be problematic. A trade fair makes sense only if it is regularly repeated once or twice per year in order to get a name and reputation and by this the necessary number of exhibitors and visitors. A newly installed trade fair hardly produces a surplus for the organizers during the first and second year. This can justify a subsidization. However, there must be a perspective that after this initial period the income from stands and entrance fees will cover the costs. The problem is that the participating entrepreneurs calculate the costs and prices of their products not on a full cost basis on a cost minus the subsidy basis. This can lead to the unwanted effect that at the end the consumers are subsidized.

Foreign trips are the most expensive activities. One has to keep in mind that the participants financed more than 50% of the costs themselves. Nevertheless, they became increasingly interesting for the Nuclei. For most entrepreneurs it was the first time visiting another country and to compare enterprises, technologies, products and markets with their own. In order to guaranty a high quality of the foreign trips the Nucleus Subsidy Committee defined specific rules and regulations, which were strictly followed.[23]

Table 06 illustrates – even when Nucleus members participated in more than one subsidized activity – the very low share of the ESSP subsidization with 4.6% in 2004 and 5.5% in 2005 of the Nucleus member's yearly average investment.

Year	Average turnover of SMEs per year in TRs	Average investment per year in TRs	ESSP subsidy		
			Subsidy per participant in TRs	in % of yearly turnover	in % of yearly investment
2004	1,246	79	3.7	0.3%	4.6%
2005	1,424	66	4.7	0.3%	5.5%

Table 06: Comparison of Nucleus entrepreneur's investments with ESSP subsidies

When looking at the average turnover levels of more than 1 Mio Rs per year at the same time one understands that the subsidies are so marginal that they could possibly not have had effects on the economic performance of the Nucleus enterprises. In other words: in the context of the Nucleus Approach, the economic development of the enterprises is and was never financed with subsidies. But it served its main purpose. As the growing number of Nuclei and Nucleus members show (Chapter 4.7) the subsidization provided a basis for the rapid growth of the Nucleus movement in Sri Lanka.

The whole process has been functioning very smoothly and – as we believe – successful.[24]

23 ESSP (2004/2)

24 Comment of INTEGRATION GmbH, the implementing consulting company, at the beginning concerning the management of the funds: "This does not work; such funds caused only trouble for us!" Three years later: "We admit, it works!"

If we could turn back the wheel of time to 2002 / 03 what would we do differently?

- Perhaps not to subsidize hardware investments – or to limit it to the first year – in order to stress still more the importance of the software investments.
- To stress even more than it was done that all components of a programme apply the same subsidization principles. The entrepreneurs are clever, find out, and use very fast all contradictions.[25]
- To end the subsidization of the Nucleus activities between six and 12 months before the project ends. This gives the opportunity to accompany chambers and Nuclei during a transition period to adapt to the new situation.

Nevertheless, if possible one should apply the Nucleus Approach without subsidies due to a very simple reason: even when the system is functioning relative efficiently, its management and administration and the frequent discussions with the chambers used a minimum of one third of the work capacities of the whole team and deviate inevitable from the core businesses counselling and training.[26]

The decisive question for the sustainability of the Nucleus Approach's impact is, whether the subsidy exit strategy of ESSP works. We will come back to it in Chapter 7.

1.6.2 Subsidization of the Chambers' Overhead Costs

Running Nuclei causes the chambers additional costs: counsellors, transport, material etc. In the beginning, almost none of the chambers were able to finance these costs. The request for financial support was therefore predestined.

ESSP introduced a performance oriented subsidy system according to the motto "subsidies against performance": the chambers receive an annually decreasing amount calculated in accordance with

- the number of active Nuclei stimulating the creation of new Nuclei
- the number of Nucleus members who are chamber members paying membership fee stimulating the chambers to integrate the entrepreneurs as membership fee paying chamber members thus increasing their income in a sustainable way
- The membership fee amount – stimulating the chambers to define reasonable membership fees and an appropriate membership fee system in order to decrease their financial dependency from donors.

The first criteria worked very well; the second much less than expected; the third one failed (Chapter 6.4.)

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25 A chamber CEO to the other one: "If you do not get it from the Nucleus Team then go to the other component, there you will get it."

26 The Brazilian chamber partnership project discussed the introduction of a credit guarantee fund. One entrepreneur rejected it with the argument: "If you come with money we start to dispute among us entrepreneurs and the project will loose its focus. Let us continue to concentrate on the organizational development of the chambers – without funds!"

The system aims at keeping the administrative workload low: current costs of the chambers do not have to be accounted and paid for, nor controlled by the project staff avoiding also eventual manipulations. Only the number of Nuclei and their members needs to be monitored and this needs to be done anyway in order to monitor the project progress. In addition, the payments are executed only after the presentation of the necessary m&e material and statistics for the programme. Therefore, they always came in on time.

Considering the salaries of Nucleus counsellors in the beginning between 5,000 and 10,000 Rs, now in 2006 between 8,000 Rs and 15,000 Rs, the average monthly overhead cost subsidies per chamber (Table 07) covered approximately these salaries but not much of the additional costs. This corresponds with the objective: to put pressure on the chambers to increase their income by membership and service fees.

Nevertheless, the chambers tried to increase the subsidization especially at the point of yearly reduction by complaining that the overhead cost subsidy would not cover the costs of the Nuclei – having in mind a solution for their general financial problems.

Chamber	Overhead cost subsidy		
	Starting period	**Total since start and 12/2006 in TRs**	**Average per month in TRs**
CCICP	06/2003	983	23
CCIUP	10/2003	610	16
CPWCIC	06/2003	735	18
MDCCIA	06/2003	607	14
NCHSL	03/2005	203	10
PAEA	01/2004	612	17
Total	06/2006	3,851 = 29 T€	89 = 687 €

Table 07: Chamber overhead cost subsidies

The compromise – we did not want to change the system and its market principles – were attractive financial awards from 2005 onwards in the context of annual competitions referring to the number of new chamber members, most Nuclei etc. This seemed to have a strong and visible impact the first time in 2006 showing a considerable increase in Nuclei and chamber members.

If we could turn back the wheel of time to 2002 / 03 what would we do differently?

Clearly to link the subsidies still stronger to the efforts of the chambers to increase membership, thereby their income from membership fees and services. This would have increased the chances for sustainable impact in the sense that the chambers are ready and able to provide services and to grow along their increasing tasks; in addition, by doing so, to become financially independent some day. The situations within the implementing partners at present indicate that for those that chose to use the approach to their advantage it worked (CPWCIC, PAEA) while for those chambers that saw it merely as a means of providing subsidies it did not (MDCCI).

2 The Survey

2.1 Objectives of the Impact Analysis and Result Assumptions

The impact of interventions in the context of a project of development cooperation refers to the following criteria.

- Significance
- Broad based effects
- Institutional sustainability

Significance in the context of the Nucleus Approach stands for relevant changes

- in the participating enterprises concerning business administration, technology and management and as a consequence increased profit
- in the chambers concerning their organizational structures and efficiency.[27]

Broad based effects refer to the quantity of mobilized enterprises and chambers.

Institutional sustainability aims at the continuity of the entrepreneurs' networks in the framework of Nuclei and chambers after the end of the promotion of the project.

This impact analysis serves the following objectives.

- Assessing of the impact of the application of the Nucleus Approach in the context of the ESSP from 2002 to 2007 in reference to its objectives and the above listed criteria.
- Identifying and compiling lessons learned in the sense of what worked and what did not work and why in order to convey impulses
  - for the further implementation of the Nucleus Approach in Sri Lanka, the promotion of chambers, SMEs and the economy
  - for the application of the Nucleus Approach and the design of respective projects in other countries and continents.
- Presenting a mirror to the participating entrepreneurs and chambers in order to stimulate respective reflections and perhaps further developments.

This impact analysis is based on

- the interviews of 852 entrepreneurs of whom 50% had been interviewed twice in 2005 and 2006. 12% of them belong to the respective control group, which consists of chamber members not participating in Nuclei. For the details see the following chapter
- statistics and other information from the ESSP m&e system
- observations and experiences of the Nucleus team
- comparisons with the application of the Nucleus Approach in Brazil since 1991

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27 See for example Hannig, Wolfgang; Trommershäuser, Sabine; Brömmelmeier, Marita (2001)

- additional information from external resource persons and interpretation of the data.

One part of the analysis concentrates on the description of the Nucleus entrepreneurs and their companies:

The Nucleus entrepreneurs
Who are they? Which characteristics do they have? In which way are they prepared for their entrepreneurial activities? (Chapter 3)

The Nucleus enterprises
Which characteristics do they have concerning founding date, legal status, location and premises, employment, turnover and investments, credits and usage of business development services? (Chapter 4)

The other part of the analysis refers to the changes that have taken place due to the application of the Nucleus Approach. Based on its design and the experiences in Brazil some hypothesises were defined

Relationship of the entrepreneurs with each other
Enterprises in an unfriendly, hostile environment have fewer chances to prosper than in a friendly, constructively stimulating environment.

Hypothesis: through their participation in Nuclei, entrepreneurs learn to know each other and from one another, perceive that they have much more in common than they thought at first. This leads to an improved relationship between them (Chapter 5.9).

Relationship between entrepreneurs and chambers
Without concrete and operational services with direct returns chambers are not very attractive for SMEs.

Hypothesis: with the organization of Nuclei, chambers offer SMEs adequate services and increase their acceptance. Consequently, more SMEs apply for membership (Chapter 6.3).

Organizational development of the chambers
Sustainable organizational changes in chambers occur less due to external interventions and more due to inner organizational pressure.

Hypothesis: entrepreneurs organized in Nuclei gradually commence to participate in the organizational development of their chambers by requesting more and better services and lobby as well as increasing performance of the professional and honorary staff (Chapter 6.2).

Changes in the enterprises
Owners of small firms are isolated in their enterprises. They do not know where they stand compared to the others and what other possibilities exist concerning technology, techniques and business administration. Consequently, they are very hesitant about changes.

Hypothesis: through the participation in Nuclei and common Nucleus activities entrepreneurs get ideas for their companies and courage. Step-by-step improvement processes start (Chapter 4.10).

- If the hypothesis is confirmed then it should be possible also to assess the economic success (turnover, productivity, Chapter 4.7).

- Even if the hypothesis is correct, it will be difficult to observe increased employment in the enterprises based on the participation in Nuclei. Presumably, many enterprises are overstaffed and use their capacities suboptimal. Therefore, the expectation is more that during the first years the enterprises start to increase their productivity and not the employment (Chapter 4.6).

Relationship between SMEs, chambers and BDS providers
The demand for BDS services is low, because the SMEs do not know what kind of services they might need and how and where to demand them and whether the offers are profitable. Therefore, a non-relationship prevails between entrepreneurs and BDS providers.

Hypothesis: problems identified in the Nucleus by the entrepreneurs themselves lead to a structured and more qualified demand for services (training, counselling, etc.) thus influencing the supply of BDS. More entrepreneurs participate in more BDS activities (Chapter 4.5).

Investment climate
The framework conditions and / or invest climate stimulate / hinder entrepreneurial activities.

Hypothesis: an improved relationship among the Nucleus entrepreneurs, more active chambers with many service and lobby activities, successful and encouraging changes in the enterprises lead together with the overall economic development to a better investment climate (Chapter 4.12).

The impact monitoring and the result analysis in this report will prove these hypotheses true or false.

2.2 Questionnaires and Data

2.2.1 Composition of Interviewed Entrepreneurs

In order to provide a first idea about the interviewed entrepreneurs, here are some basic information.

- The database consists of 852 entries.
- 40% of the entrepreneurs are females, 60% males.
- 48% of the enterprises are registered, 52% not.
- Table 08 shows the composition of the interviewed enterprises in reference to their number of employees and therefore their size. More than three quarter have up to five employees and are defined as "micro enterprises" in the Sri Lankan context.

Employees	in 2005 or 2006	
	Enter-prises	in %
Totals	852	100%
no data	5	1%
>= 0 and <= 5	667	78%
>= 6 and <= 10	100	12%
>= 11 and <= 20	47	6%
>= 21	33	4%

Table 08: Data sample in reference to employment

- The Nucleus enterprises had in 2005 on average a monthly turnover of 119,000 Rs / 915 €; 39% of them one of only up to 20,000 Rs / circa 150 €.

2.2.2 The Questionnaires

A questionnaire (Annex 10.2) was used for data collection with slight variation between the one used by one of the external interviewers and the one used by chamber counsellors / the other external interviewers. The latter did not contain the question about the evaluation of the counsellors' performance. We assumed that the entrepreneurs would not provide an open feedback directly to her / his interviewing counsellor. In addition, we left some questions out in order to reduce the questionnaire's complexity. Consequently, some analyses refer to a reduced sample of 106 entries.

2.2.3 The Data

Table 09 shows 852 Nucleus and non-Nucleus entrepreneurs interviewed during the first half-years of 2005 and 2006; 49% of them by external interviewers and 51% by chamber counsellors.

Interviews	2005	2006	in 2005 & 2006		Total	
			Number	in %	Number	in %
Totals	490	790	428	50%	852	
a1) by external interviewer	102	411	318	74%	418	49%
a2) by counsellor	388	379	110	26%	434	51%
b1) of Nucleus members	468	691	413	96%	746	88%
b2) of Non-Nucleus members	22	99	15	4%	106	12%

Table 09: Interviewed entrepreneurs

428 (50%) entrepreneurs were interviewed both in 2005 and in 2006. Although one should not expect big changes from one year to the other their answers serve to show elements of change processes.

Due to changes of Nucleus counsellors in the chambers and the use of more external collaborators in 2006 different persons interviewed about 70% of the 428 entrepreneurs in both years. Comparisons showed, that not many (wrong) entries had to be corrected and that the answers tend to go into the same directions. This indicates a reasonable quality of the interviews and data.

746 (88%) of the entrepreneurs are participants of Nuclei. The control group of chamber members, but non-Nucleus entrepreneurs, consists of 106 (12%). After the data collection 2005 it was discovered that in reference to their characteristics (employees, turnover) they differed too much from the Nucleus enterprises.[28] In order to make the control group more comparable with the Nucleus entrepreneurs, only 15 of them were again interviewed in 2006 and in addition 84 other non-Nucleus entrepreneurs with characteristics closer to the Nucleus members. Nevertheless, the control group's enterprises still differ considerably compared with the Nucleus companies concerning age, turnover and number of employment. We refer to them as "more established" enterprises.

As will be seen in the following chapters the Nucleus enterprises developed better between 2002 and 2005 than the non-Nucleus chamber members. We estimate that if we had taken non-Nucleus-non-chamber members as control group the differences in development to the Nucleus members would have been even bigger. However, when we designed the impact analysis we had difficulties as how to identify a representative sample of non-Nucleus cum non-chamber members.

2.2.4 Representativeness of the Interviewed Entrepreneurs

The chamber counsellors selected the interviewed entrepreneurs.[29] They certainly chose those, to whom they had the best personal access: more frequent participation in Nucleus activities, more positive personal relationship, expectation of more positive answers concerning the Nucleus and the counsellor's performance, etc. It is probable, that the interviewed entrepreneurs represent an "elite" among the Nucleus entrepreneurs.

The bias caused by the selection of the sample through the counsellors is partially set off by the relatively high percentages – between 38% and 84% – of Nucleus entrepreneurs that were interviewed.

Table 10 shows the interviews per chamber. The percentages in reference to the total of Nucleus members differ from one year to the other not only because of different sizes of the samples but also due to the changing numbers of Nucleus participants.[30]

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28 The interviewer had concentrated on board members of the respective chambers. In general, bigger enterprises are overrepresented in the boards compared with the average of the membership. Due to this reason, we excluded, for example, one enterprise with 1,000 employees from the database – it would have influenced all analyses.

29 The alternative, to collect the names of all Nucleus entrepreneurs and then to make a random selection, would have been too complicated and would have caused much more work.

30 The ESSP Nucleus statistics count only the members of "active" Nuclei, which performed a minimum of two activities during the previous three months. NCHSL had started Nuclei at the beginning of 2005 and it was included into the impact analysis only in 2006.

2.2.5 Quality and Validity

Chamber	Share of interviewed Nucleus members in reference to the totals on 31.03 of the respective years			Total of interviewed Nucleus & non-Nucleus members	Share of sample per chamber
	2005	2006	in 2005 & 2006		
	in %	in %	in %		in %
Total	58%	54%	34%	852	100%
CCICP	61%	38%	21%	209	25%
MDCCIA	50%	70%	38%	209	25%
CPWCIC	75%	45%	45%	89	10%
CCIUP	61%	84%	66%	182	21%
PAEA	48%	48%	48%	67	8%
NCHSL		50%	0%	96	11%

Table 10: Interviews in reference to the participating chambers

As usual in such types of interviews and analyses there are possible errors getting the statements of the entrepreneurs, entering the data into the database and interpreting the results.

The entrepreneur:

- Did s/he understand the question in the intended way? – The questionnaires were in English and the interviewers translated them freely into Sinhalese or Tamil.

  There are two questions with which the entrepreneurs (and presumably also the interviewers) had most difficulties.

  a) The assessment of the lobby activities of the chambers. The concept of lobbying is not as widely known as a mandate of business chambers in Sri Lanka. Entrepreneurs do not always understand the objectives of lobbying and what the membership can and cannot expect from its impact.[31]

  b) The evaluation of the "investment climate", because this is a relatively unknown expression. There are indications that the answers refer more to the perceived present business and market situation relevant to the interviewed entrepreneurs. They did not consider other elements of the investment climate like infrastructure, politics, credits, legal system, public economic promotion strategies, etc.

  There are some other questions affecting the validity[32] of the answers. More about this follows in the respective chapters.

- Did the entrepreneur answer in the "right" way or did s/he with or without intention tell some "untruths"?

  a) One of the basic elements of the Nucleus Approach is the improvement of the relationship between the participating economic actors. Consequently, the changes subjectively perceived by the entrepreneurs are as relevant for this impact analysis as objective factors.

  b) As in many other cultures to be friendly and polite in Sri Lanka means to be affirmative.

[31] This was confirmed during the lobby workshops, which we did with board members of the chambers.

[32] Validity: is measured what is intended to measure, in this case: do the answers correspond to the questions

Entrepreneurs may have “lied” because they did not want to displease the interviewer. Nevertheless, the questionnaires show many critical and even self-critical answers (example: the question about the evaluation of the own enterprise). In addition, the qualitative additional notes which one interviewer added to the questionnaires contain many critical (helpful) observations of the entrepreneurs concerning other entrepreneurs, the Nuclei and the chambers. However, we cannot totally exclude the possibility that the entrepreneurs answered sometimes in a way that they thought would please the interviewer or ESSP.

c) A counsellor may have tried to influence the entrepreneurs to give positive answers in order to appear in a better light. The comparison of the data from one year to the other – an external person interviewed the same entrepreneurs in the second year – does not indicate a relevant impact on the results.

d) The assessment of the chambers and enterprises consist of iterative questions about segments of the entities and end with a question about an overall rating of the performance and situation. As will be shown, the scorings concerning the overall situation are frequently better than the average of the scoring of the individual elements (example: the chamber services are evaluated with “fair”, the lobby function also with “fair”, but the overall performance of the chamber as “great”). This means, that during the interview process the individual elements are critically evaluated, but that the total is – as often – perceived as better than the sum of the parts in the sense ‘… but in the end the chamber is pretty good!’

e) As everywhere, entrepreneurs do not like very much to talk about their financial affairs. We heard that some entrepreneurs had reported a monthly turnover of less than 500,000 Rs although they had a higher one. The explanation given was that a turnover of 500,000 Rs and more is taxable, below that is not. Due to the fact that entrepreneurs are cautious persons by nature related to revealing financial status as they never know what will happen with the provided information – ESSP is a government project – they preferred to downsize their turnover. 43 entrepreneurs informed about a monthly turnover of between 250,000 Rs and 500,000 Rs, 60 about a turnover of more than 500,000 Rs. Therefore, if some of the enterprises belong in reality to the next turnover class this may only slightly change the results.

f) Some logically contradictory answers were corrected by interviewing the entrepreneur again. Nevertheless, there remain a few answers, which do not fit together.[33]

The interviewers:

- The interviewing chamber counsellors and external persons certainly interpreted the questions and the answers in different ways, thus functioning as filter. This has been partially

[33] Examples: when information about investments / turnover / employees are given for the year 2002 onwards then the enterprise cannot have been founded in the year 2004. Or: when the entrepreneur is today between 46 and 55 years old and he is the founder of the enterprise, then the information, that the enterprise was founded in 1960 is obviously inaccurate, because it would mean, that the entrepreneur was at that time between 0 and 11 years old.

compensated by the fact that 70% of those entrepreneurs, who were questioned in 2005 and 2006, were interviewed by different persons.

- Of course, not all questionnaires are completely filled, either because the interviewer forgot to ask a question or to note the answer or the entrepreneur gave no or an unclear answer. On average circa 95% of the entrepreneurs answered a question. When several questions are joined together in the database queries then automatically the number of analysed entries decreases.[34] Therefore, the samples always vary.
- Last not least, whatever can happen, one day will happen: one counsellor filled the questionnaires himself.[35] But due to the fact that the same entrepreneurs were interviewed in the following year by another interviewer and because of the small number of these “self interviews” we do not expect any relevant impact on the analyses.

The data entering colleagues

- There is always room for error in data entry. Whenever possible we filtered them out.[36]

2.2.6 The Database and its Reports

The data were entered into an MS ACCESS database. The respective queries were transferred into reports, which were varied by using the different keys. The files were saved as reports in PDF-format, altogether close to 2,000 files. They are attached to this analysis on CD. All PDF-reports can be reconstructed by the database. They contain agglomerated data and no names, addresses, etc. of the interviewed entrepreneurs. Therefore, it is not possible to identify the answers of an individual person. In case the database will later be handed over to a third party for further analysis the names, addresses, etc. will be erased beforehand.

2.2.7 Conclusion

In general, there are no major reasons not to assess the data quality as relatively good.

The presented results provoke many questions: what are the reasons for these results? Are there specific logics concerning economic activities in reference to gender, ethnicity, religion, education and training of the entrepreneurs and / or the juridical status, the size and the sector of the enterprises? What are the consequences for other projects applying the Nucleus Approach?

Based on the existing data quite a number of open questions cannot be answered. This will be indicated.

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34 Example: of entrepreneurs E1 to E10 the first three E1 to E3 answer question A, the second three E4 to E6 question B and the last four E7 to E10 questions A and B. When question A is analysed seven answers are shown (E1 to E3 and E7 to E10); when questions A and B are joined in a query only four answers of E7 to E10 appear.

35 The counsellors were remunerated per filled questionnaire.

36 Example: the persons working in the enterprise consists of individual entries for the total number inclusive the entrepreneurs and entries of the subcategories. The total of the subcategories plus 1 must be equal to the first entry. This helped to reduce the errors during the interviews and when entering the data.

3 The Entrepreneurs

The chamber CEOs and counsellors selected the sectors and entrepreneurs with whom to start Nuclei. The ESSP Nucleus team trained them to apply some basic criteria for an appropriate selection – see box. The message was not to select a sector in reference to economic parameters but to socio-economic and structural ones in order to increase the chances for a successful start of Nuclei. The rule is: start with "easy" sectors and not with complex and difficult ones. The difficult sectors can be dealt with when the counsellors have more practical experiences and the chamber has proved that Nuclei can function successfully.

Favourable preconditions for the sector selection of Nuclei at the beginning

- Leadership
  The sector has entrepreneurs with leadership capacities
- Qualification
  The entrepreneurs of the sector have medium qualifications
- Organization
  The sector is not the strongest and not the weakest
- Structure
  The sector is heterogeneous and homogeneous to a medium degree
- Quantity :The sector consists of many enterprises
- Investments
  The entrepreneurs can improve technologies and techniques in many small steps without larger financial investments
- Know-how Sources
  External know-how sources and Business Development Service (BDS) providers exist in the region for the sector

The counsellors followed more or less these criteria. But what was not considered during the initial stages was another criterion which they started to apply: select those entrepreneurs who accept me right away as counsellor and who I can successfully reach because of my social status, personality and knowledge. In the beginning but also sometimes later the counsellors were not very much qualified. Some were graduates just coming from university and served as daily paid assistants in chambers. They oriented themselves more towards "weaker" entrepreneurs of them many informal enterprises than towards the stronger and more advanced ones. The counsellors selected those entrepreneurs with whom they felt comfortable with and who accepted them as counsellors. For ESSP as an economic development programme this did not cause problems. The less advanced enterprises belong to its target group. However, the effect was that the chambers of commerce and industry – not CPWCIC, PAEA and NCHSL – had and have difficulties to integrate these enterprises as members thus eventually reducing the projects impacts on the membership increases in these chambers. This subject will be dealt with in more detail later in the report.

A sequence of questions refer to the characteristics of the entrepreneurs: Who are they? Where do they come from? How were they prepared to act as entrepreneurs?

3.1 Gender

In both interview years 41% of the entrepreneurs are female, 59% are male. In the control group of 106 non-Nucleus 67% are men and 33% are women.

Of the twenty nine different Nucleus types six – four run by CPWCIC – show 100% female participation (Batik & Fabric Painting, Beauty Culture, Catering, Tailoring, Patchwork, Textile Items). Additional two are women dominated (Handicrafts, Garment Industries) while ten are pure male Nuclei, mainly due to their work character (Auto AC, Automobile, Carpentry, Computer, Ornamental Fish, Photography, Saw Millers, TV / Radio Repair, Wood Carving). In six Nuclei types – Bakery, Printing, Brass Making, Protected Agriculture and surprisingly also in Light Engineering and Lime Production – there is a small female participation of up to 5%. In the other Nucleus types, the female participation varies between 14% and 50%.[37]

Nucleus members	**Males**	**Females**
CCICP	76%	24%
CCIUP	39%	61%
CPWCIC	0%	100%
MDCCI	66%	34%
NCHSL	72%	28%
PAEA	94%	6%
Total	59%	41%
Non-Nuc members	67%	33%

Table 11: Gender per chamber[38]

When regarding the Nucleus members in the chambers – as can be seen in Table 11 – the figures differ strongly. CCICP and NCHSL run mainly Nuclei in typical male businesses, while CCIUP and to a certain extent MDCCIA run more Nuclei in sectors women like to engage themselves in or in mixed sectors where men and women have businesses (e g Cut Foliage). PAEA seems to be a mostly male dominated organization. The question remains whether this is due to the type of work – we do not see any reason for this – or whether PAEA has certain character of a closed shop for men.[39]

Especially in the cases of CCIUP and MDCCIA, but to a certain extent also in CCICP and NCHSL, the results show how Nuclei, either through specific female or through mixed Nuclei, can open the doors of chambers for female entrepreneurs. Before, their participation in these organizations had been marginal.

Men own almost 80% of all enterprises with more than five employees.[40] Women tend to manage small and micro businesses, which has probably more than one reason: family obligations and social reputation, sector specific barriers to grow, like the beauty culture sector, where the businesses are in general small. Financial bottlenecks could be another reason.[41]

[37] R 05-01 Sex p Sec 1: Nucleus 1-65.pdf

[38] R 05-02 Sex p Cha 2: Nuc 1-62 Sex 1-2 Eth 3-3 Reg 1-4 Emp 0-25.pdf; ~Nuc 2-65 Sex 1-2 Eth 2-2 Reg 1-4 Emp 0-10.pdf

[39] During the second half of 2006 – after the interviews – the PAEA membership doubled. CEO and counsellor stressed that among the new members are also women.

[40] R 05-02 Sex p Cha 2: Nucleus 3-49 Sex 1-2 Eth 1-3 Reg 1-4 Emp 6-10; ~Emp 6-10; ~Emp 11-20, ~Emp 21-50

[41] Reinprecht, Karin / Weeratunge, Nireka (2006), p 58, state that the majority of women invest less than 10,000 Rs into their business, which leaves little room for any growth.

Ethnicity		
Sinhaleses	62%	38%
Tamils	46%	54%
Moors	46%	54%

Table 12: Gender per ethnicity[42]

Looking into the gender proportions of the minority groups we observe that Moors and Tamils have with 54% a considerably higher female participation in Nuclei than their Sinhalese female colleagues with 38%.

The discussion of the authors with Nireka Weeratunge led to the following observations and explanations:

- A surprise is the high share of women engaged in Nuclei. Traditionally they keep away from organizations. Apparently, entrepreneurial activities are becoming socially more accepted in Sri Lanka. This is linked on the one hand with the fact that the public sector is decreasingly capable to absorb all the young people entering the labour market as it had done for long time; on the other hand with an increasing economic pressure on families to generate income.
- However, concerning the females one has to differentiate between the ethnicities. Muslim women have always been engaged in economic activities maybe because their community has been associated with trading and business practices more than other communities. Often their businesses are very small and are not to be recognised from outside. The engagement of Sinhalese and Tamil women in the business sector is a relatively new development.

Tamil and Muslim men work strictly in male dominated businesses such as automobile sector, light engineering, lime production and printing whereas Tamil and Muslim females own typically female businesses such as catering, beauty culture, garment and tailoring. The Sinhalese society seems to be comparatively more flexible and open in terms of confining women to traditional female sectors.

42 R 05-02 Sex p Cha 2: Nuc 1-62 Sex 1-2 Eth 3-3 Reg 1-4 Emp 0-25.pdf; ~Nuc 2-65 Sex 1-2 Eth 2-2 Reg 1-4 Emp 0-10.pdf

3.2 Age

3.2.1 Present Age of the Entrepreneurs

Figure 08 shows that 60% of the entrepreneurs are between 26 and 45 years old. As will be shown below this corresponds to the fact that two thirds founded their enterprises after 1990 being 35 years or younger at that time.

The average age of the female as well as of the male Nucleus entrepreneurs is approximately 40 years[44]; the average age of the control group entrepreneurs is higher at 45 years.

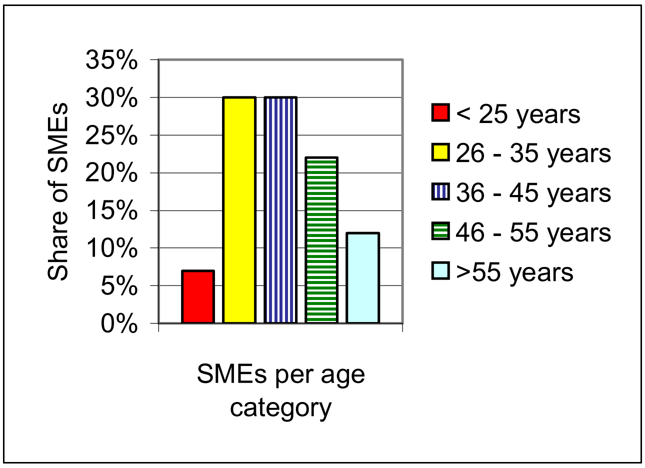

Figure 08: Age in categories[43]

The different queries per chamber, gender, ethnic, status and size of the enterprise lead always to age ranges of between 38 and 42 years. There are few exceptions:

- The age of the mostly Sinhalese CPWCIC and NCHSL female entrepreneurs is with 43 and 47 years respectively considerably higher than in the other chambers. The respective enterprises are also older (7.7 and 10.3 years versus between 5.4 and 6.4 years). In addition, with 35.7 and 35.9 years the CPWCIC and NCHSL women were more mature when they started the enterprise. These chambers have a higher share of women who have earlier worked in employment and entered the entrepreneurial world after they had "retired". The female entrepreneurs in the other chambers started their enterprises being on average less than 34 years old.
- The small group of 15 Moor female entrepreneurs – most of them are MDCCIA members – is on average 35 years old.[45] The difference is partly explained with the fact that Muslim women get married at an earlier age of between 18 and 21 years, which means they have children also at a younger age thereby being "free" to start a business at a relatively younger age. Sinhalese and Tamil women marry with on average 25 years. Consequently, they start their business activities later.[46]
- In case of the male entrepreneurs, those of PAEA are with average 43 years the oldest. Among its members are some above 45 years who entered into the sector after having passed most of their professional lifetime as employee in other sectors, namely in the public administration or a bank.

[43] R 04-01 Age p Cha 1: Nuc 1-65 Sex 1-2.pdf; ~Nuc 99-99 Sex 1-2.pdf

[44] R 04-01 Age p Cha 1: Nuc 1-65 Sex 1-1.pdf; ~Sex 2-2.pdf

[45] R 04-02 Age p Cha 2: Nuc 2-62 Sex 2-2 Eth 3-3 Reg 1-4 Emp 0-5.pdf

[46] Unfortunately the respective samples of Tamil and Moor females are too small to confirm this observation.

- The age of the entrepreneurs correlates positively with the number of employees: entrepreneurs with an average of 39 years have up to five employees, those with 43 years more than 10 employees.[47] We will see later that the big majority of the entrepreneurs founded their enterprise themselves. This correlation is quite natural in the process of a business start (younger, small number of employees) and successful growth during the years that follow (advanced age, more employees).

The average age per sector ranges from 29 years (Radio / TV Repair Nucleus) up to 53 (Lime Industry Nucleus). There are no specific linkages apparent between age and sector identifiable.

The successful functioning of a Nucleus requires certain homogeneity of the entrepreneurs and the enterprises. Only those who are confronted with similar technologies, problems and business situations are able to successfully exchange know how and experiences. It was always assumed that one element of this homogeneity is also the age of the Nucleus participants: entrepreneurs tend to gather in a Nucleus with those of a similar age group because they feel more comfortable with their peers.

Number of age categories	**5**	**4**	**3**	**2**	**1**
Number	15	16	8	4	1
of Nuclei	34%	36%	18%	9%	2%

Table 13: Number of age categories in Nuclei with more than seven interviewed entrepreneurs

However, the analysis of the age categories – see the legend in Figure 08 – of Nuclei with eight and more interviewed entrepreneurs shown in Table 13 does not confirm this hypothesis. In about one third of the Nuclei all five age categories are present (the age is ranging from < 25 years to > 55 years). Another third covers four categories, either from < 25 to < 55 years or from > 25 to > 55 years. Only in the case of 11% of the respective Nuclei with one or two age categories one could talk about “age groups”. This means that in the Sri Lankan context young, medium and older entrepreneurs with different work and life experience apparently do not have difficulties to sit together, to talk about their work and problems, to start common activities and mutually respect each other. This is stressed here, because the Nuclei in the south of Brazil were much more homogeneous concerning the age of the entrepreneurs. Normally they covered a maximum of three of the above age categories.

However, there remains the question how leadership is functioning in the Sri Lankan context. In Brazil, all Nuclei started to elect speakers / presidents about six months after their start. In Sri Lanka, this process started slowly in the third / fourth year after explicit external interventions and is still not progressing well. Leadership, also informal leadership based on personality, means to expose oneself and to assume responsibility. Is this too risky in a society hunted by violent conflicts?

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47 R 04-02 Age p Cha 2: Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~Emp 6-10.pdf; ~Emp 11-20.pdf; ~Emp 21-50.pdf

3.2.2 Age of Start-ups

Figure 09 illustrates the age of the startups when they founded the enterprise. Table 14 shows the data per chamber differentiating between those who started before the year 2000 and since then. In addition, the four right columns of the table list the respective shares of entrepreneurs starting their business when they were more than 35 years.

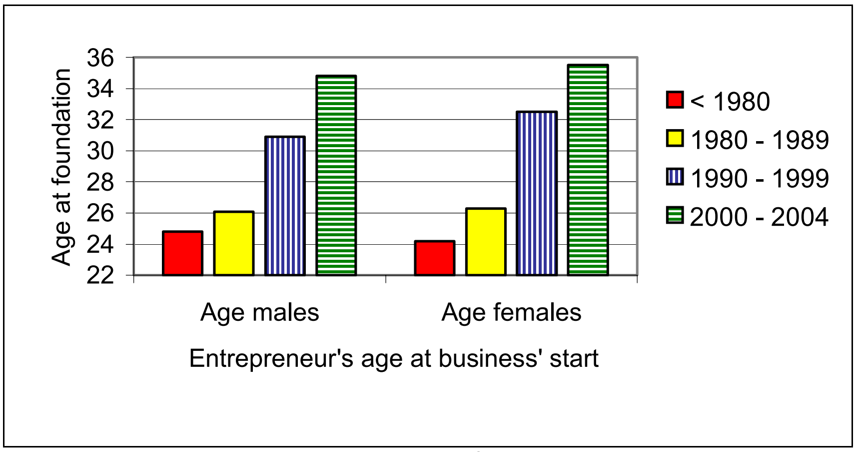

Figure 09: SMEs' age at business start[48]

Startups	Age of SMEs at business' start				Share of SMEs with > 35 years at business' start			
	Males		Females		Males		Females	
	< year 2000	=> year 2000	< year 2000	=> year 2000	< year 2000	=> year 2000	< year 2000	=> year 2000
Nucleus members	29.4	34.8	31.0	35.5	21%	36%	18%	49%
CCICP	27.4	34,4	28.7	34.5	12%	41%	18%	40%
CCIUP	29.0	37,2	29.6	33.9	21%	41%	24%	38%
CPWCIC	–	–	33.8	37.1	–	–	32%	54%
MDCCIA	29.0	32.1	29.0	36.3	20%	27%	23%	61%
NCHSL	25.1	–	30.4	40.2	10%	–	29%	33%
PAEA	34.7	38.7	–	–	45%	41%	–	–
p/ Ethnicity								
Sinhaleses	29.1	34.8	31.5	36.0	19%	36%	27%	52%
Tamils	–	–	26.7	30.0	14%	0%	–	–
Moors	–	–	–	31.4	–	–	–	33%
Non-Nucleus	31.0	39.5	35.8	–	37%	–	60%	–

Table 14: Startups' age per chamber[49]

48 R 13-11 Business Start v Foundation year 1 Nuc 1-57 Sex 1-1 Fou 1940-1979; ~Nuc 1-57 Sex 2-2 Fou 1972-1976; ~Nuc 3-57 Sex 1-1 Fou 1980-1989; ~Nuc 2-35 Sex 2-2 Fou 1980-1989; ~Nuc 1-65 Sex 1-1 Fou 1990-1999; ~Nuc 1-65 Sex 2-2 Fou 1990-1999; ~Nuc 1-65 Sex 1-1 Fou 2000-2004; ~Nuc 2-65 Sex 2-2 Fou 2000-2004

Before 1980, the startups were on average about 25 years old. For the following decades one can observe for the female as well as for the male entrepreneurs an increasing age at the time. They started their business, reaching about 35 years during the last years. This development is caused by increasing shares of people entering into the entrepreneurial world when more than 35 years of age: males before 2000: 21%, now 36%; females before 2000: 18%, now 49%. This tendency is observable in all chambers. Only in PAEA seems to exist a longer lasting tradition to enter into the protected agriculture sector relatively late.

This development to an increasing age of startups means that a decreasing share of persons follow the traditional entrepreneurial career in the sequence of education, training, some practical work experience and start of an enterprise. Instead, an increasing number of persons enter into the market and do something different before for some time. They worked in the public service, as employees in enterprises, women cared of the family, etc.

In discussions, we got two hypotheses as explanations for this development:

- For long time, in Sri Lanka the ideal career for a young person was to enter into the public service due to reasons related to job security. During the last years, this preference started to change and to enter into the business world is becoming socially more accepted. But the share of more matured persons starting a business commenced to increase already in the eighties. Is this change of attitudes and preferences concerning the life career already a longer ongoing process?
- Increasing economic difficulties during the times of civil war and the respective pressure, eventually also increasing wishes for consumption of modern technical goods and services are leading people to look for better remunerated income sources, i.e. to start an own business. The consequence would be that more people enter into the business market not due a respective entrepreneurial spirit and an adequate preparation but due to hardship and a lack of other income generating alternatives.

We will come back to this question again in the chapters about education, training and work experience of the entrepreneurs. There we will see that the younger entrepreneurs are not better prepared for their entrepreneurial endeavours than the older ones. In some cases it is the contrary. This leads to the conclusion that above second hypothesis is probably more relevant for the increasing age of the startups during the last 25 years and that the change of the recognition of entrepreneurial activities is more a following development.

There remains the question about the consequences of the increasing age of the business founders. More matured startup entrepreneurs learn in a different way than younger ones, they have more life experience and they need different business development services, i.e., more short term upgrade and problem solving training courses and less training in basic skills.

[49] R 13-11 Business Start v Foundation year 1 Nuc 1-57 Sex 1-1 Fou 1940-1999; ~Nuc 1-65 Sex 2-2 Fou 1972-1999; ~Nuc 1-65 Sex 1-1 Fou 2000-2004; ~Nuc 2-65 Sex 2-2 Fou 2000-2004; ~Nuc 99-99 Sex 1-1 Fou 1970-1999; ~Nuc 99-99 Sex 2-2 Fou 1930-1999; ~Nuc 99-99 Sex 1-1 Fou 2001-2004

3.3 Ethnicity

It would have been interesting to analyse differences between the ethnic groups concerning the characteristics of the entrepreneurs, their enterprises and the assessment of changes. But due to the small sample of 91 non-Sinhalese SMEs it is difficult to draw statistically reliable conclusions regarding ethnicity out of this survey. The respective figures in this report should be regarded with prudence.

The ethnic composition of the Nucleus entrepreneurs (Table 15) shows that compared to the respective district's population Sinhaleses are slightly over-represented.[51] In total, the control group better reflects the region's ethnic composition:

- Among the CCIUP entrepreneurs are relatively more Tamils (9% of the Nucleus members, 33% of the non-Nucleus entrepreneurs);
- Among the MDCCIA entrepreneurs are more Tamils (8% of the Nucleus entrepreneurs, 19% of the control group) and Moors (7% of the Nucleus members, 25% of the non-Nucleus ones).

	Sinhalese	**Tamil**	**Moor**	**Burgher / other**
Nucleus members	91%	5%	4%	–
males	93%	4%	3%	–
females	87%	6%	6%	1%
CCICP	94%	2%	4%	–
CCIUP	86%	9%	3%	–
CPWCIC	90%	1%	7%	1%
MDCCIA	85%	8%	7%	–
NCHSL	100%	–	–	–
PAEA	100%	–	–	–
Non-Nucleus	79%	11%	8%	2%

Table 15: Ethnic composition[50]

In the Kandyan based organizations, the compositions differ:

- PAEA – operating in Kandy, Matale and Nuwara Eliya districts – appears as pure Sinhalese organization. Presently we cannot explain the reasons. Among the cut foliage producers for example, who also deal with agriculture, there are some Tamils and Moors.
- For NCHSL the same applies. The members work in handicraft sectors of which some are linked to tradition and the caste system. Those engaged in it have been doing so for generations. They are concentrated in some sectors and are also geographically located in traditional handicraft villages (hemp, brassware, gem and jewellery).
- A surprise is that CPWCIC seems to be a mainly Sinhalese – Moor institution. Why does the chamber not attract Tamil female entrepreneurs? Or is this less a CPWCIC question but a Kandyan phenomenon? When looking at the Kandyan organizations there is just one Tamil woman engaged in a Nucleus.[52]

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50 R 051-01 Ethnic p Cha 1: Nuc 1-65 Sex 1-1.pdf; ~Sex 2-2.pdf; ~Sex 1-2.pdf; ~Nuc- 99-99 Sex 1-1.pdf; ~Sex 2-2.pdf

51 Sri Lankan – German Development Cooperation / Metzler, Martin / Gunatillake,, T.K. (2003), p.25

52 After the survey interviews, until the end of 2006 PAEA increased the number of members by one third and the number of Nucleus members by more than 70%, CPWCIC the membership and the Nucleus members by

There are two sectors with samples of more than 40 interviews – brassware and carpentry – where only Sinhalese participate. Concerning brassware, this is due to the already above mentioned concentration in some localities and the relationship to caste and tradition. Carpentry was originally a domain of Sinhalese people on the south coast. From there they disseminated into the centre of Sri Lanka, today still dominating the sector.[53]

Visualization during Nucleus meetings

circa 30%. CEOs and counsellors maintained that among them are also Tamil and Moor entrepreneurs and that therefore the member compositions started to change.

53 Information from Nireka Weeratunge.

3.4 Education

For the survey, the education levels were defined as shown in Figure 10. Close to 80% of the entrepreneurs have an O- or A-Level; the education of 9% of the entrepreneurs is Below O-Level and 13% have a technical diploma or a university degree.

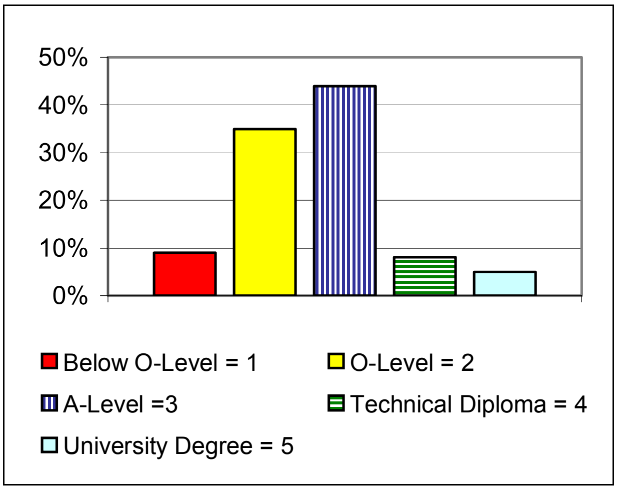

Figure 10: Education of Nucleus SMEs

The average education level of the Nucleus entrepreneurs is 2.6 (between the O- and A-Level). The control group's education is with 2.9 slightly higher.[54]

There are no considerable differences between the chambers (Table 16). The exception is NCHSL with a score of 2.2. This is caused by the ten male hemp handicraft entrepreneurs with an average score of 1.2 and some woodcarvers with one of 1.8. Without these, the average education level would be about the same as in the other chambers.

Chamber	Score All	Men	Women
Total	2.6	2.5	2.8
CCICP	2.8	2.7	3.0
CCIUP	2.8	2.6	2.9
CPWCIC	2.6	–	2.6
MDCCIA	2.6	2.5	2.8
NCHSL	2.2	2.1	2.6
PAEA	2.5	2.6	–

Table 16: Education levels per chamber[55]

The female entrepreneurs with an average score of 2.8 are in all chambers better educated than their male colleagues with 2.5. Women seem to need more education leading to more self-confidence in order to develop the courage to start a business than men. In addition men are under higher pressure to create a family income.

In CCICP, the women reach the highest score of 3.0, which might be due to better urban possibilities. Men in CCICP are slightly better qualified with a score of 2.7 than the male entrepreneurs in the other chambers. This may be due to the sector composition in CCICP where more Nuclei are connected to modern technologies such as printers, computer, saw millers and auto AC. To run these businesses, a higher education level is necessary.

Analysed per sector the statistical spread is wider among male entrepreneurs: the lowest education level is below 2 in some traditional handicraft sectors (hemp 1.2; woodcarving 1.8). Not surprisingly, it is above the average in modern technology based sectors such as print-

[54] R 06-01 Education p Cha 1: Nuc 99-99 Sex 1-1.pdf; ~Sex 2-2.pdf

[55] R 061-01 Education p Cha 1: Nuc 1-65 Sex 1-2.pdf; ~Sex 1-1.pdf; ~Sex 2-2.pdf; R 06-03: Education p Cha: Nuc 1-65 Sex 1-2 Sta 1-1.pdf; ~Sta 2-2.pdf; ~Sex 1-1 Sta 1-1.pdf; ~Sta 2-2,pdf; ~Nuc 1-65 Sex 2-2 Sta 1-1.pdf; ~Nuc 2-48 Sex 2-2 Sta 2-2.pdf

ing, auto ac and computer (with 4.5[56]). The female spread is minor: the lowest score in batik and painting 2.3; the highest in vegetable cultivation 3.0.[57]

We could not detect any significant differences between the education levels in reference to ethnicity, legal status and surprisingly also not to the enterprises size: the owners of bigger registered companies are not better educationally prepared to run their business as those of smaller frequently not registered ones. We will come back to this in the context of other factors influencing the preparation of the entrepreneurs to start a business.

With increasing globalization with fast changing technologies, one would expect to encounter a positive correlation between age and education of the entrepreneurs: The younger they are the better is their education.

It is a big surprise to see that the younger generation of entrepreneurs is not better educated than the older one. As Table 17 shows, the different age groups have similar education levels. There are also no significant differences in age groups' education levels between the chambers or sectors. Some possible explanations are:

Age	Score
< 25	2.7
26 – 35	2.7
36 – 45	2.6
46 – 55	2.6
> 55	2.7

Table 17: Education level per age group[58]

- The Sri Lankan education system did not improve in the past forty years.
- For the better educated the start of an own business is still a second choice. Priority has especially the public sector.
- Due to lack of other income generating alternatives, more poorer and frequently less educated parts of the population start self-employment activities as a last resort. They are compelled by circumstances rather than choice to go in for business activities. Consequently the average education level does not rise.

Entrepreneurial abilities and capacities are of course not automatically connected with education. But as we will see in Chapter 4.7 about the turnover and productivity development there is a clear positive correlation between education and business success.

Another hypothesis was that the business heirs would be better educated than business starters: the entrepreneur parents are more aware of the future requirements related to changing markets, the destiny of the children is more defined, and therefore they invest into their successors.[59] That the children of employed people will act one day as entrepreneur is less probable.

56 R 06-01 Education p Sec 1 Nuc 1-65 Sex 1-1.pdf

57 Sectors with only one female were neglected – R 06-01 Education p Sec 1 Nuc 1-65 Sex 2-2.pdf

58 R 06-05 Education v Age p Cha 1: Nuc: 1-99 Sex_1-1.pdf; ~Sex 2-2.pdf; ~Sex 1-2.pdf; R 06-06 Education v Age p Sec 1: Nuc: 1-99 Sex 1-2.pdf

59 A common problem of crafts and small industry entrepreneurs in Germany: they send the children to university with the effect, that they are not interested to continue the business. Consequently one core task of the chambers is to create a market for enterprises and to link the entrepreneurs with potential non family successors in order to avoid that these enterprises will we closed and the working places abolished.

The opposite case is an unexpected finding: The education score of 2.3 (males: 2.1; females: 2.5) of the inheritors of enterprises – close to the O-level – is below the one of the business starters with 2.7 (males: 2.6; females: 2.8). The explanation we received concerning this phenomenon is, that traditionally the children, who are better in learning, are sent for higher education in order to get a white collar job. The enterprise is left to the son – or in rare cases to the daughter – with the least learning capacities.[60] This is certainly not the best prerequisite for the successful development of enterprises. In Chapter 4.7 we will show that the inherited enterprises performed between 2002 and 2005 less well than those run by the founders.

Nucleus members	**Enterprise Heirs**		**Enterprise Founders**	
Chamber	**Men**	**Women**	**Men**	**Women**
Total	2.1	2.5	2.6	2.8
CCICP	2.6	3.0	2.7	3.0
CCIUP	2.2	–	2.6	2.9
CPWCIC	–	–	–	2.6
MDCCIA	2.0	2.3	2.6	2.8
NCHSL	2.0	2.5	2.3	2.6
PAEA	2.1	–	2.7	1.5

Table 18: Education levels of enterprise heirs and founders[61]

One of the hypotheses of the Nucleus Approach – and the survey findings affirm this – is that with a frequently low education level many of the entrepreneurs never had learnt “How to learn”: how to get knowledge from various sources – books, publications, specialists, institutes etc. – ideas and knowledge on how to improve and develop the enterprise. Specific didactics and strategies are necessary to reach such entrepreneurs. The Nucleus in the chamber serves in this context on the one hand as platform to stimulate self-help learning processes of the participants, on the other hand as instrument to influence BDS providers / trainers and instructors to adapt their didactics to the capacities and abilities of the target group.

What I hear, I forget
What I see, I understand
What I do, I learn
(Confucius)

Nucleus Event 2005 with 800 participants

60 Information from Nireka Weeratunge.

61 R 06-01 Education p Cha 3: Nuc 1-99 Sex 1-1 Sta 2-2.pdf; R 06-01 Education p Cha 3: Nuc 2-99 Sex 2-2 Sta 2-2.pdf; R 06-01 Education p Cha 3: Nuc 1-99 Sex 1-2 Sta 2-2.pdf

3.5 Professional Training

One of the prerequisites for successful entrepreneurs is a profound professional training in technology, business administration, law and management. Therefore, the quality and the quantity of the entrepreneur's professional training serves as indicator for her / his degree of preparation in order to compete in the market, to grow and to maintain the enterprise.

Duration categories of professional training	Calculated with an average of
None	0 years
< 0.5 years	0.25 years
> 0.5 years and < 3 years	1.75 years
> 3 years	4 years

Table 19: Professional training categories

To check the professional training of the entrepreneurs in all details including its quality is a very complex task. For our purpose, just to get an idea about the entrepreneurs' preparation, we asked them about the total duration of any kind of professional training. It is less relevant whether they passed this training in their present profession or in another one. The knowledge once acquired is outdated tomorrow in a fast changing world. More relevant is "how to learn", how to transfer experiences and solutions from one area and sector to the other and how to up-date.[63] In addition, today people cannot expect to have the same profession during their whole life.[64]

Table 20 reveals that 43% of the entrepreneurs – 51% of the male and 31% of the female ones – have not passed any professional training. This under economic and enterprise development aspects is significantly high.

The table also shows huge differences on the one hand between the male and female entrepreneurs and on the

Chamber	Prof. Training of Men			Prof. Training of Women		
Nucleus members	**No**	**Yes**	**Average years***	**No**	**Yes**	**Average years***
CCICP	40%	60%	2.0 y	20%	80%	1.1 y
CCIUP	26%	74%	1.3 y	13%	87%	1.5 y
CPWCIC	–	–	–	59%	41%	1.4 y
MDCCIA	65%	35%	1.6 y	32%	68%	1.0 y
NCHSL	65%	35%	2.0 y	48%	52%	1.8 y
PAEA	57%	43%	0.5 y	25%	75%	1.5 y
Total	**51%**	**49%**	**1.6 y**	**31%**	**69%**	**1.3 y**
Non-Nuc members	44%	56%	3.3 y	40%	60%	3.3 y
* Calculation with only those with professional training						

Table 20: Entrepreneurs without and with professional training[62]

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62 R 08-01 Prof Training p Cha 1 Nuc 1-65 Sex 1-1.pdf; ~Sex 2-2.pdf; ~Nucleus 99-99 Sex 1-1.pdf; ~Sex 2-2.pdf

63 The German professional dual training system in the area of crafts and small industries consists of an apprenticeship of about three years, a couple of years of practical experiences as qualified technician and for those who want to become an entrepreneur in her / his field the passing of a test in order to get the title of a "Master". Until the sixties, the acquired knowledge until then was more or less sufficient for the rest of the professional lifetime. Since then, the situation is continuously changing dramatically. New technologies, new materials – the carpenter deals today also with plastic and aluminium – , data processing, management, financing, etc. puts a high pressure on the entrepreneur to permanently continue to update her / his knowledge. Otherwise, very fast s/he will disappear from the market.

64 There are many examples for this in Brazil, where it is very common to jump between different sectors.

other hand between the chambers.

- In all chambers, considerably more women (total 69%) answer to have had professional training than male entrepreneurs (49%). This could signify two things:
  a) Women tend to follow the principle “Before I start something I have to know”;
  b) The inner barriers of men to start something without knowing are lower. Whether this is a more risk accepting attitude or a more dangerous game is another question.
- The lowest shares of female entrepreneurs with professional training are in CPWCIC and NCHSL with 41% and 52% respectively. Both chambers also have the female Nucleus members with the highest average age. These facts together indicate that they attract more women who – after the children have grown up – start self-employment activities, which are based on common house and garden knowledge and traditional handicraft production.[65] The other chambers with on average younger women eventually reach some more “career” women in the sense, first they study something, then they practise the profession and afterwards they start their business.
- The most prepared entrepreneurs concerning professional training are found in the CCIUP Nuclei. This is a surprise because Badulla is frequently marked as a remote[66] and backward town. In the MDCCIA, the situation is totally different with the lowest shares of trained entrepreneurs of all chambers of commerce and industry included in the survey. Concerning the reasons presently we can only ask:
  – Does it indicate a better functioning vocational training system in Badulla and a worse one in Matale?
  – Does it indicate that in Badulla more traditions exist to contract professionally trained people as employees than in Matale?
  – And does this mean that more entrepreneurs in Badulla are less afraid that trained employees will leave one day, move to a competitor or start their own enterprise thus increasing the competition?[67]
- The relatively low NCHSL indices with 35% trained male and 52% female entrepreneurs might be understandable considering the fact that the traditional handicraft sector is characterized as low-tech and no-tech sector where it is custom that the old generation passes its knowledge on to the young generation without much formal training.
- Compared with the Nucleus members more of the non-Nucleus males passed a professional training (56%) and less of the females (60%) did so.

The last columns in Table 20 show the average duration of the entrepreneurs’ professional training (based on the algorithm in Table 19). This one serves as indicator for the quality of the training. A training of less than six months can mean a course of one day, but also one of

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65 Comment of a CPWCIC entrepreneur: “Some members participate for fun. We cannot achieve our goals!”

66 From Badulla, a small truck needs about six hours to Kandy and 12 hours to Colombo.

67 Small story from Matale: The light engineer entrepreneur explains his career: He passed a professional training, was then contracted as qualified employee by a company and after a couple of years he founded his own small workshop. Question: “Did your three employees pass a professional training?” “No, they did not, they are all unqualified workers and I trained them in what they have to know.” “Why don’t you employ qualified technicians?” “They may run away after a short time.” – This means, the entrepreneur found an employer who gave him a job after he had passed the professional training. But what had happened to him he is not ready to transfer to others.

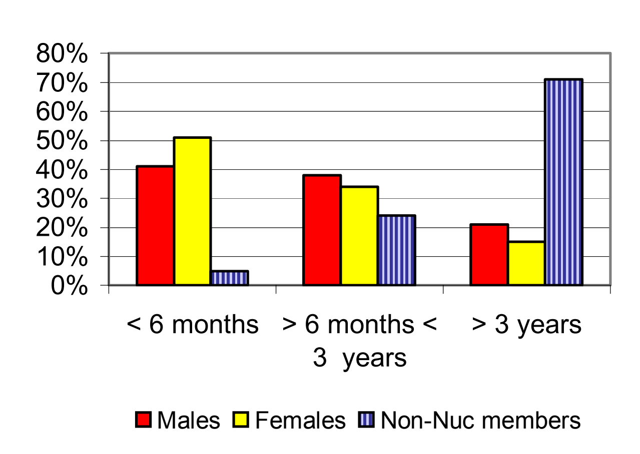


Figure 11: Duration of professional training

180 days. In general – compared with the international level – such training as a rule does not produce really qualified professionals. This concerns (Figure 11) 46% of the trained or 26% of all entrepreneurs. 54% got a more qualified training of more than six months, 21% of the males and 15% of the females even one of more than three years. Only about one third of the Nucleus entrepreneurs received a qualified professional training considering the aspect of the duration. An ILO study confirms this finding[68]. A minority of the entrepreneurs has received formal training and if so usually short ones by programmes supported through government or micro finance institutions.

Nuc members	Prof. Training		
Samples	**No**	**Yes**	**Average years***
All[69]	43%	57%	1.5 y
p/ Age[70]			
< = 25	44%	56%	1.3 y
>25 <= 35	41%	59%	1.5 y
>35 <= 45	43%	57%	1.4 y
> 45 <=55	41%	59%	1.5 y
>55	49%	51%	1.2 y
p/ Ethnicity[71]			
a1) Sinhal. – M	52%	48%	1.6 y
a2) Sinhal. – F	32%	68%	1.2 y
b1) Tamil – M	62%	38%	1.9 y
b2) Tamil – F	13%	87%	2.4 y
c1) Moor – M	30%	70%	1.2 y
c2) Moor – F	50%	50%	1.3 y
* Including those with professional training			

Table 21: Professional training per different samples A

We are not able to explain why the control group – males as well as females – shows a totally different pattern with 3.3 years of training when at the same time they do not differ very much in most of the other personal characteristics.

Differentiating the samples more we notice (Table 21 and Table 22) some considerable differences:

- Per age: as with education there is no “progress” in the sense, the younger the entrepreneur, the more they are trained. Only in the group of those over 55 years are more untrained entrepreneurs than in other age groups with 49%. Why? And what does it say concerning the Sri Lankan vocational training system?
- Per ethnicity: 62% of the male Tamils did not participate in professional training activities, but 87% of the women did. Similarly of both genders the training duration is considerably longer as of the other ethnicities. Presently we

68 Reinprecht, Karin / Weeratunge, Nireka (2006), p 49

69 R 08-01 Prof Training p Cha 1 Nuc 1-65 Sex 1-1.pdf; ~Sex 2-2.pdf; ~Nucleus 99-99 Sex 1-1.pdf; ~Sex 2-2.pdf

70 R 08-05 Training p Cha v Age Nuc 1-65 Sex 1-2 Age1.pdf; ~Age 2.pdf; ~Age 3.pdf; ~Age 4.pdf; ~Age 5.pdf

71 R 08-02 Prof Training p Cha 2 Nuc 1-65 Sex 1-1 Eth 1-1 Reg 1-4 Emp 0-50.pdf; ~Sex 2-2 Eth 1-1 Reg 1-4 Emp 0-38.pdf; ~Nuc 5-31 Sex 1-1 Eth 2-2 Reg 1-4 Emp 1-10.pdf; ~Nuc 2-65 Sex 2-2 Eth 2-2 Reg 1-4 Emp 0-10.pdf; ~Nuc 1-32 Sex 1-1 Eth 3-3 Reg 1-4 Emp 1-25.pdf; ~Nuc 2-62 Sex 2-2 Reg 1-4 Emp 0-5.pdf

are not able to find reasonable explanation patterns for these differences.

- Per legal status: there is no correlation between the professional training patterns of entrepreneurs running registered and unregistered businesses, even when looking at the different genders.[72]
- Size of the enterprises measured in number of employees: one would assume that the owners of the bigger enterprises are more prepared through professional training than those of the smaller ones. The opposite is the case: 68% of the owners with more than ten employees did not receive any training, even 86% of those with between 21 and 50 employees. Of the latter 40% inherited the business. Apparently, they were prepared on the job in their parents' enterprise; but 50% are business founders without training.
- Enterprise founders: there are two trends; the younger the enterprises are, the more founders passed training. Synchronously the duration of training decreases.
- Enterprise inheritors: there we encounter the lowest shares of entrepreneurs with a professional qualification and this did not change much during the last 25 years. In addition, one can observe the same decreasing duration of the training as for the enterprise founders. One reason might be that entrepreneurs lack faith in the formal vocational training system; the other reason that external costly training including absence from the family business is seen only as cost producing factor and not as investment in human resources in order to secure the future of the enterprise. Conse-

Nuc members	**Prof. Training**		
Samples	**No**	**Yes**	**Average years***
p/ Status[73]			
a) Registered	44%	56%	1.9 y
b)Unregistered	43%	57%	1.1 y
p/ Employees[74]			
a) 0 – 5	41%	59%	1.4 y
b) 6 – 10	49%	51%	1.6 y
c) 11– 20	58%	42%	2.8 y
d) > 20	86%	14%	1.8 y
p/ Enterprise founders[75]			
a) 2000 – 04**	37%	63%	1.1 y
b) 1995 – 99**	42%	58%	1.8 y
c) 1990 – 94**	49%	51%	1.9 y
d) 1980 – 89**	52%	48%	1.5 y
e) 1910 – 79**	69%	31%	2.3 y
p/ Enterprise inheritors[76]			
2000 – 2004**	62%	38%	0.9 y
1990 – 1999**	64%	36%	1.7 y
1980 – 1989**	72%	28%	2.1 y
1910 – 1979**	68%	32%	2.1 y
* Including those with professional training ** Founded between year 1 and year 2			

Table 22: Professional training per different samples B

[72] R 08-02 Prof Training p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-50, R 08-02 Prof Training p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 4-4 Emp 0-18

[73] R 08-02 Prof Training p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-38.pdf; ~Reg 4-4 Emp 0-18.pdf

[74] R 08-02 Prof Training p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 6-10.pdf; ~Nuc 3-49 Sex 1-2 Eth 1-5 Reg 1-3 Emp 11-20.pdf; ~Nuc 7-53 Sex 1-2 Eth 1-3 Reg 1-3 Emp 21-50.pdf

[75] R 08-04 Prof Training p Cha 4 v Start Nuc 1-65 Sex 1-2 Sta 1 Fou 2000-2004.pdf; ~Nuc 1-65 Sex 1-2 Sta 1 Fou 1995-1999.pdf; ~Nuc 1-65 Sex 1-2 Sta 1 Fou 1990-1994.pdf; ~Nuc 1-65 Sex 1-2 Sta 1 Fou 2000-2004.pdf; ~Nuc 1-57 Sex 1-2 Sta 1 Fou 1980-1989.pdf; Nuc 1-65 Sex 1-2 Sta 1 Fou 1910-1979.pdf

[76] R 08-04 Prof Training p Cha 4 v Start Nuc 3-48 Sex 1-2 Sta 2 Fou 2000-2004.pdf; ~Nuc 1-50 Sex 1-2 Sta 2 Fou 1900-1999.pdf; ~Nuc 1-48 Sex 1-2 Sta 2 Fou 1980-1984.pdf; ~Nuc 1-65 Sex 1-2 Sta 2 Fou 1910-1978.pdf

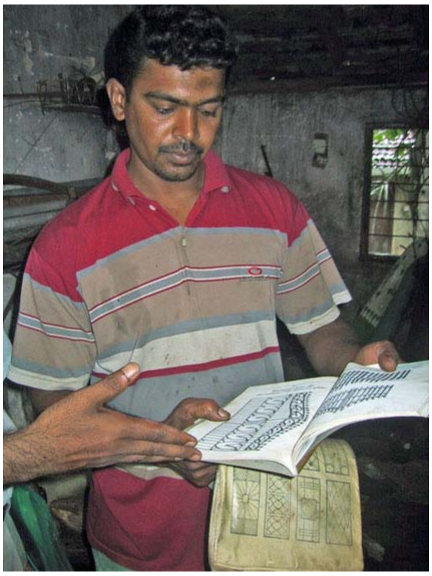
quently, the training and the preparation of the future successors happens mainly in the family enterprise, preventing the successors from seeing alternatives of production and organization of the enterprise and automatically limiting the access to new knowledge.

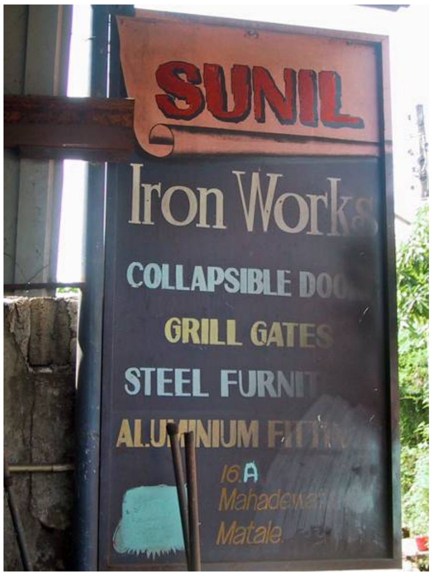
We assumed that sectors, which require profound knowledge in terms of technologies, materials and especially technologies introduced during the last 20 years, would have a bigger share of trained entrepreneurs with a longer duration. Moreover, in those sectors where the techniques are partly learned by doing, based on day-to-day experiences in house and garden, as well as in “old” sectors, less trained persons are encountered.

Table 23 confirms this partly. However, for example we expected to find in group b) instead of a) beauty culture, cut foliage and handicrafts; and carpentry, light engineering and printing in group a) instead of b). A surprise is that in the more traditional sectors with the lowest shares of trained entrepreneurs the duration of the training on average is longer than in the other sectors.

Shares of trained entrepreneurs per sector	**Average years**
a) More than 67%	
– Automobile	2.1
– Beauty Culture	1.6
– Cut Foliage	1.2
– Gem & Jewellery	1.7
– Handicrafts	0.6
– Photography	1.9
– TV / Radio Repair	1.6
b) Between > 33% and < 67%	
– Carpentry	2.5
– Garment Industry	0.8
– Leather	1.2
– Light Engineering	1.7
– Ornamental Fish	0.3
– Patchwork & Embroidery	1.5
– Printing	1.9
– Protected Agriculture	0.6
– Tailoring	1.1
– Textile Related Items	0.3
– Vegetable Cultivation	0.9
c) Less than 33%	
– Bakery	2.0
– Brass Maker	2.5
– Hemp	4.0
– Lime Production	1.3
Only sectors with more than eight interviewed entrepreneurs	

Table 23: Trained entrepreneurs per sector





Light Engineers

3.6 Work Experience

Another indicator for the preparation of future entrepreneurs is the practical work experience. This does not only concern technical aspects but even more business administration, organization, and management and how to deal with suppliers and clients. Without experiences in these fields the start and running of an enterprise is difficult or will not work successfully.[77] In addition, those who do not know other enterprises are not able to compare and benchmark ones own business.

Therefore, the entrepreneurs were asked, how many years of work experience they had before starting their business.[78] The findings suggest that about half are insufficiently prepared under the aspect of work experience.

- About 45% have not had any work experience at all, 5% have had less than two years.
- Out of the other 50% have more than two years, while most of them have experience of even more than five years.

Differentiated per gender the figures show that 57% female and 41% male entrepreneurs started the business without any previous work experience. One can assume that if the CPWCIC women had also been confronted with this question, due to the previous data the number of women without work experience would even be higher.

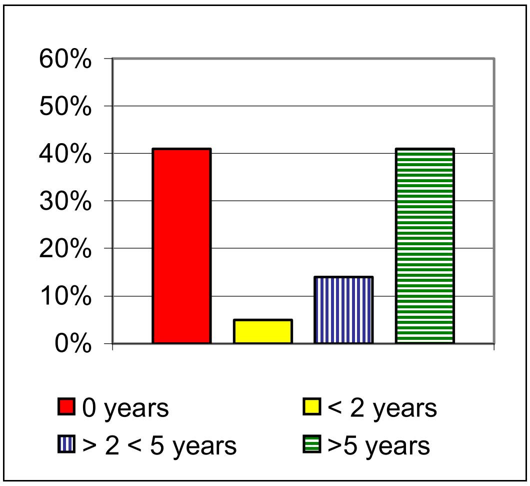


Figure 12: Male entrepreneurs' work experience[79]

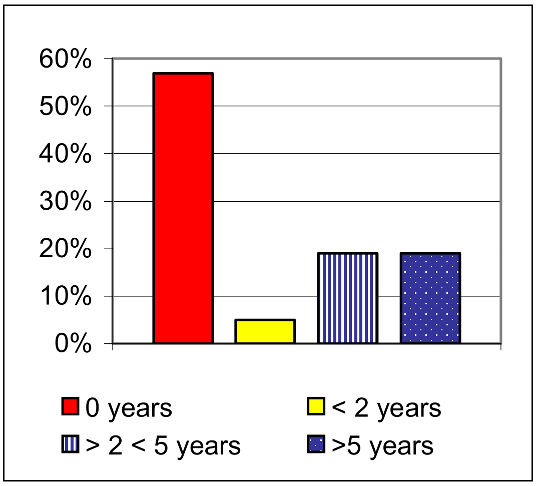


Figure 13: Female entrepreneurs' work experience[80]

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77 In Germany, practically no entrepreneur of the crafts and small industry sector has to close their enterprise or run into a bankruptcy due to a lack of technical knowledge. It happens only because of management, organizational and financial failures.

78 These data of 102 entrepreneurs (without CPWCIC and NCHSL) were only collected in 2005. We skipped the question in most of the other interviews in 2005 and all in 2006 in order make the questionnaire lighter – finding out now, that this was not very clever: most sub-samples are too small for reliable differentiations between chambers, sectors, Nucleus and non-Nucleus entrepreneurs, etc.

79 R 12-02 Experience p Cha 1 Nuc 3-41 Sex 1-1

80 R 12-02 Experience p Cha 1 Nuc 2-41 Sex 2-2

These high portions confirm once more the previously stated hypothesis that many entrepreneurs did not start a business because they felt having the right entrepreneurial characteristics but because of a lack of other job opportunities. They had no alternative than to become self-employed in order to generate some income. This is certainly not the ideal situation for running an enterprise successfully especially in combination with the above findings concerning the lack of professional training and low education levels.

41% of the male entrepreneurs – but only 19% of the females – had worked for more than five years in an enterprise or private / public institution. They had ample time to learn and to prepare themselves for entrepreneurial activities.[81] For these entrepreneurs this work experience could be equivalent to “training”, preparing them with the confidence required to go in for self employment.

Work experiences per sector	Average years[82]
– Beauty Culture	0.6 y
– Carpentry	1.9 y
– Cut Foliage	3.2 y
– Light Engineering	4.0 y
– Printing	3.7 y
– Non-Nucleus members	3.2 y
Only sectors with more than ten interviewed entrepreneurs	

Table 24: Work experience per sector[83]

On average, women entrepreneurs have 2.1 years work experience, men 3.6 years.

The analysis per sector (Table 24) shows considerable differences. Carpenters and light engineers deal with a similar complexity of raw material and technologies. However, why 70% of the carpenters started their business without any previous experience – what leads to an average of 1.9 years – but only 29% of the light engineers – average 4.0 years – presently we cannot explain.

Photographer Nucleus

81 We have difficulties to relate these results to the findings of another Sri Lankan SME survey where 73% of all interviewed entrepreneurs had a minimum of five years of management experience. See Battan, J. and Hettihewa, S. (1999), p 208

82 Weighted calculation of “0 years”=0; “< 2 years”=1; “>2 and <5 years=3.5; >5 years”=7.5

83 R 12-02 Experience p Sec Nucleus 2-99 Sex 1-2.pdf

4 The Enterprises

This chapter deals with some structures and characteristics of the enterprises: their foundation, legal status, locations, premises, investments and their size related to employment and turnover. In addition, we analyse their turnover and the productivity change between 2002 and 2005 in order to identify the more and the less successful ones. Last not least, we present the entrepreneurs' assessment of their enterprises, the expectations concerning the future and the present investment climate.

4.1 Foundation Period of the Enterprises

The foundation year of the enterprises and their age helps to see whether they have been more or less stagnating since their start or whether there are dynamic developments.

Table 25 presents the enterprises per foundation period.

Foundation period	2000 - 2005	1990 - 1999	1980 - 1989	1970 - 1979	Before 1970	Average age
Nucleus SMEs	48%	32%	12%	4%	4%	11
– Males	36%	37%	16%	5%	7%	13
– Females	67%	24%	6%	3%		6
Non-Nucleus SMEs	15%	31%	21%	14%	18%	22

Table 25: Age of the enterprises[84]

73% of the male but 91% of the female startups were created since 1990; of the latter 67% since 2000. The growing share of females starting their own businesses indicates a change in society's perception where females are seen as able, willing and accepted as entrepreneurs. The non-Nucleus enterprises are older, only 46% were founded since 1990. This confirms the hypothesis that they represent more the traditional local economic establishment.

Chamber	Average age of enterprise	
	Nucleus SMEs	Non-Nucleus SMEs
CCICP	11	26
CCIUP	6	26
CPWCIC	7	17
MDCCIA	13	18
NCHSL	19	25
PAEA	8	9
Total	11	22

Table 26: Age of the enterprises per chamber

Table 26 shows considerable differences between the chambers concerning the enterprises' age ranging from six years to 19 years. The average age of the control group enterprises is up to four times higher than that of the Nucleus enterprises. The newly created Nuclei attracted especially startups. Only in MDCCIA we find board members who are owners of older enterprises (lime industry) and participate in Nuclei since their start. The age difference between Nucleus and non-Nucleus SMEs in Matale is smaller than in the other chambers of commerce and industry where this did not happen due to the counsellors' strategy to concentrate more on non-chamber members. The NCHSL Nucleus members' companies are on average relatively old because 9% of them – all in the hemp and brassware sector – started before

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84 R 10-01 Year Foundation p Cha 1 Nuc 1-99 Sex 1-2.pdf; R ~Nuc 1-65 Sex 1-1.pdf; ~Sex 2-2.pdf; ~Sex 1-2.pdf; ~Nuc 99-99 Sex 1-2.pdf

1960. PAEA is the only institution, which concerning Nuclei concentrated from the beginning mainly on existing members. In addition, protected agriculture is a relatively new sector and therefore almost all members are startups, independently of whether they are Nucleus members or not.

In traditional sectors, the enterprises are obviously older: hemp (42.5 years), lime production (36.2 years), brass making (18.7 years) and batik (15.5 years). The youngest enterprises were found in the Textile Related Items Nucleus (3,6 years), and Tailoring Nucleus (5 years), which is due to the 100% share of females in these Nuclei.[85]

There are no significant differences between the ethnicities.

When looking at the enterprise size versus its age there is a clear correlation concerning the Nucleus enterprises as it is shown in Table 27: the older the enterprises on average, the bigger they are. This seems to be only natural because most enterprises start small and their expansion takes a certain time. However, the figures of the non-Nucleus members give a very different picture with an average age of 19 years of the enterprises with up to five employees. 40% of them were founded before 1980. There are two possible explanations:

- In specific sectors, micro-enterprises are more efficient. For example, hairdressers hardly employ more than five employees, normally even less. Hence, bigger enterprises do not have advantages through economies of scale.
- The owner does not have the capacities to develop from a pure self-employed "producer" of goods and services into an entrepreneur. The enterprise stagnates, sometimes for decades. This seems to be the case for the majority of the above mentioned non-Nucleus cases because in most sectors enterprises with more than five employees exist. Below we will see whether the Nucleus can even stimulate changes in these stagnating micro-enterprises.

Nucleus enterprises' age according to enterprise size	**2000 - 2005**	**1990 - 1999**	**1980 - 1989**	**1970 - 1979**	**Before 1970**	**Average age Nucleus SMEs**	**Average age non-Nucleus SMEs**
0 - 5 employees	54%	31%	10%	3%	2%	9	19
6 - 10 employees	18%	36%	25%	10%	11%	20	16
11 - 20 employees	8%	46%	21%	17%	8%	18	24
21 - 50 employees	21%	36%	7%	14%	21%	21	24

Table 27: Age of the enterprises versus employment[86]

The analysis related to legal status shows an average age of 14 years for the registered companies and eight years for unregistered enterprises.[87] This seems to indicate a connection between time / age of the enterprise and the probability of its registration: one day it will

[85] R 10-01 Year Foundation p Sec 3 Nuc 1-65 Sex 1-2.pdf

[86] R 10-02 Year Foundation p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~Emp 6-10.pdf; ~Emp 11-20.pdf; ~Emp 21-50.pdf; R 10-02 Year Foundation p Cha 2 Nuc 99-99 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~Emp 6-10.pdf; ~Emp 11-20.pdf; ~Emp 21-74.pdf

[87] R 10-02 Year Foundation p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 4-4 Emp 0-18.pdf; ~Reg 1-3 Emp 0-50

be registered. But about 13% of all unregistered enterprises and 10% of those with up to five employees are more than 15 years old. As we will see in the next chapter, the size of the enterprises in for example number of employees is a more deciding factor for the registration and the entering into the formal economy.

The question remains whether all enterprises founded before 1990 – 15% of those with up to five employees – reach a certain level after some time and then stagnate. We will look into this in correlation with employment and turnover development since 2002.

Signing the Partnership Agreement between CPWCIC and ESSP

Training of BDS providers about the Nucleus Approach

4.2 Entering into the Businesses

Table 28 and Table 29 illustrate how the entrepreneurs entered into the business. Of the interviewed Nucleus members, 83% founded the enterprise themselves and 16% inherited it.

Logically the age of the enterprises – see the previous chapter – correlate positively with the share of inheritors. The non-Nucleus and NCHSL enterprises are on average the oldest and have with 31% and 57% the most inheritors. Consequently, more of the companies with 20 and more employees – they are older – are inherited.

Enterprises are almost never handed over to a daughter. There are few exceptions in the handicraft sector of NCHSL (gem & jewellery, patchwork) and in Matale, where a woman took over even a lime production company.

The few enterprises run by a managers are mainly PAEA members, where Colombo based businessmen bought some land to start protected agriculture activities.

Extremely few enterprises are bought. There are some only among the PAEA members. Presumably, the buyers were interested in getting the land. This low number seems to suggest that when the time is ripe to hand over the enterprise there are

Entering into the business: The entrepreneur				
Nucleus members	**Started it**	**Inherited it**	**Bought it**	**Manages it**
Total	83%	16%	–	1%
- males	73%	26%	1%	–
- females	96%	3%	–	1%
p / Chamber				
CCICP	82%	16%	–	2%
CCIUP	96%	4%	–	–
CPWCIC	100%	–	–	–
MDCCIA	83%	16%	1%	
NCHSL	43%	57%	–	–
PAEA	71%	23%	3%	3%
p/ Status				
Registered	80%	19%	–	1%
Unregistered	82%	17%	1%	–
p/ Ethnicity				
Sinhaleses	80%	18%	1%	1%
Tamils	86%	14%	–	–
Moors	80%	20%	–	–
p/ Employment				
0 – 5	83%	16%	–	1%
6 – 10	67%	28%	5%	–
11 – 20	71%	25%	–	4%
> 20	64%	36%	–	–
Non-Nuc members	66%	31%	–	3%

Table 28: Entering into the business[88]

[88] R 13-01 Business start p Cha 1 Nuc 1-65 Sex 1-2.pdf; ~Nuc 1-65 Sex 1-1.pdf; ~Nuc 1-65 Sex 2-2.pdf; ~Nuc 99-99 Sex 1-2.pdf; ~Nuc 99-99 Sex 1-1.pdf; ~Nuc 99-99 Sex 2-2.pdf; R 13-02 Business start p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-1 Reg 1-4 Emp 0-50; ~ Nuc 2-65 Sex 1-2 Eth 2-2 Reg 1-4 Emp 0-10; ~Nuc 1-62 Sex 1-2 Eth 3-3 Reg 1-4 Emp 0-25; ~Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5; ~ Nuc 1-65 Sex 1-2 Eth 1-4 Reg 1-4 Emp 6-10; ~ Nuc 3-49 Sex 1-2 Eth 1-4 Reg 1-4 Emp 11-20; ~ Nuc 7-53 Sex 1-2 Eth 1-3 Reg 1-3 Emp 21-50;

always qualified and interested successors. We do not have access to data about how many enterprises just close per year. If there is a considerable number, the low quantity of bought enterprises would mean that potential sellers and buyers do not find together and / or are not able to define a fair price.[89]

Entering into the business: The entrepreneur				
Sector	**Started it**	**Inherited it**	**Bought it**	**Manages it**
Automobile	67%	33%	–	–
Bakery	50%	50%	–	–
Beauty Cult.	99%	1%	–	–
Brassware	35%	65%	–	–
Carpentry	77%	23%	–	–
Cut Foliage	95%	5%	–	
Garment Ind.	92%	8%	–	–
Gem & Jew.	29%	71%	–	–
Hemp	–	100%	–	–
Light Engin.	90%	6%	–	4%
Lime Prod.	42%	53%	5%	–
Ornam,. Fish	92%	1%	–	–
Patchwork	86%	14%	–	–
Photography	89%	11%	–	–
Printing	74%	22%	–	–
Saw Mills	71%	29%	–	–
Tailoring	100%	–	–	–
TV / Radio R.	90%	10%	–	–
Vegetable P.	100%	–	–	–

Table 29: Entering into the business per sector[90]

89 In Germany, for example, chambers function as intermediaries between potential buyers and sellers of enterprises. A big share of the price for the enterprise is not related to the assets (building, machinery), but to the team of employees, the name and reputation of the company and to its clients who will presumably continue to buy from the enterprise even when it is run by a new owner.

90 R 13-01 Business start p Sec 1 Nuc 1-65 Sex 1-2.pdf

4.3 Legal Status

43% of the Nucleus enterprises (Table 30) are registered as “Sole Proprietorship”, “Partnership” or “Private Limited Partnership”. 57% of the entrepreneurs did not register their business, 48% of the male entrepreneurs and 71% of the female ones.

We assume that through the Nucleus Approach we are reaching a certain “elite” of the total entrepreneurship. Consequently, the share of informal enterprises in the project region is probably much higher.

	Not Registered		Registered		Of the registered SMEs x% are registered as Sole Proprie-torship		Partnership		Private limited Partnership	
Chamber	**Male**	**Fem.**	**Male**	**Fem.**	**Male**	**Fem.**	**Male**	**Fem.**	**Male**	**Fem.**
CCICP	30%	80%	70%	20%	75%	67%	21%	33%	4%	
CCIUP	35%	52%	65%	48%	50%	75%	5%		45%	25%
CPWCIC		78%		22%		80%		13%		7%
MDCCIA	45%	85%	55%	15%	90%	90%	4%	10%	6%	
NCHSL	73%	71%	27%	29%	87%	100%	7%		7%	
PAEA	86%	75%	14%	25%	63%		25%	100%	13%	
Total per gender	**48%**	**71%**	**52%**	**29%**	**76%**	**78%**	**12%**	**8%**	**12%**	**15%**
Overall total	**57%**		**43%**		**76%**		**11%**		**13%**	
Non-Nucleus	15%		85%		51%		23%		26%	

Table 30: Registration of enterprises[91]

The function of the Nucleus Approach is certainly not to stimulate entrepreneurs to register their companies in order to help government and public institutions to get better control over them and to tax them. But if the informal status is a hindering element for further development and growth of these enterprises then their participation in chamber Nuclei shall stimulate them to register their businesses. Therefore, the question is, whether the entrepreneurs have more advantages or disadvantages through their informal status and how they perform compared with the registered companies.

Before coming to this in detail, we have to have a closer look at the figures.

PAEA, CPWCIC and NCHSL with 15%, 22% and 28% registered Nucleus members are open to accept unregistered enterprises as chamber members. This is different in the chambers of commerce and industry, which claim that due to their constitution they would not be

91 R 11-01 Register p Cha 1 Nuc 1-65 Sex 1-1.pdf; ~Sex 1-2.pdf; ~Sex 2-2.pdf; ~Nuc 99-99 Sex 1-2.pdf

able to accept unregistered companies as members.[92] Consequently, the share of registered Nucleus members is much higher: CCICP – 59%; CCIUP – 55%; MDCCIA – 41%.

Two factors correlate with the respective shares of registered and unregistered companies.

a) The age of the businesses: Figure 14 shows that the older the companies are the higher is the share of registered ones. Of those founded before 1980 as many as 72 % are registered, whereas of those between 2000 and 2004 only 33% are registered.
In total, 42% of the Nucleus enterprises founded before 1995 are remaining for ten up to 65 years informal – two MDCCIA companies, a lime production and a carpentry enterprise, were founded in 1940 and in 1955. Reinprecht, Karin / Weeratunge, Nireka concluded that the Sri Lankan values and cultural conditions make the majority of entrepreneurs "choose to remain in their little wells" rather than expand their businesses. Ishengoma, Esther K. / Kappel, Robert state similar observations for developing countries in general that "the majority of informal enterprises do not expand or invest in modern equipment for they wish to minimize their visibility and to avoid attention from government".[94]

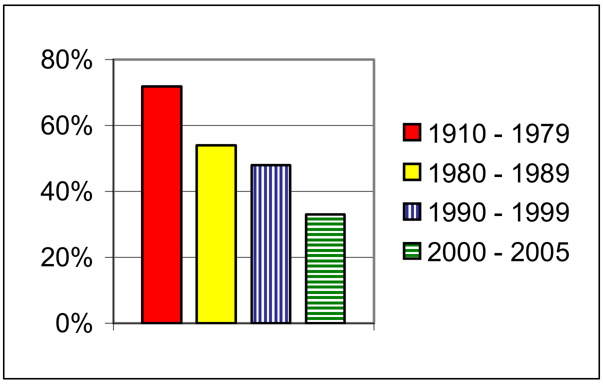

Figure 14: Registered enterprises per foundation period[93]

b) The size of the enterprises: The bigger the enterprises the higher is the share of registered ones as it is shown in Figure 15. There is no unregistered enterprise with more than 20 employees. When the enterprises grow, when they are more "visible" with bigger premises and more employees, they reach automatically a stage where they have to register.

The lower share of registered female enterprises is not a surprise in reference to the previous chapters. On the contrary one could see the 22% registered businesses in CPWCIC even as a high figure: as almost all of these enterprises were founded after 2000 one would have expected a lower share of registered businesses because the need for registration arises usually in the expansion phase of the business when loans are

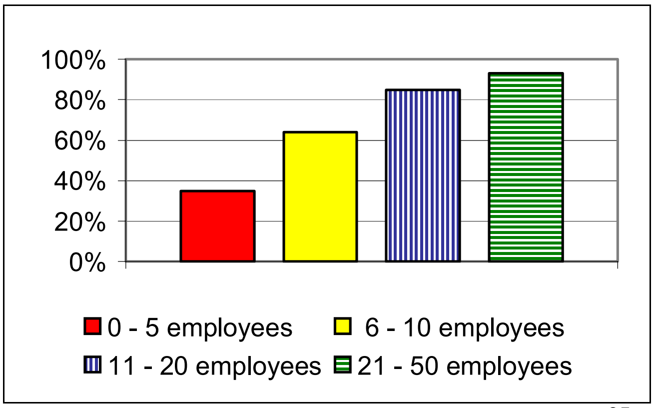

Figure 15: Registered businesses according to size[95]

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92 CCICP just changed its constitution in order to provide unregistered enterprises with a "limited" membership. The limitation refers to the voting rights.

93 R 11-04 Register p Cha Foundation Nuc 1-65 Sex 1-2 Fou 1910-1979.pdf; ~Nuc 1-57 Sex 1-2 Fou 1980-1989.pdf; ~Nuc 1-65 Sex 1-2 Fou 1990-1998.pdf; ~Nuc 1-65 Sex 1-2 Fou 2000-2004.pdf

94 Reinprecht, Karin / Weeratunge, Nireka (2006), p 113; Ishengoma, Esther K. / Kappel, Robert (2006), p 18,

95 R 11-03 Register p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Emp 0-5.pdf; ~6-10.pdf; ~11-20.pdf; ~21-50.pdf

needed and banks require business registration.

The same data analysed per sector[96] shows that in sectors where open and public acting is necessary, the share of registered businesses is much higher than in businesses where one works at home as a sub-contractor without any direct contact with customers or the general public.

- Low registration rates of between 0% and 20% in Nuclei: Hemp, Protected Agriculture, Tailoring, Textile Related Items, Gem and Jewellery, Handicrafts, Garment.
- High registration rates of between 75% and 100% in Nuclei: Auto AC, Bakers, Grain Grinders, Leather, Light Engineers, Lime Producers, Printers, Saw Millers.
- Some Nuclei do not fit in this picture: Radio and TV Repair with only 30% and Photographers with 58% registered businesses.

If entrepreneurs with up to ten employees are differentiated per ethnicity, it shows with 35% and 37% for Moors and Sinhalese almost the same share of registered companies; in the case of the Tamils it is with 56% (males – 64% / females 50%) much higher. Why? Does a registration decrease the risk of being bothered for a minority during times of ethnic conflicts?

We made a short brain storming with some ESSP members to get an idea about the advantages and disadvantages of registering a company. The common opinion was, that most entrepreneurs are not aware of these (dis)advantages and have only in mind the taxation and the social security payments for the employees.

Advantages / disadvantages of (not) registering	**Observations**
No tax payments	VAT is due for an annual turnover more than 1.8 million RS / year; income tax is due for an income above 300 TRs / year, starting with 5% for the next 300 TRs. Consequently, most unregistered Nucleus members are not taxable. There seems to prevail a lack of knowledge among the SMEs concerning the tax system.
No registration fees, no bureaucratic procedures	The official registration fees are low. Sri Lanka is on 23 place of 75 listed countries (two positions behind Germany) in reference to the regulations of entry of startup firms. This means, it is relatively easy and fast to register an enterprise[97]
Access to bank loans is more difficult	As will be shown also unregistered enterprises claim to have bank loans
Access to public and donor SME promotion projects is more difficult	
Payment of social security for all employees and one has to follow difficult labour regulations	
No access to qualified employees	Those ones will always try to get a job in a formal enterprise with presumably better remuneration, social security, etc.

96 R 11-02 Register p Sec 1 Nuc 1-65 Sex 1-2.pdf

Advantages / disadvantages of (not) registering	Observations
No or almost no appearance in public, no advertisement, name board, etc.	Consequently more difficult access to clients and businesses
Less social recognition in public as well as in the business community	This means also in most cases to be excluded from business networks, for example from chambers and associations
Increased danger of being blackmailed by civil servants, clients etc., thus paying “social taxes”	It is more difficult to defend against unjustified requests and to initiate legal procedures.[98, 99]

Table 31: Advantages / disadvantages of no registration

Who really has an interest that these entrepreneurs register?

- Not the public sector / the respective departments. In many cases the registration causes only work and little income for the GoSL because turnover and profits are below the limits.[100]
- Not the lower levels of the public sector because some representatives have less chances to “tax” the entrepreneurs directly (social tax).
- Not the private sector / registered companies and the clients because they have only eventual disadvantages and no advantages.
- Not the chambers because they are able to keep socially unwanted SMEs out.

When the advantages and disadvantages of registration are compared, it often does not give a clear answer for the entrepreneurs. The entrepreneurial environment is not supportive for a registration, why should they do so? If they perform in the same way as the formal enterprises then hardly one convincing argument for a registration remains.[101]

Table 32 shows the performance of enterprises with up to ten employees in 2002 – measured through the change of the average turnover, employment and turnover per employee as indicator for the productivity – between 2002 and 2005. The result is unambiguous: in almost all comparisons, the registered companies performed much better. The unregistered sector seems to stagnate or decrease. When one includes into the calculation an inflation rate of about 30% during these four years then all changes of turnover and productivity changes of less than 30% are actually a decrease. Only the female run unregistered enterprises and

97 Djankov, Simeon and others (2000), p 37

98 A registered entrepreneur with a monthly turnover of 300,000 Rs informed about “social taxes” of circa 50,000 Rs per month; another one only for the daily timber transport of 15,000 Rs / month. It would be interesting to find out whether unregistered companies eventually pay relatively higher levies including the “social taxes” than registered ones.

99 Ishengoma, Esther K. / Kappel, Robert (2006), p 18: “… enterprises .. have to budget for bribery. In Peru around 10 to 15 percent of an enterprise gross income goes towards bribes, while formal firms pay only one percent (De Soto 1992).”

100 About 200,000 citizens of a population of 20 millions pay income tax.

101 An entrepreneur: “The problem is not the registration. The problem is also not the payment of taxes. The only problem is permanent hassle!”

Change between 2002 and 2005 SMEs with up to 10 employees	Ave. Turnover		Ave. Employees		Turnover / Employee[102]	
	Registered		Registered		Registered	
Nucleus SMEs	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**
– All	+ 8%	+ 94%	+ 32%	+ 41%	-18%	+38%
– Males	- 2%	+86%	+ 26%	+ 33%	- 23%	+ 40%
– Females	+ 101%	+ 231%	+ 53%	+ 126%	+ 32%	+ 47%
– per Foundation						
1910 – 1979	+ 52%	+ 72%	+ 13%	+ 35%	+ 34%	+ 27%
1980 – 1989	- 15%	+ 117%	+ 33%	+ 28%	- 36%	+ 69%
1990 – 1999	+ 16%	+ 55%	+ 45%	+ 33%	- 20%	+ 16%
2000 – 2002	+ 10%	+ 236%	+ 23%	+ 88%	- 11%	+ 79%
Non-Nuc. SMEs	- 4%	+ 25%	+ 7%	+ 73%	- 10%	- 28%
SME unreg. 2005 registered 2006		+ 290%		+ 97%		+98%

Table 32: Performance of registered and unregistered SMEs between 2002 and 2005[103]

those founded before 1980 made some progress in terms of turnover and turnover per employee. The decreasing turnover per employee in all other categories indicates a high inefficiency.

This can be understood in two ways:

a) The static point of view: on average the informal entrepreneurs and their enterprise are “weak”, they follow a “muddling through” survival policy, they do not prosper and therefore they remain in the informality. Their development capacities are limited and they are more a target group for “social” projects and approaches than for economic projects. This is different with the formal entrepreneurs, which prosper more and are the adequate target group of an economic project and chambers of commerce and industry.

b) The dynamic point of view: the formal enterprises develop on average in all terms more and better because they are better able to use the given opportunities: credit programs, access to business networks, public advertisement and more efficient marketing activities, legal actions in case of conflicts, public contracts, access to more qualified employees, etc. Informal enterprises do not prosper because they do not have – or have only with major difficulties – the access to these opportunities and markets.

The consequence is simple: change the environment for the informal entrepreneurs, open the doors to the formal world to them, show them that the registration offers more opportunities for them than disadvantages, support / accompany their following steps.

Not all entrepreneurs will pass through that door, presumably only a minority has the necessary minimum of entrepreneurial spirit – 20%? 40%? We do not know presently. But

102 The turnover per employee / productivity change is negative when the change of the turnover is smaller as the employment change.

103 R 11-07 Register v TO p Cha Nuc 1-65 Sex 1-2 Emp 0-10 Fou 1910-2002.pdf; ~Nuc 1-65 Sex 1-1 Emp 0-10 Fou 1910-2002.pdf; ~Nuc 2-65 Sex 2-2 Emp 0-7 Fou 1971-2002.pdf; ~Nuc 99-99 Sex 1-2 Emp 0-10 Fou 1930-2002.pdf; ~Nuc 1-65 Sex 1-2 Emp 0-10 Fou 1910-1979.pdf; ~Nuc 1-57 Sex 1-2 Emp 0-10 Fou 1980-1989.pdf; ~Nuc 1-62 Sex 1-2 Emp 0-10 Fou 1990-1999.pdf; ~Nuc 2-65 Sex 1-2 Emp 0-10 Fou 2000-2002.pdf; R 11-08 Register v TO p Cha Comp Nucleus 2-38 Sex 1-2 Emp 0-7 Fou 1970-2002.pdf

we have seen in the context of the implementation of the Nucleus Approach in Brazil, other Latin American countries and Sri Lanka many persons developed through their participation in a Nucleus into entrepreneurs in the truest sense of the word.

If the dynamic point of view is followed and there exist an interest in the promotion of those unregistered enterprises with a growth potential then the key organizations for such processes are the institutions of the entrepreneurs – business chambers, associations, SEEDS and similar institutions – and their Nuclei. They are partially thinking in terms of the entrepreneurs' interests and have / should have the capacities to accompany these entrepreneurs on their way to formality.

Chambers do not have defensively keep out the informal enterprises with the argument, that due to their constitution only registered companies can apply for membership. Instead, they should proactively put the "right" entrepreneurs with growth potential on the registration track in order to get them into the organizations.[104]

The CCIUP story

The relatively high percentage of CCIUP with 55% registered entrepreneurs is result of negotiations between the chamber and ESSP in December 2004: At that time only two of the more than 220 Nucleus members had been integrated as membership fee paying chamber members. The chamber's formal argument was that in reference to its constitution it would not be able to grant membership to non-registered enterprises. But if the Nucleus members do not participate in financing the chambers' costs neither the chambers nor ESSP's investments and activities concerning the Nuclei would be fruitful and sustainable. At the end CCIUP agreed to start strong efforts to convince and support Nucleus members to register their businesses and to integrate them as chamber members. Three months later many enterprises had been provided by the local authorities with a "business registration license" and circa 40 of them had been integrated as members. – Nevertheless, in 09/2006 still only 20% of the Nucleus members are also chamber members. This means, ESSP's short term pressure had not much lasting effect.

We compared the answers of those SMEs who had been interviewed in both years (Table 33): 33 enterprises are registered in 2006, which had not been registered in 2005. This corresponds to 16% of the total of unregistered companies of the 2005 sample (14% of the males' companies, 19% of the females' ones).[105] The assumption that most of these newly registered companies was founded after 2000 proved to be wrong. Quite a lot of enterprises, which had been informal for decades, applied for registration.

Above Table 32, last row, shows that those 15 enterprises with complete dataset performed best between 2002 and 2005 by increasing the turnover by 290% and the productivity by 98%. This confirms the above dynamic point of view: among the unregistered are some

[104] In the economically more advanced south of Brazil it proved to be impossible to integrate informal enterprises into the chambers – the formal and the informal ones behaved like dogs and cats, because the first ones perceived the latter ones as illegal competitors due to assumed financial advantages. The counter argument was not very much welcomed: if a tiny, technically limited informal enterprise is able to compete with the bigger and more advanced company then this indicates above all the weaknesses of the latter. In the poorer northeast of Brazil the informal enterprises never caused problems for the chambers, because they presented the big majority in the economy. – Under these aspects the Sri Lankan interior is more comparable to the northeast of Brazil than to the south.

[105] R 11-06 Register Comp p Cha Nuc 1-42 Sex 1-2 Fou 1933-2004; ~Nucleus 1-41 Sex 1-1 Fou 1933-2004; ~Nucleus 1-42 Sex 2-2 Fou 1972-2004

companies – eventually more than expected – which are growing, with more economic potential and which could eventually be led to registration and integration as chamber member.

The consequence of this realization is to provide the Nucleus counsellors with a list of the most successful unregistered companies so that they can contact them individually and perhaps accompany their registration and integration process.

Per chamber	Registered in 2005/06 of unregistered SMEs in 2005	Per foundation period	Registered in 2005/06 of unregistered SMEs in 2005
CCICP	19%	1933 – 1979	22%
CCIUP	7%	1980 – 1989	21%
CPWCIC	28%	1990 – 1999	24%
MDCCIA	28%	2000 – 2004	10%
PAEA	2%	Total	16%

Table 33: Unregistered / registered SMEs 2005 – 2006

Chamber CEO Meeting

Lobby Workshop

4.4 Premises

The premises of the enterprises: is the workshop in the entrepreneur's house or in a separate building? Are they owned or rented?

There are two reasons for asking these questions:

First, when micro enterprises start business activities in the family house these often have the character of self-employment. The advantage for the entrepreneur is that s/he has no negative cash flow and no extra financial burden through the payment of rent.[106,107] This is a risk decreasing strategy. The disadvantage is a high probability that the family house is not at the "right" location and not designed for economic activities. We have seen many enterprises far away from their markets, with difficult access due to bad roads (the average speed is about 20 km/hour), frequent energy problems, etc. This means, the entrepreneur's market orientation is presumably relatively low. When the workshop is in a separate building and especially when it is rented, then it is not guaranteed but the probability is higher that the entrepreneur is more market oriented.

Second, due to observing many enterprises in inadequate locations and premises we had started a discussion a couple of years ago about the installation of manufacture centres.[109] The same was considered during the planning phase of the PMSME. The question was and is, whether due to eventually inadequate enterprise premises manufacture centres could contribute to better functioning enterprises and local economic development.

	In family house	**In separate building**	**Total**
Owned	55% Max CCIUP 69% Min CCICP 42%	26% Max CCICP 35% Min CCIUP 5%	81% Max NCHSL 93% Min CCIUP 74%
Rented	3% Max PAEA 6% Min CCICP 1%	16% Max CCICP 22% Min NCHSL 3%	19% Max CCIUP 26% Min NCHSL 7%
Total	58% Max NCHSL 69% Min CCICP 43%	42% Max CCICP 57% Min NCHSL 31%	

Table 34: Ownership and location of enterprise premises[108]

Table 34 shows that 58% of the Nucleus enterprises are run in private – dominantly owned – homes: 50% of the males and with 72% considerable more of the females. The same is true for only 32% of the

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[106] The family house workshop costs in terms of depreciation are normally not calculated by these entrepreneurs.

[107] Example: a light engineer with three employees with a workshop in absolute inappropriate conditions of about 20 square meters in the centre of Matale and with a monthly turnover of 15,000 Rs informed about a rent of 2,000 Rs – an extremely high share.

[108] R 14-01 Premises p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-50

[109] There exist different names for such centres in English: craft centre, small industry centre, handicraft centre etc., in German "Gewerbehof" – an aggregation of small workshops of different sectors where the entrepreneurs produce and sell their products. We have seen some successful examples in Africa, Brazil and Germany.

non-Nucleus members.[110] Correspondingly, 42% of the enterprises are run in separate buildings. This can mean on the same piece of land – then the market orientation is presumably less given – or on an extra site.

Different factors have an impact on running the business in separate premises.

- The type of work[111]: "polluting" businesses such as saw milling (100%), lime production (89%) printing (87%), automobile (73%) and brass making (70%).
- The pressure to be close to the clients: in some towns small clusters of enterprises exist, which concentrate in parts of the town (examples: automobile shops in certain parts of Kandy, light engineers in the centre of Matale). Also sectors which depend strongly on occasional walk-in customers (bakers - 75%, grain grinders - 80%) go more frequently to where the customers pass by. The beauty culture sector shows considerable differences: 71% of the CPWCIC and 59% of the CCICP female entrepreneurs work in Kandy in a separate building but only 40% in Badulla and 30% in Matale. Unfortunately, the respective samples are too small to see whether this leads to a different performance of the sector in the towns.
- The size of the enterprises measured in number of employees: when enterprises grow and employ more workers then extra and adequately designed space is needed. 75% of the Nucleus enterprises with more than ten employees work in separate premises and all of those with more than 20 employees.[112]
- The age of the companies independently of their size: 68% of the enterprises founded between 1910 and 1979 operate in separate premises, even 50% with five and less employees, whereas of those started after 2000 only 31% are located in separate buildings.[113]

A high percentage of businesses run in a family house are those using the land surrounding the house (ornamental fish – 92%, vegetable production – 79%, cut foliage – 76%, protected agriculture – 62%) and traditional sectors as well as all those which have to do with handicraft (gem and jewellery, hemp – 100%, patchwork and embroidering – 93%, handicrafts – 92%, tailoring and textile – 86%, garment industry – 85%).

An extremely high share of 81% of the entrepreneurs own the business premises. Only 19% of the Nucleus entrepreneurs have them rented. Concerning the data per chamber, gender and legal status, the share of premises owners varies always between 70% and 95%. The same refers to the ethnicities with the exception of the small group of Tamils with only 54% (29% in Badulla). Of the control group, 77% are owners of their premises.

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[110] See R 14-01 Premises p Cha 1 Nuc 1-65 Sex 1-1, ~2-2.pdf; ~2-2.pdf; R 14-01 Premises p Cha 1 Nuc 99-99 Sex 1-2.pdf

[111] R 14-03 Premises p Sec 1 Nuc 1-65 Sex 1-2.pdf

[112] R 14-02 Premises p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~6-10.pdf; R 14-02 Premises p Cha 2 Nuc 3-49 Sex 1-2 Eth 1-3 Reg 1-4 Emp 11-20.pdf; R 14-02 Premises p Cha 2 Nuc 7-53 Sex 1-2 Eth 1-3 Reg 1-3 Emp 21-50.pdf

[113] R 14-04 Premises p Cha 3 Foundation Nuc 1-65 Sex 1-2 Fou 1910-1979.pdf; ~2000-2004.pdf; ~1910-1979 Emp 1-5; ~1910-1979 Emp 6-10; ~1950-1977 Emp 13-50;

This high share of ownership of the premises expresses the above mentioned interest of especially micro and small enterprises to reduce the business risk. There might be other influencing factors.

- Unlike for commercial premises there is eventually only a limited efficiently functioning market for production premises. Only few private individuals and companies might invest capital in premises and let them to producing companies in order to get a rent. The market efficiency would include reasonable and payable rent for the premises.
- The entrepreneurs may only think in a limited way in capitalistic terms: the financial return from premises ranges internationally between 5% and 10% of the invested capital. If investments in the core business (products, equipment, marketing, training, etc.) produce a higher return, then it can be more efficient to do these investments instead of investing in premises.[114]

The latter point is supported by another result: only 25% of the premises owners and 33% of the registered enterprises, which are run in a separated building,[116] have presently a loan from a bank. For comparison, 44% of the companies in rented premises have a bank credit. Although premises owners are more able to offer adequate securities for bank loans they use this possibility only in a suboptimal manner.

These observations provoke to link the ownership and the location of the premises with the economic development and performance of the enterprises between 2002 and 2005.

The enterprises with up to ten employees in separate owned buildings are much bigger (turnover in 2002 156,000 Rs; 3.7 employees) than those in the other categories (turnover between 16,000 Rs and 29,000 Rs; between 1.5 and 2.4 workers).

However, Figure 16 indicates for the analysed period an impressing best performance of enterprises in separated rented premises[117].

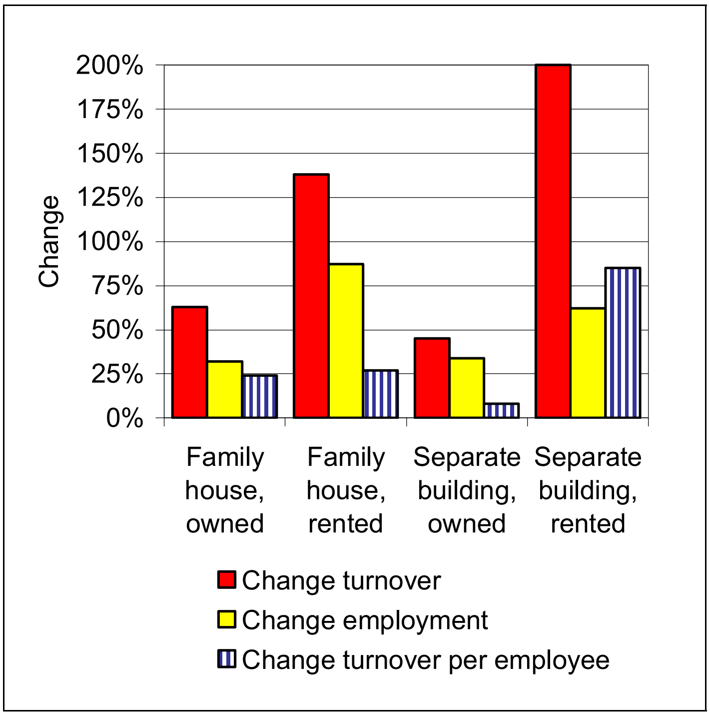

Figure 16: Premises and performance of Nucleus SME's with up to 10 employees development between 2002 and 2005[115]

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[114] Consequently, in industrialized countries many bigger companies sold their premises during the last years and rent them from the buyers afterwards.

[115] R 14-05 Premises v TO p Cha 5 Nuc 1-65 Sex 1-2 Eth 0-5 Reg 1-4 Emp 0-10.pdf – only those enterprises which supplied all necessary information for the years 2002 to 2005 excluding those founded since 2003.

[116] R 36-13 Credits p Cha Nuc 1-65 Sex 1-2 Eth 1-3 Reg 1-3 Emp 0-50 Loc 2-2 Pre 1-1

[117] The sample of those in a rented family house is very small and therefore the applied algorithm might influence the increase of the turnover.

The results are similar when differentiating between gender, registered and unregistered companies[118] as well as between Nucleus members and the control group.[119]

This best performance of the enterprises in rented separated premises confirms the above assumption: when an entrepreneur rents premises for business activities, s/he will check whether the location is appropriate concerning the access to clients and other criteria. In addition, the premises are analysed under the aspects size and structure. Moreover, automatically the rent for the premises has to be included into the cost calculations. Compared with those entrepreneurs running their enterprise in a family home these ones have to be with more entrepreneurial spirit and have to be more business oriented in order to survive on the market.

Consequently, a better supply of land and premises close to the market and / or creating markets through for example manufacture centres and other measures can contribute to get more SMEs out of their inadequate family homes and support their development and the local economic development.

In reference to these results and in view of the end of the promotion of ESSP we might have omitted an eventual chance for additional development impact by stressing this subject. In the context of ESSP and the Nucleus Approach and the promotion of the chamber structures, it would have made sense to try to start respective activities related to the establishment of such manufacture centres.

Light engineer work environment

118 R 14-05 Premises v TO p Cha 5 Nuc 1-65 Sex 1-2 Eth 0-5 Reg 1-3 Emp 0-10.pdf; ~Eth 1-3 Reg 4-4 Emp 0-9.pdf

119 R 14-05 Premises v TO p Cha 5 Nuc 99-99 Sex 1-2 Eth 1-3 Reg 1-4 Emp 0-10.pdf

4.5 Usage of BDS

A Business Development Service (BDS) is defined as any type of non-financial service that aims at improving the performance of an enterprise, its access to markets and its ability to compete.[120] The committee of Donor Agencies for Small Enterprise Development chaired by the World Bank categorizes the BDS into two major categories:

- Operational BDS needed for day-to-day business operations such as courier services, secretarial services, money transfer, etc.;
- Strategic BDS addressing medium and long term business growth issues in order to improve the performance of the enterprise, its access to markets and its ability to improve (i.e. business management, consultancy and training services).

Various studies showed that entrepreneurs are more reluctant to buy strategic BDS than operational BDS because the effect of strategic BDS on enterprises can only be seen with a time lag. This is also the reason why ESSP has concentrated on promoting strategic BDS rather than operational ones.

Objectively there are infinite problems in the SME companies – management, administration, technology and poor product quality. This fact does not automatically lead to a demand for BDS in order to solve the problems (Need ≠ Demand). For the SME only those problems are relevant which s/he perceives her / himself in a subjective manner. In the Nucleus Approach the question is less important what the SME learns; it is more important that s/he starts to learn and perceives training and counselling less as cost factor but as an investment, which – depending on what the entrepreneur makes out of it – can produce a relevant return.

The box below lists the arguments why on the one hand a pure improvement of the supply of services through commercial BDS providers does not reach many SMEs and how chambers as self-help institutions of entrepreneurs function as service providers as well as organizers of a structured and qualified demand for services. Both, commercial BDS providers and chambers depend on one another.

ESSP's strategy aims at the creation of mutually beneficial networks between entrepreneurs / Nuclei and BDS providers.

- In the Nucleus, the SMEs identify and structure common problems encountered in the enterprises. If these cannot be solved through contributions of the participants, external knowledge and support is organized by the chamber counsellor. Through this, a qualified demand for strategic BDS services emerges with a high reliability: the Nucleus members themselves, not outsiders, identify problems and their causes and decide about respective activities to solve the problems. This leads to a high ownership feeling. They participate in the activities.[121]

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[120] This definition is derived from the guidelines for donor interventions formulated by the Committee of Donor Agencies for Small Enterprise Development chaired by the World Bank.

[121] An example for the contrary: a chamber CEO offered the members a good but costly training course. Despite much advertisement, four members participated only. The entrepreneurs did not perceive the subject as relevant for them.

BDS versus Nucleus Approach? [122]

In the international BDS discussion, some argue that chambers should not supply services themselves but leave it to commercial providers who could deliver them more efficiently. The following arguments show a different view:

- In general, an enterprise does not contact a commercial provider at first. The risk is too high looking at the service costs in relation to sales and profit. It is in addition difficult for the entrepreneur to identify suitable specialists, because these tend to do what they know to do rather than what is needed – what could be something completely different.
- The counselling of chambers focuses on the one hand on many small issues, on the other hand on accompanying search processes to identify business problems, its causes and impacts. Sometimes it is not very well structured and an unpurposive picking in the fog. A good business counsellor serves as sparing partner in this process who supports the entrepreneur by confirming, doubting and stimulating new ideas. In the case of bigger problems, a commercial BDS provider might be contracted as a second step.
- Therefore, chambers and commercial BDS providers are not competitors but supplement each other: On the one hand, the chambers offer such services, which are not offered adequately by commercial providers for economic reasons in sufficient quality and quantity (e g counselling). On the other hand, chambers follow the rule not to compete with their own members – inclusive BDS providers.
- “What does not cost anything has no value!” Chambers do not provide their services free of charge. The counselling costs are covered by the membership fee. Therefore, there are no barriers for the entrepreneurs to use the services offered.

- ESSP together with the chambers identified BDS providers and trained them on how to work with Nuclei in order to improve the training quality, the didactics, the mode of service delivery. They were further oriented on how to make the services tailormade to suit the requirements of the Nucleus entrepreneurs.

A database with more than 100 local, regional and national BDS providers contains information about the types and areas of services as well as the respective honoraries. The chamber counsellors can use the database when they are looking for a BDS provider. In addition, the counsellors contact other counsellors in order to exchange experiences about the candidates.

The main challenge for the BDS providers is to adapt their products to the defined demand of the individual target group. This means, for example, not to run a normal bookkeeping course but to design it for carpenter enterprises with up to five employees. All examples and cases have to refer to the situation and day-to-day work of these carpenters. In some cases the Nucleus members refused the training program presented by the BDS provider and asked her / him to change it in reference to the presented problems. This gives the SMEs a feeling of an impressive bargaining power.

After joining a Nucleus presumably most SMEs used strategic BDS services for the first time, especially training and to a lower degree counselling and consulting.

The Nucleus entrepreneurs used an impressive amount of different BDS as Table 35 shows[123]. In 2004 to 2006 they participated between 632 and 1,012 times in respective

[122] ESSP / Müller-Glodde, Rainer / Lehmann, Simone (2006), p 5

activities with training and consultancy character (for the types see below); on average, in 2004 1.0 time and in 2005 / 2006 0.6 times.

Utilization of BDS by Nucleus SMEs	2004	2005	2006
Number of strategic BDS utilized by Nuclei enterprises (once or more than once)	**753**	632	1,012
Average number of Nucleus entrepreneurs	**755**	1,002	1,655
On average every Nucleus SME used trainings / consultancies per year	**1.0 times**	**0.6 times**	**0.6 times**

Table 35: Utilization of subsidized BDS by Nucleus entrepreneurs

ESSP survey results on “BDS market assessment in the Kandy District 2003“[124] show that SMEs in the Kandy district on average used only 0.15 BDS per year which means not even every fifth entrepreneur went for one training per year. That indicates that the BDS market stimulation of the Nucleus Approach functions very well. The Nucleus entrepreneurs participated in at least four times more BDS activities. The retention rate (services used more than once) was not queried in the BDS market assessment whereas the Nucleus entrepreneurs repeated the use of trainings and consultancies, which is the most important factor.[125]

The decline of BDS activities and number of participants in 2005 compared with 2004 is linked to the overall economic development after the tsunami. In times of economic insecurity, entrepreneurs tend to reduce expenditures starting with investments in training and similar BDS.

The entrepreneurs made most training in the field of technical training as illustrated in Table 36 in order to improve their technical skills and the enterprises’ productivity. Individual consulting, CEFE trainings, business administration and management were less demanded. The entrepreneurs feel technical problems more and they easily admit them. Realizing and admitting to have problems in the management area is much more difficult. Entrepreneurs in Nuclei who have undergone CEFE admit that it has been a turning point in their business life, they have introduced many changes in their enterprises and that they have had a positive effect. Some go as far as to say that CEFE “opened their eyes” to the possibilities and potentials of their businesses (i.e. PAEA Doragala Nucleus). CEFE is expensive and time consuming, but considering that almost half of the Nucleus enterprises were founded after 2000, it is very useful for their stabilization and future planning.

The increasing number of international missions was integrated in the table because they include elements of training and consulting. For most Nucleus participants it is their first time on such a mission outside the country. They get an idea about their enterprises’ status compared to international level and new impulses for further development of their businesses. The Doragala Nucleus discovered during its India visit that there are many low cost methods in soil preparation, which leads to higher yields. The Beauty Culture Nuclei were able to learn

[123] These figures were taken form the ESSP M&E system where all activities undertaken by Nucleus members are included. The chamber counsellors hand in the reports.

[124] ESSP / Lehmann, Simone (2004)

[125] Concerning the decline of BDS activities and number of participants in 2005 see below.

Type of strategic BDS used	**BDS used by Nucleus entrepreneurs**					
	2004		**2005**		**2006**	
	Activi-ties	**Partici-pants**	**Activi-ties**	**Partici-pants**	**Activi-ties**	**Partici-pants**
Individual consulting	3	42	2	30	–	–
CEFE training	4	50	5	54	1	16
Training in business administration	1	13	2	37	9	98
Other training	1	20	1	25	2	23
Training in technologies and techniques	29	396	29	388	54	659
Visits to companies, trainings institutes, trade fairs, etc.	22	321	6	83	15	163
International missions with training & consulting elements	2	11	1	15	5	53
Total	**62**	**753**	**46**	**632**	**84**	**1,012**

Table 36: Types and quantities of subsidized BDS

many new techniques in Bangkok (nail art, new hair styling methods) which the participants apply now in their enterprises. In addition, they bought new equipment for their salons on lower costs because of the better bargaining power of the Nucleus group. The saw millers discovered methods that minimized wastage and more environmental friendly technologies during trade fairs in Germany and Thailand. The computer vendors were able to build useful contacts when they visited the Canton fair in China.

Above we analysed the objective figures concerning training of Nucleus entrepreneurs available in the ESSP m&e system. Now we are looking at the results of the impact analysis where we asked the entrepreneurs in how many external training activities they participated during the last 12 months and in how many their employees participated in such training.

It is not only important for business success and competitive advantage that the entrepreneurs update themselves. The crucial point is whether they also invest into the training of their staff:

- Many / most entrepreneurs in developing countries perceive their employees as pure cost factor. However, SMEs do not have much financial capital. The only capital they have is the human capital, their work team.[126] This human capital has to be cared for and continuously further developed. Or – as it is said today also in big companies – every employee needs an entrepreneurial thinking in order to contribute to the enterprise's progress and success.
- Traditionally the training of the SME staff occurs on-the-job in the enterprise. This is oriented towards the practical side only and in most cases limited to certain steps in the work process without the necessary theoretical basis.

126 Comment of a Brazilian entrepreneur after his return from a three-month practical training in some German small enterprises: "Now I see my workers with different eyes!"

- Qualified training cannot be undertaken in small enterprises because of a missing critical quantity of participants. It does not make sense and is too expensive to organize a welding course for two welders. Therefore, such training will take place as outdoor training organized by technical schools, chambers and similar public and private institutions.
- SMEs are commonly afraid that if they invest money into the training of their staff that these may run away afterwards or even become a competitor, causing a big loss. Therefore, the point is not only to invest into the training of the staff but also to care pro-actively that the trained employee will remain in the enterprise – this can mean a different leadership attitude and relationship with the employee.
- When in plant training is organized the entrepreneur is able to define and control the content and check whether everything is relevant for the designed tasks of the employee. This is not the case with training conducted elsewhere when the instructors and the organising institution define the content. Therefore, when the entrepreneur her / himself does not have positive training experiences then s/he is very reluctant to send employees to external trainings. Consequently, when one wants to reach the employees with training often one has to reach the entrepreneur first. If s/he is convinced of the quality and the content of the training then afterwards the chance increases that s/he will send also her / his employees.[127] This is proven by the fact that many Nucleus entrepreneurs have sent their employees for a training that they have undergone before.

In 2004, 63% of the interviewed Nucleus members participated in training activities, in 2005 35% (Table 37). The respective shares of the non-Nucleus entrepreneurs are with 32% in both years considerably lower. In 2005, the differences decreased but still the non-Nucleus members invested less into training.

36% for 2004 and 65% for 2005 of the Nucleus members denied training activities, partly because they were relatively new members, the Nucleus was not active, many other Nucleus activities absorbed the time and financial capacities of the members and / or the entrepreneurs had other priorities.

Those entrepreneurs who participated in training activities did so very intensively: 2.9 times in 2004 and the smaller share of entrepreneurs who underwent training programmes in 2005 increased the intensity even up to 3.5 times. There is a considerable higher training intensity of the female entrepreneurs compared with their male counterparts.

In 2004 13%, in 2005 5% of those Nucleus entrepreneurs with employees invested into the training of their employees. These seem to be very low shares especially in comparison with non-Nucleus members (2004: 41%; 2005: 19%). However, one has to differentiate: those Nucleus entrepreneurs who invested into their employees trained relatively many more employees (47% / 28% of the employees) than the non-Nucleus members (7% / 18%). The especially high figures of the female entrepreneurs are impressive (155% / 65% of the employees) which means, that they sent on average each employee 1.5 times for training in 2004.

[127] Some Brazilian entrepreneurs participated in a long costly CEFE training course. Some of them sent their wives – who participate actively in the administration of the enterprises to the second course. And some of them sent some employees to the third course.

Participation in training activities		**Entrepreneur**			**Staff**			
		0 times	**>0 times**	**Average participation in training**	**0 times (>0 staff)**	**>0 times (>0 staff)**	**Average participation in training**	**Trained staff in % of total staff**
Nucleus members	2004	37%	63%	2.9	87%	13%	2.7	47%
	2005	65%	35%	3.5	94%	6%	2.2	28%
- Females	2004	41%	59%	3.8	88%	12%	3.8	155%
	2005	64%	36%	4.0	96%	4%	3.2	65%
- Males	2004	35%	65%	2.4	86%	14%	2.1	30%
	2005	65%	35%	3.2	94%	6%	1.8	20%
Non-Nucleus members	2004	68%	32%	2.6	59%	41%	1.7	7%
	2005	68%	32%	2.9	81%	19%	2.4	18%

Table 37: Participation in external training activities[128]

The drop in training investments from 63% in 2004 down to 35% in 2005 goes in line with an extremely low investment climate index in the beginning of 2005 (Chapter 4.12) and a stagnation of turnover and employment during that year (Chapters 4.7 and 4.6.2). It is common all over the world that in times of economic difficulties enterprises feel that they have to economise and first start to reduce investments in training.

Per enterprise size

Table 38 shows per enterprise size the participation in trainings of entrepreneurs and employees.

- There are no different patterns between the owners of smaller and bigger enterprises concerning the entrepreneur's participation in trainings.
- The smaller the enterprise is the less it dares to send employees to external trainings without having

Human resource development		**Participation in trainings of entrepreneur and employee**			
Number of employees		**Both**	**Only entrepreneur**	**Only staff**	**No one**
<= 5	2004	9%	60%	2%	29%
	2005	4%	33%	0%	63%
>= 6 <= 10	2004	9%	57%	7%	27%
	2005	3%	28%	3%	66%
>=11 <= 20	2004	6%	50%	11%	33%
	2005	13%	33%	8%	46%

Table 38: Participation in external training activities of entrepreneur and employees[129]

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[128] R 35-07 Train activities p Cha 5 2005+06 Nuc 1-41 Sex 1-1.pdf; ~Nuc 1-42 Sex 1-2.pdf; ~2-42 Sex 2-2.pdf; ~Nuc 99-99 Sex 1-2.pdf

[129] R 35-03 Train activities p Cha 2 2005 s Nuc 2-42 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~Nuc 1-34 Sex 1-2 Eth 1-3 Reg 1-4 Emp 6-10.pdf; ~Nuc 2-33 Sex 1-2 Eth 1-4 Reg 1-4 Emp 11-20.pdf; ~Nuc 7-29 Sex 1-2 Eth 1-3 Reg 1-4 Emp 21-42.pdf

participated in a training themselves (column “Only staff”). In the case of enterprises with more than ten employees, the respective share starts to increase. On the one hand in a more complex organization more specialists are needed. On the other hand, the entrepreneur her- / himself is not any more in the position to check every training by participating before.

Per chamber

There are big differences concerning the training patterns between the chambers (Table 39).

PAEA and CPWCIC Nucleus members had the highest share of entrepreneur trainings in 2004 and together with NCHSL also in 2005 – the first two had at that time CEOs who had practical experiences as trainers. MDCCIA members had in both years the lowest share of Nucleus entrepreneurs who underwent trainings with 21% in 2004 and 6% in 2005. Reflecting about the respective counsellors and CEOs during these years, we can link their individual qualification and performance quite well with the above results. Under guidance of a good CEO and counsellor, the Nuclei start more training activities than under less qualified and engaged chamber employees. CPWCIC was the first one to understand that upgrade training can be an income generating chamber product, not only when the activities are subsidized by ESSP – the other institutions are following slowly.

Participation in training activities		Entrepreneur		Staff		
		>0 times	**Average participation in training**	**>0 times (>0 staff)**	**Average participation in training**	**Trained staff in % of total staff**
CCICP	2004	66%	2.1	24%	1.7	20%
	2005	32%	3.7	8%	1.8	14%
CCIUP	2004	68%	3.0	10%	4.3	172%
	2005	54%	4.4	9%	2.2	73%
CPWCIC	2004	84%	4.7	12%	5.0	194%
	2005	57%	3.6	6%	2.3	47%
MDCCIA	2004	21%	2.2	11%	1.5	43%
	2005	6%	1.8	1%	1.5	17%
NCHSL						
	2005	54%	3.0	5%	4.7	52%
PAEA	2004	86%	2.3	3%	3.5	140%
	2005	43%	2.0	4%	1.5	19%

Table 39: Participation in external training activities per chamber[130]

When looking at the professional training figures (Chapter 3.5) we had a similar result concerning MDCCIA: the lowest shares of professionally trained entrepreneurs before entering into the business were also found in MDCCIA. This leads to the question whether in Matale there is a less favourable training environment – if yes, why?

Per entrepreneurs’ education and professional training

Better educated entrepreneurs invest more into their own up-grade training and that of their employees because they are more aware of the importance of adequate knowledge. Table

[130] R 35-07 Train activities p Cha 1 2005 s Nuc 1-42 Sex 1-2.pdf; ~2006s Nucleus 1-65 Sex 1-2.pdf

40 confirms a slight positive correlation between the educational level of the entrepreneurs and their own participation in training activities and a little bit more concerning the promotion of their employees. The exception is again Matale: none of the handful university degree holders invested either into their own or into their employees' training.

Participation in training activities per education	Entrepreneur		Staff	
	>0 times		>0 times (>0 staff)	
	2004	2005	2004	2005
Below O-level	37%	33%	7%	3%
O-level	47%	35%	10%	5%
A-level	39%	35%	9%	5%
Technical Diploma	56%	42%	12%	9%
University degree	52%	34%	8%	10%

Table 40: Participation in external training activities per entrepreneur's education level

The CCICP Nucleus members seem to have understood more about the importance of well trained staff with a 24% share of trained staff in 2004 and 8% in 2005. In 2004 the CCICP Printers Nucleus had the highest share of trained staff with 75%, followed by the Cut Foliage Nucleus with 33% and the Carpenters with 21%. In line with the other Matale results in MDCCIA the lowest share of Nucleus enterprises have trained their staff with only 8% in 2004 and 1% in 2005.

Per legal status

The legal status and the usage of BDS correlate clearly positive (Figure 17). The owners of registered companies are more eager to participate in trainings than the unregistered ones. This is not startling because they have grown and managed to reach a certain level in the economic world where they become more aware of needing more skills and knowledge in order to compete successfully. A relatively small group has also realized the importance of the development of their human resources whereas the unregistered ones almost do not do this at all.

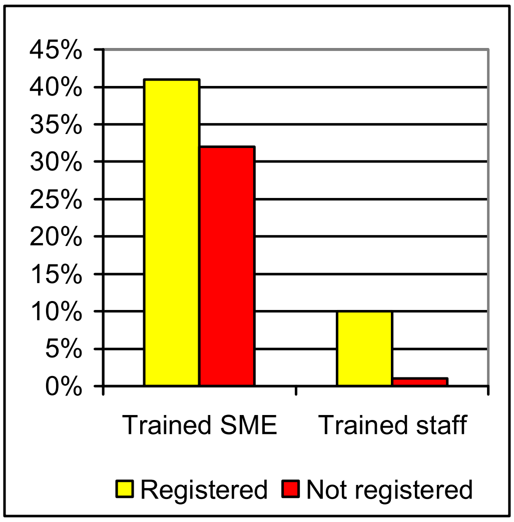

Figure 17: Human recourse development vs. legal status 2006

Per sector

Considering both years the Photographer, Tailoring, Protected Agriculture, Cut Foliage, Light Engineer and Carpenter Nuclei started training activities above the average (Table 41). The degree of technology involved seems not to be the reason for this because there is a mixture of no tech, low tech and high tech sectors. This can be partially explained with some good functioning Nuclei and counsellors. In addition, the German / Brazilian master technicians contributed to this because they had worked with the last three listed sectors for a couple of weeks. In some sectors, it impresses how many of the employees the small share of entrepreneurs sent to external trainings.

Participation in training activities	Entrepreneur		Staff			
	>0 times		>0 times (>0 staff)		Trained staff in % of total staff	
Sector	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**
Gem & Jewellery	–	71%		0%		
Photographers	68%	60%	17%	10%	18%	3%
Patchwork	–	57%	–	10%		500%
Brassware	33%	50%	8%	3%	4%	10%
Hemp	–	50%		0%		
Tailoring	81%	48%	10%	4%	325%	100%
Vegetable Cultivation	39%	48%	0%	15%		58%
Cut Foliage	75%	44%	16%	4%	148%	58%
Protected Agriculture	86%	43%	3%	4%	140%	19%
Light Engineers	63%	37%	9%	9%	10%	89%
Beauty Culture	46%	29%	12%	5%	39%	71%
Carpentry	76%	29%	30%	3%	35%	7%
Lime Production	50%	12%	10%	6%	40%	67%
Printers	41%	5%	56%	5%	225%	14%
Garment	0%	0%	11%	0%	100%	0%

Table 41: Participation in external training activities per sector[131]

Per performance

There are clear differences concerning turnover, employment and turnover per employee depending on whether the entrepreneur and / or the staff participated in training or not. Figure 18 shows that those who invest in training perform better. It is no causal relationship in the sense that when enterprises invest in training then they have more chances to prosper. The results can rather be understood in the way, that better performing enterprises invest also in training thus maintaining the dynamic and performance or even increasing it.

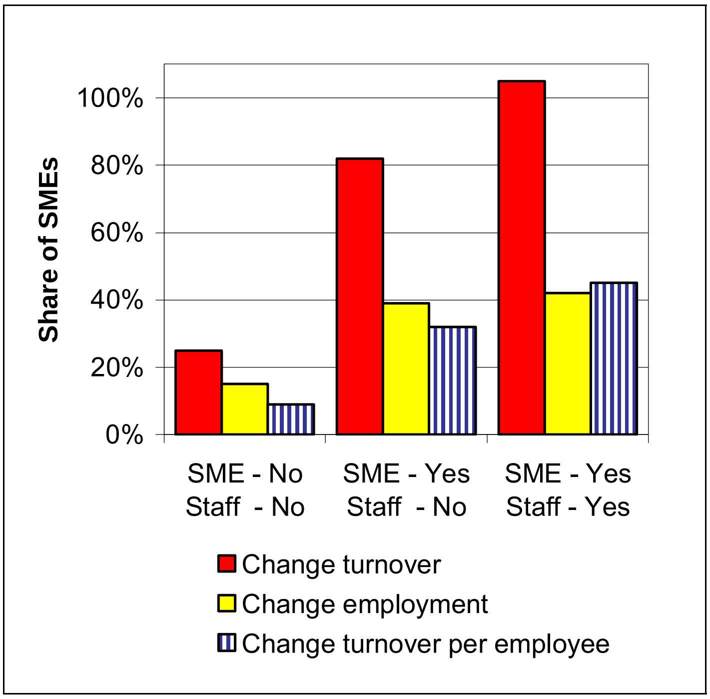

Figure 18: Nucleus SME's performance between 2002 and 2005 versus participation in training activities 2004 / 05 (with 1 to 10 employees)[132]

[131] R 35-02 Train activities p Sec 1 2005 s Nuc 1-42 Sex 1-2.pdf; R 35-04 Train activities p Sec 1 2006 s Nuc 1-65 Sex 1-2.pdf; only results with more than 10 answers per sector

[132] R 35-14 Train activities v TO 05+06 Nuc 1-65 Sex 1-2 Emp 0-10 TrE 0-0 TrS 0-0.pdf; ~Nuc 1-65 Sex 1-2 Emp 1-8 TrE 1-1 TrS 0-0.pdf; ~Nuc 2-50 Sex 1-2 Emp 1-10 TrE 1-1 TrS 1-1.pdf – only those enterprises which supplied all necessary information for the years 2002 to 2005 excluding those founded since 2003.

4.6 Employment and its Development

One of the main topics in industrialised as well as in developing countries today is the employment situation. Therefore, technical cooperation programmes for the promotion of the local economy are analysed and evaluated concerning their respective impact. We will discuss below in which way this makes sense in the context of the Nucleus Approach.

4.6.1 Employment Structure

Table 42 represents the number of Nucleus enterprises per employment group and the respective total of employees. 13% work alone without employees, 81% of the Nucleus en-

Nucleus SMEs	SMEs	Employees of the Enterprises				Employ-ment	Average
		0	1 – 10	11 – 20	> 20		
Total	**658**	**13%**	**81%**	**4%**	**2%**	**2,486**	**3.8**
Males	401	7%	84%	5%	3%	1,915	4.8
Females	257	21%	76%	2%	–	571	2.1
CCICP	**156**	**5%**	**84%**	**5%**	**6%**	**858**	**5.5**
Males	114	5%	80%	7%	8%	769	6.7
Females	42	5%	95%	–	–	89	1.7
CCIUP	**124**	**13%**	**85%**	**2%**	**–**	**298**	**2.4**
Males	56	9%	86%	5%	–	298	3.2
Females	68	16%	84%	–	–	116	1.7
CPWCIC	**64**	**22%**	**75%**	**2%**	**2%**	**194**	**3.0**
MDCCIA	**182**	**18%**	**76%**	**2%**	**–**	**652**	**3.6**
Males	122	7%	84%	6%	3%	580	4.8
Females	60	40%	60%	–	–	72	1.2
NCHSL	**76**	**20%**	**75%**	**5%**	**–**	**252**	**3.3**
Males	55	20%	78%	2%	–	172	3.1
Females	21	19%	67%	14%	–	80	3.8
PAEA	**56**	**–**	**95%**	**5%**	**–**	**232**	**4.1**
Males	54	–	96%	4%	–	212	3.9
Females	2	–	50%	50%	–	20	10.0
Non-Nucleus	**95**	**6%**	**61%**	**21%**	**12%**	**828**	**8.7**
Males	60	3%	55%	28%	13%	614	10.2
Females	35	11%	71%	9%	9%	214	6.1

Table 42: Enterprises in reference to the employment in 2005[133]

[133] R 32-09 Emp p Cha 05 Nuc 1-65 Sex 1-2.pdf; ~Nuc 1-65 Sex 1-1.pdf; ~Nuc 1-65 Sex 2-2.pdf; ~Nuc 99-99 Sex 1-2.pdf; ~Nuc 99-99 Sex 1-1.pdf; ~Nuc 99-99 Sex 2-2.pdf

terprises have between one and ten and 4% respectively 2% employ 11 to 20 persons and more than 20. This leads to an average of 3.8 persons per enterprise.[134]

The figures differ concerning the non-Nucleus enterprises: less without employees and more in all other employment groups lead to an average of 8.7 persons per enterprise – more than double of the Nucleus' ones.

Most of the enterprises without employees are presumably self-employment activities. There are with 21% three times more of them run by Nucleus female entrepreneurs than by males (7%). These women entrepreneurs are concentrated mainly in CCIUP, CPWCIC, MDCCIA and NCHSL. There is only one female led enterprise among the non-Nucleus enterprises with more than 20 employees.

On average, the male managed enterprises employ with 4.8 persons more than double of the women businesses with 2.1 persons. Below will be shown that this is also because among the women enterprises there are with 44% many more startups founded after 2002 compared with 17% of the male sample.

Table 43 on the next page shows the employment composition of the Nucleus and non-Nucleus enterprises per chamber, gender and legal status excluding those without employees.

The employment differs considerably between the institutions, even between the three chambers of commerce and industry:

Per formal status

Half of the Nucleus members are registered enterprises. CCICP has the highest share with almost 60% while NCHSL and PAEA the lowest with 35% and 17%.

The registered companies employ close to 70% of all employees, on average 6.0 persons (males: 6.7; females 4.2).

Of the control group with 87% a much higher share of the enterprises is registered because the chambers of commerce and industry do officially not accept unregistered SMEs as members. They have about ten employees per enterprise.

The 50% unregistered Nucleus companies employ circa 30% of the employees, thus having on average 2.7 persons working per enterprise (males 3.2, females 2.1).

Per gender

The 64% male run Nucleus companies sign for 77% of the employees, the 33% female enterprises for 23% of them. On the first glance, this seems to be low. But in 2002 their share reached only 13% indicating a considerable change mainly through startups.

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[134] The entrepreneurs were not asked about the number of employees – in this case they might have counted only the permanent employed and the daily workers leaving out family members and others (e g apprentices) – but how many people were working in the enterprise including the entrepreneur her / himself. This helps to get a picture about the number of persons who earn some kind of income in the enterprise. In this survey, they are altogether referred to as "employees".

Chamber			SMEs		Employees		Of the employees are				Average
							Family	Permanent Employed	Daily paid	Oth-ers	
Total Nucleus SMEs	**total**		**550**		**2.410**		**21%**	**25%**	**46%**	**8%**	**4.4**
	M	r	204	37%	1.361	57%	11%	34%	47%	8%	6.7
	F	r	69	13%	293	12%	21%	22%	49%	9%	4.2
	M	u	152	27%	490	20%	37%	7%	49%	7%	3.2
	F	u	125	23%	266	11%	44%	17%	30%	9%	2.1
CCICP	**total**		**146**		**850**		**20%**	**36%**	**34%**	**10%**	**5.8**
	M	r	79	54%	667	79%	12%	42%	38%	8%	8.4
	F	r	7	5%	21	2%	29%	52%	14%	5%	3.0
	M	u	27	18%	94	11%	44%	9%	23%	24%	3.5
	F	u	33	23%	68	8%	63%	12%	13%	12%	2.1
CCIUP	**total**		**104**		**277**		**46%**	**17%**	**30%**	**7%**	**2.7**
	M	r	32	31%	120	44%	38%	23%	30%	9%	3.8
	F	r	24	23%	54	19%	46%	13%	37%	4%	2.3
	M	u	16	15%	44	16%	59%	7%	32%	2%	2.8
	F	u	32	31%	59	21%	51%	15%	24%	10%	1.8
CPWCIC	**total**		**49**		**193**		**10%**	**28%**	**51%**	**10%**	**3.9**
	F	r	25	51%	135	70%	7%	27%	56%	10%	5.4
	F	u	24	49%	58	30%	17%	31%	41%	10%	2.4
MDCCIA	**total**		**136**		**611**		**9%**	**27%**	**59%**	**4%**	**4.5**
	M	r	69	51%	442	73%	2%	31%	63%	4%	6.4
	F	r	7	5%	25	4%	40%	36%	16%	8%	3.6
	M	u	37	27%	105	17%	25%	10%	63%	2%	2.8
	F	u	23	17%	39	6%	38%	28%	33%	–	1.7
NCHSL	**total**		**61**		**252**		**29%**	**3%**	**54%**	**14%**	**4.1**
	M	r	15	25%	87	34%	21%	9%	47%	23%	5.8
	F	r	6	10%	58	23%	17%	–	71%	12%	9.7
	M	u	29	48%	85	34%	38%	–	53%	9%	2.9
	F	u	11	18%	22	9%	55%	–	45%	–	2.0
PAEA	**total**		**54**		**227**		**32%**	**11%**	**55%**	**2%**	**4.2**
	M	r	9	17%	45	20%	16%	29%	53%	2%	5.0
	F	r	–		–	–	–	–	–	–	–
	M	u	43	80%	162	71%	36%	8%	56%	–	3.8
	F	u	2	3%	20	9%	35%	–	50%	15%	10.0
Non-Nucleus SMEs	**total**		**87**		**790**		**13%**	**47%**	**39%**	**–**	**9.1**
	M	r	50	57%	565	72%	11%	55%	34%	1%	11.3
	F	r	26	30%	208	26%	15%	30%	52%	–	8.0
	M	u	6	7%	11	1%	82%	–	18%	–	1.8
	F	u	5	6%	6	1%	33%	–	67%	–	1.2
m = males / f = females / r = registered / u = unregistered											

Table 43: Structure of employment of enterprises per chamber (>0 employees in 2005)[135]

[135] R 32-03 Emp p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-57.pdf; ~Nuc 1-65 Sex 1-1 Eth 1-3 Reg 1-3 Emp 0-57.pdf; ~Nuc 1-53 Sex 2-2 Eth 1-5 Reg 1-3 Emp 0-25.pdf; ~Nuc 1-65 Sex 1-1 Eth 1-3 Reg 4-4 Emp 0-26.pdf; ~Nuc 2-65 Sex 2-2 Eth 1-3 Reg 4-4 Emp 0-7.pdf; ~Nuc 99-99 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-34.pdf;

CCIUP has not only a high share of women run Nucleus enterprises (54%) but with 40% also a rather high employment share. This indicates a smaller employment difference compared with CCICP (28% female run enterprises / 10% of the employees) and MDCCIA (22% female run enterprises / 10% of the employees).

Per family members

One fifth of the employees are family members, 13% in the case of registered companies and 40% in unregistered ones. Some few enterprises are totally run by family members. Why the registered CPWCIC women claim to have only 7% family members in their companies and the MDCCIA registered males even only 2% we presently cannot explain.

Family members	SMEs
0	40%
1	37%
2	15%
>2	8%

Table 44: Family members

Permanent employed and daily workers

The registered entrepreneurs employ roughly double the number of permanent employees compared to daily paid workers. The exceptions are NCHSL without almost any permanent employees and the registered males of the control group who have 55% permanent staff and 34% daily paid workers. In case of the unregistered companies the differences go up to seven times more daily workers than permanent employed ones.

Per composition of the employees

Analysing the data for the individual years from 2002 to 2005 one observes that although the number of enterprises increased through startups there is almost no change neither in the composition of the different types of employees nor in the total number of employees per enterprise.[136] The changes in those enterprises founded before 2002 are compensated by the startups founded since then.

- Registered Nucleus companies: 5.5 employees, 13% family members, 32% permanent employees, 47% daily workers, 8% others.
- Unregistered Nucleus companies: 2.2 employees, 40% family members, 11% permanent employees, 42% daily workers, 8% others.
- Registered non-Nucleus enterprises: between 8.0 and 9.9 employees, 12% family members, 50% permanent employed, 38% daily workers.
- Unregistered non-Nucleus enterprises: 1.1 employees, 65% family members, 0% permanent employed, 35% daily workers.

This stability of the composition of the employment is stressed here, because the original definition of the impact indicator for the project component referred to the permanent employed only.[137] Anyhow it was assumed that these would be the more relevant jobs for the development of the enterprises and the economy. We will see that daily paid workers are not automatically second class employees. Therefore, if we had surveyed only the permanent

~Nuc 99-99 Sex 1-1 Eth 1-5 Reg 1-3 Emp 0-34.pdf; ~Nuc 99-99 Sex 2-2 Eth 1-3 Reg 1-3 Emp 0-19.pdf; ~2 Nuc 99-99 Sex 1-1 Eth 1-1 Reg 4-4 Emp 0-3.pdf; ~Cha 2 Nuc 99-99 Sex 2-2 Eth 1-2 Reg 4-4 Emp 0-2.pdf

136 R 32-03 Emp p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-57.pdf

137 See the later changed indicator in chapter 4.6.3

employed, we would have received a completely wrong picture of the enterprises' employment and its development between 2002 and 2005.

Per size of enterprises

One would expect the number of employees and the share of permanent employed to correlate positively. Figure 19 confirms this: in enterprises with up to ten employees on average 20% are permanent employed, in those with up to 20 employees 30% and in those with more 55%. However, in the enterprises of the first two samples (up to 20 employees) 50% are daily paid workers and even in those enterprises with more than 20 persons 37%. Our first assumption was that this indicates well that the entrepreneurs do not recognise these "second class" employees as human capital, which they have to take care of and which has to be developed. In some few additional individual interviews conducted by the authors entrepreneurs conveyed a more complex but not representative picture:

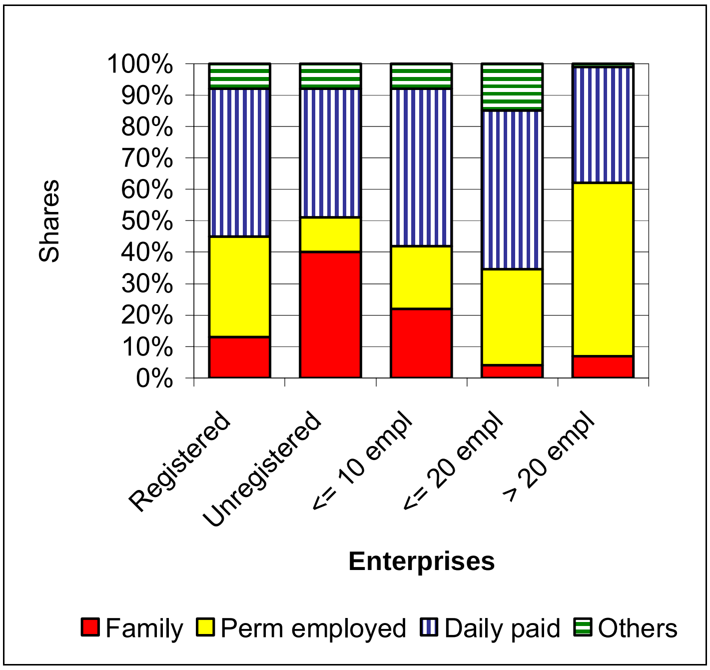

Figure 19: Share of employee groups in different enterprise samples

- The traditional, expected answer is: social security is not paid for the daily paid workers because the entrepreneur wants to save costs and the employee is also not interested in it because it decreases her / his present net income. What s/he can expect from the social security system is either unknown or s/he does not trust the system.
- In the backyard of the registered enterprise runs a second, unregistered one with – consequently – unregistered, mainly daily paid workers.
- The daily payment of the wages decreases the absence from work – the entrepreneurs complain frequently about having this kind of problems.
- The daily paid workers are treated as permanent employed. They get the same salary as the permanent employed and social security is paid for them too. The daily payment of the wages is done only because these workers are used to it and it corresponds with their life rhythm – they do not run in danger to be without money during the last third of a month.
- But there was also the answer: "I am working with technology. Daily paid workers are useless in my case; all my workers are permanent employed ones."

Per ethnicity

Tamil enterprises have with up to 50% an extremely high share of involved family members and almost no permanent employed workers. Moors on the other hand employ with only 6% relatively few family members. Simultaneously they are the only sub-group who employs more permanent workers than daily paid workers. Presently we do not have an explanation for this: is this an incident due to the relatively small samples? Does it reflect different relationships in the families? Are the Moors more entrepreneurial thinking and acting?

There are of course differences between the sectors concerning the composition of the employees. We will look at them in the context of the analysis of the employment changes below.

4.6.2 Employment Change

Table 45 and Table 46 show that between 2002 and 2005 out of 658 Nucleus SMEs – 477 founded before 2002 and 181 after –

- 405 (62%) increased the employment by 1,063 jobs;
- 165 (25%) maintained the employment unchanged;
- 88 (13%) decreased the number by 293 (17%);

In total the respective sample of interviewed entrepreneurs created 770 (+45%) new jobs.

Differentiated per gender the employment increase by women run enterprises is significant (+128%) due to 112 (44%) new business founders since 2002. Among the male managed enterprises are 69 (17%) startups.

Basis: 658 SMEs	**Nucleus members**			
	Enterprises		**Employment**	
Changes in SME	In-creased	De-creased	In-creased	De-creased
a) Founded before 2002	224 = 34%	88 = 13 %	+ 682 = +40 %	- 293 = -17%
b) Founded since 2002	181		381	
c) Total	405 = 62%	88 = 13 %	+ 1,063 = +62%	- 293 = -17%
d) Total net			**+ 770 = + 45%**	
e1) Total men 287 SMEs	210 = 58%	77 =19 %	+ 698 = + 48%	- 248 = -17%
e2) Total net men			**+ 450 = 31%**	
f1) Total women 257 SMEs	195 =76%	11 = 4%	+ 365 =+145%	- 45 = - 18%
f2) Total net women			**+ 320 = 128%**	

Table 45: Change in employment of Nucleus enterprises[138]

The control group increased the employment by 31% which is about the same as of the Nucleus male entrepreneurs. But it is considerably lower than of the total Nucleus members' employment increase of 45%. Almost half of the enterprises work with an equal number of employees.

At first glance the difference in the increase of the employment in favour of the Nucleus enterprises looks impressive and one might see here an impact of the Nucleus Approach. But one has to consider the different initial employment in 2002 of about four employees in the Nucleus enterprises and seven in the control group enterprises. When both contract one person more the first ones increase employment by 25%, the latter ones by 14%. Therefore, the difference is partly relative – the other part is caused by the different shares of startups since 2002.

[138] R 32-01 Emp p Cha 1 Nuc 1-65 Sex 1-2 Emp 0-57.pdf; ~Sex 1-1 Emp 0-57.pdf; ~Sex 2-2 Emp 0-25.pdf

One could assume that a part of this increase was caused by the reconstruction activities along the coast after the tsunami at the end of 2004: much money flew into the country causing an increased demand for local services and products, which could partially be attended also by enterprises in the centre of Sri Lanka. But apparently it did not work this way:

Basis: 95 SMEs	Non-Nucleus members			
	Enterprises		Employment	
Changes in SME	In-creased	De-creased	In-creased	De-creased
a) Founded before 2002	29 = 31%	11 = 12 %	+ 169 = +27 %	- 74 =-12%
b) Founded since 2002	10		103	
c) Total	39 = 41%	11 = 12 %	+ 272 = +43%	- 74 = -12%
d) Total net			**+ 198 = + 31%**	
e1) Total men 60 SMEs	28 = 47%	6 =10 %	+ 186 = + 40%	- 37 = -8%
e2) Total net men			**+ 149 = 32%**	
f1) Total women 35 SMEs	11 =31%	5 = 14%	+ 86 =+52%	- 37 = - 22%
f2) Total net women			**+ 49 = 30%**	

Table 46: Change in employment of non-Nucleus enterprises[139]

- In 2005 the Nucleus enterprises increased employment only slightly with 2%[140]; the non-Nucleus enterprises by 6%.[141]
- The cut foliage sector in Badulla, for example, stated a drastic decrease of demand, because the hotels on the coast were closed after their destruction and the other ones had relatively few guests. Less tourism in the central region had the same direct and indirect impact on other sectors and those enterprises selling only on local and regional level. Even the small cluster of lime industries in Matale as part of the house construction sector did not report increased sales and employment.

The impression is that the reconstruction activities along the coast did not increase the demand for products and services in the centre of Sri Lanka but that people from the central region went to work on the coast.

Table 47 illustrates that with 206 most new jobs were created by CCICP Nucleus members. CPWCIC members with 341% did the relative highest employment increase. The employment changes in percentage partly reflect the different numbers of Nucleus start-

Chamber	New jobs net in %	Total new jobs	Startups since 2002		
			SMEs	Jobs created	
Total	45%	770	181	381	49%
CCICP	32%	206	42	158	77%
CCIUP	166%	186	45	67	36%
CPWCIC	341%	150	25	41	27%
MDCCIA	22%	116	47	69	59%
NCHSL	8%	19	6	3	16%
PAEA	67%	93	16	43	46%

Table 47: Employment change per chamber[142]

139 R 32-01 Emp p Cha 1 Nuc 99-99 Sex 1-1 Emp 0-34.pdf; ~Sex 1-2 Emp 0-34.pdf; ~Sex 2-2 Emp 0-19.pdf

140 R 32-01 Emp p Cha 1 Nuc 1-65 Sex 1-2 Emp 0-57.pdf

141 R 32-01 Emp p Cha 1 Nuc 99-99 Sex 1-2 Emp 0-34.pdf

142 R 32-01 Emp p Cha 1 Nuc 1-65 Sex 1-2 Emp 0-57.pdf

ups – their share ranges from 16% in the case of NCHSL up to 77% in CCICP.

Due to missing reliable local statistics, it is presently not known whether the high number of startups is representative for the regional economic development – if affirmative, it would indicate a real boom and revolution of the economy – or whether the chamber's service through Nuclei attracts especially those who had just started new businesses. We assume that the latter is more likely: they are more open for new views and solutions, they suffer, are more enthusiastic and do not put new ideas aside with the argument "I tried already everything and it did not work".

Analysing the different sectors regarding employment generating effects Table 48 shows considerable differences: the highest relative employment increases occurred in the tailoring, beauty culture, vegetable cultivation and cut foliage sectors. In most sectors the startups contributed considerably to the overall increase of the respective employment; those in the ornamental fish and printer sector even overcompensated the employment reduction by the older companies.

Sector	New jobs net in %	New jobs	Thereof jobs created by startups since 02
Tailoring	404%	101	29%
Beauty Culture	180%	83	48%
Vegetable Cultivation	148%	46	37%
Cut Foliage	128%	194	50%
Photographers	82%	36	–
Protected Agriculture	67%	93	46%
Bakery	59%	20	45%
Carpentry	37%	47	77%
Patchwork	34%	13	15%
Ornamental Fish	31%	4	175%
Printers	18%	21	143%
Gem and Jewellery	17%	5	20%
Hemp	15%	3	–
Automobile	11%	6	–
Light Engineering	-1%	-1	–
Lime Production	-5%	-9	–
Brassware	-7%	-14	5 jobs

Table 48: Employment changes in different sectors[143]

Brassware, light engineering and lime production companies generated negative employment effects. There are two possible – eventually linked – explanations:

a) A less favourable economic situation affected these sectors more. The brassware sector, for example, suffered temporarily heavy under a lack of raw material. In this context, the extremely low scores about the business climate in the first half of 2005 become more understandable.

b) The work of the Nuclei is having an impact in the sense that enterprises start to work more efficiently followed partially by a decrease of employees – we will return to this aspect below.

Per ethnicity

Table 49 gives an overview about the differences between the ethnic groups regarding employment generation. Moor entrepreneurs increased the employment most with 50% while the Tamil ones founded before 2002 reduced it. This was more than compensated by start-

[143] R 32-01 Emp p Sec 1 Nuc 1-65 Sex 1-2 Emp 0-57.pdf – Only sectors with ten or more answers are presented in the table.

ups. In general, it is not possible to derive reliable employment structures from the samples also because those of the Moors and Tamils are too small.

Ethnicity	New jobs net in %	Thereof jobs created by startups since 02	Average employees 2005
Sinhalese	45%	50%	3.9
- Female	141%	42%	2.9
- Male	29%	55%	5.2
Tamil	23%	133%	3.0
Moor	50%	38%	4.4

Table 49: Employment changes by the different ethnic groups[144]

Per enterprise size

The differentiation of those enterprises, which were created before 2002 in reference to their size, shows in Table 50 that more new jobs were created in micro and small SME enterprises not only in relative terms but also in absolute ones. In addition, it indicates that the pressure on enterprises with more than 10 employees to work more efficiently often led to the reduction or stagnation of employment – the effects of the globalization are reaching Sri Lanka increasingly too.

Enterprise size in number of employees	New jobs net	In %	New jobs per SME
Nucleus SMEs			
>= 0 and <= 10	+ 386	+ 37%	+ 0.9
>= 11 and <= 20	+ 34	+ 13%	+ 1.8
>= 21	– 72	– 21%	– 6.0
Non-Nucleus SMEs			
>= 0 and <= 10	+ 120	+ 56%	+ 1.8
>= 11 and <= 20	– 38	– 17%	– 2.5
>= 21	+ 7	+ 4%	+ 1.0

Table 50: Employment change of SMEs founded before 2002[145]

The non-Nucleus entrepreneurs with up to ten employees increased their employment in relative and absolute terms more compared with the Nucleus enterprises. We will come back to the question about the impact of the Nucleus' on the employment development in the following chapter.

Per foundation period of the enterprises

Figure 20 in relative terms and Figure 21 in absolute terms per enterprise indicate

- a total stagnation of employment in enterprises founded before 1980
- that the registered ones created more than double the amount of new jobs per enterprise than the unregistered ones.

At first glance, there seems to be little development potential in the oldest enterprises – they started once, reached a certain level and then stagnate. However, Figure 22 with the respective shares of enterprises concerning increased, unchanged and decreased employment show a more differentiated picture.

- The younger the registered enterprises are the higher is the share with increased staff.

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[144] R 32-03 Emp p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-1 Reg 1-4 Emp 0-57.pdf; ~Nuc 1-62 Sex 1-2 Eth 3-3 Reg 1-4 Emp 0-21.pdf; ~Nuc 2-65 Sex 1-2 Eth 2-2 Reg 1-4 Emp 0-25.pdf; ~Nuc 1-65 Sex 1-1 Eth 1-1 Reg 1-4 Emp 0-57.pdf; ~Nuc 1-65 Sex 2-2 Eth 1-1 Reg 1-4 Emp 0-19.pdf

[145] R 32-03 Emp p Cha 3 Nuc 1-65 Sex 1-2 Emp 0-10.pdf; ~Nuc 3-49 Sex 1-2 Emp 11-20.pdf; ~Nuc 7-53 Sex 1-2 Emp 21-57.pdf

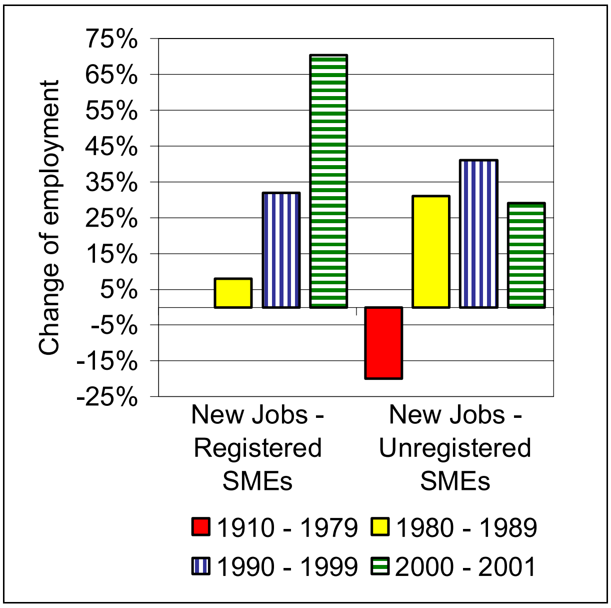

Figure 20: Creation of jobs in reference to the enterprises' foundation year[146]

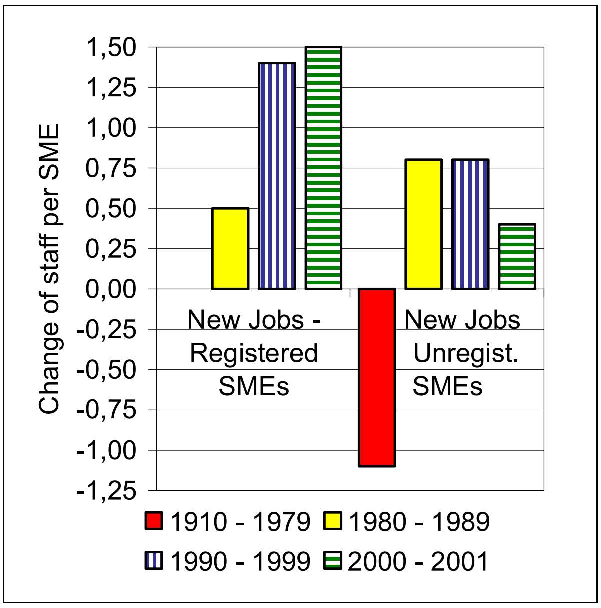

Figure 21: Creation of jobs per SME in reference to the enterprises' foundation year

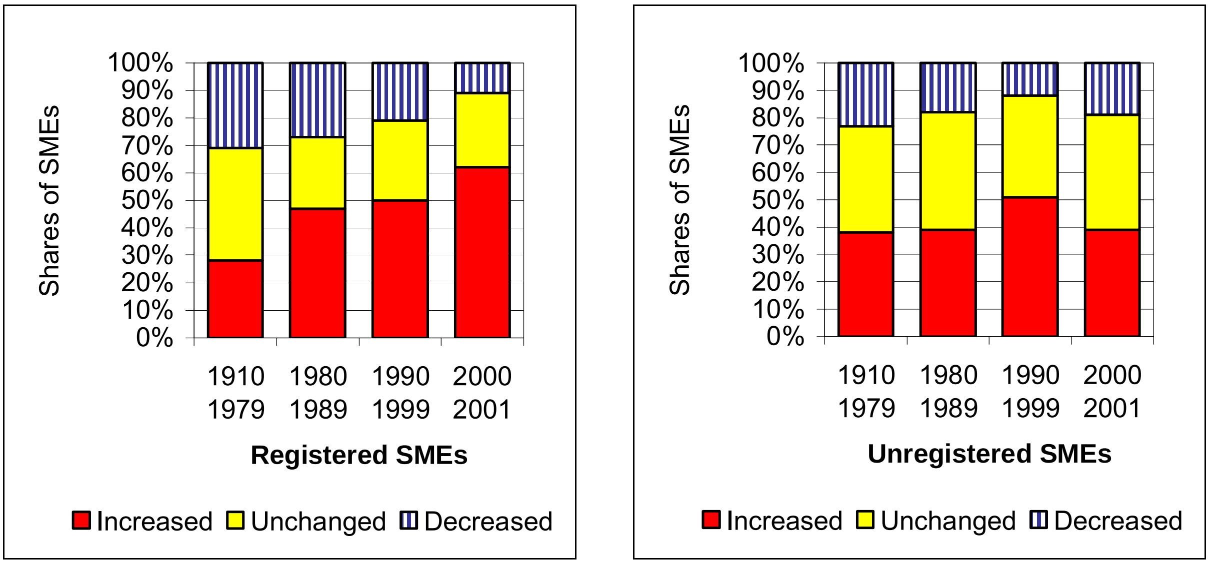

Figure 22: Shares of registered and unregistered SMEs with increased, unchanged and decreased employment between 2002 and 2005

- Concerning the unregistered SMEs the share of those with increased staff remains always between 40% and 50%.
- Also out of the SMEs founded before 1980 between 30% and 40% increased the staff indicating a certain entrepreneurial dynamic even in this age category.

146 R 32-05 Emp p Cha 5 Nuc 1-57 Sex 1-2 Reg 1-3 Fou 1910-1979.pdf; ~Nuc 1-35 Sex 1-2 Reg 1-3 Fou 1980-1989.pdf; ~Nuc 1-50 Sex 1-2 Reg 1-3 Fou 1990-1999.pdf; ~Nuc 2-65 Sex 1-2 Reg 1-3 Fou 2000-2001.pdf; Nuc 1-65 Sex 1-2 Reg 4-4 Fou 1910-1979.pdf; ~Nuc 2-57 Sex 1-2 Reg 4-4 Fou 1980-1989.pdf; ~Nuc 1-62 Sex 1-2 Reg 4-4 Fou 1990-1999.pdf; ~Nuc 2-65 Sex 1-2 Reg 4-4 Fou 2000-2001.pdf

Per founders versus heirs

One could assume that

- Enterprises founded before 2002 still run by the founder increased the employment during the respective period less than
- Those enterprises run by heirs – these ones are on average younger and are eventually more eager to undertake something new.

This assumption cannot be confirmed: the business founders increased the employment by 29%, the heirs only by 2%.[147] This could on the one hand indicate a confirmation that the heirs are not very well prepared for their function and on the other hand, that it is still possible to mobilize even relatively old entrepreneurs to improve their businesses.

Per legal status

The unregistered enterprises generated relatively more than double new jobs with 75% compared to the registered ones with 34% (Table 51). But once again one has to take care of the different basis – 5.7 employees in 2005 in the registered enterprises, 2.2 in the unregistered ones. Then the result is that the employment in the informal sector is growing relatively more than in the formal one, but in absolute terms registered enterprises still create more jobs than the unregistered ones. The formal bigger non-Nucleus members created with 2.5 new jobs per enterprise even the highest number of new jobs.

Legal Status	New jobs net in %	Thereof jobs created by startups since 02	New jobs per SME
Registered Nucleus	34%	39%	1.4
- Females	97%	31%	1.9
- Males	25%	44%	1.3
Unregistered Nucleus	75%	64%	1.0
- Females	177%	58%	1.2
- Males	46%	71%	0.9
Registered non-Nucleus	33%	52%	2.5
Unregistered non-Nucl.[148]	31%	75%	0.3

Table 51: Employment changes vs. legal status[149]

In short: concerning employment, unregistered companies in relative terms grew more than registered ones but the decisive “job machine” is the formal sector.

This contradicts common assumptions: unregistered companies do not follow labour regulations and therefore it is easier for them to dismiss staff when unfavourable economic conditions occur. In addition, they have cost advantages: no payment of social security (Employ-

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[147] R 32-08 Emp p Cha Start Nuc 1-65 Sex 1-2 Reg 1-4 Fou 1910-2001.pdf; ~Fou 1940-2001.pdf

[148] The sample is with 13 answers very small.

[149] R 32-03 Emp p Cha 2 Nuc 99-99 Sex 1-2 Eth 1-2 Reg 4-4 Emp 0-3.pdf; ~Reg 1-3 Emp 0-34, ~Nuc 1-53 Sex 2-2 Eth 1-5 Reg 1-3 Emp 0-25.pdf; ~Nuc 1-65 Sex 1-1 Eth 1-3 Reg 1-3 Emp 0-57.pdf; ~Nuc 1-65 Sex 1-1 Eth 1-3 Reg 4-4 Emp 0-26.pdf; ~Nuc 1-65 Sex 1-2 Eth 1-3 Reg 4-4 Emp 0-26.pdf; ~Eth 1-5 Reg 1-3 Emp 0-57.pdf; ~Nuc 2-65 Sex 2-2 Eth 1-3 Reg 4-4 Emp 0-7.pdf

ment Provident Fund and Employment Trust Fund), no tax payments. Registered ones have to follow the rigid labour laws, which make them more cautious in employment adjustments because the Sri Lankan law might make notices difficult[150] – and in addition, they have higher costs. Therefore, the first ones can react faster to changing conditions while the latter ones are more hesitant.

But based on our findings obviously this assumption is only partially right. Here are some possible explanations:

- If the survival strategy of unregistered companies is to remain “invisible” and to appear as little as possible in public then there is an automatic staff limit: with – presumably – more than five employees it becomes increasingly difficult to remain invisible and to make at the same time sufficient turnover and profit. The share of unregistered SMEs decreases with more than these five employees. There are very few with more than ten employees and there is none with more than 20.
- The entrepreneurial capacities of the informal entrepreneurs are sufficient to manage a micro enterprise but reach their limits when it comes to a more complex organization, which requires the delegation of tasks and responsibilities. They avoid growing into this level. Or, the entrepreneur grows with her / his enterprise and enters one day into the formal sector.[151]

However, concerning the employment development eventually, the differentiation between registered – unregistered enterprises is “wrong” and the decisive question is totally different: how much of the business of the registered companies and their employees is “formal” and how much is “informal”? The above-mentioned few individually interviewed entrepreneurs estimated ranges between 20 and 80 percent of the turnover as formal. These enterprises may profit from the advantages of being formal – see Chapter 4.3 – as well as from acting partially informally being able to adjust the employment fast in reference to the present economic situation. If the public system of investigation of tax evasion works sub-efficiently it can be a successful strategy for small, perhaps even medium enterprises – causing eventually also employment.[152]

We do not know the number of enterprises using this strategy. But the high number of daily paid workers might be understood in this context.

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[150] The Sri Lankan Development Forum states “Labor regulations aim at protecting workers, but discourage job creation and productivity gains. Sri Lanka has some of the most restrictive labor regulations in Asia, including one of the most generous severance pay clauses in the world”. Sri Lankan Development Forum (2007), p 24

[151] We do not know when the formal enterprises were registered.

[152] This is also a common strategy in Brazil. The main problem for the entrepreneur is not to loose the overview because normally they do not maintain two separated and agglomerated book keeping systems.

4.6.3 Employment Development and the Nucleus Approach

ESSP defined employment generation as indicator for the effects of the programme in its design for Phase II – see textbox.

ESSP: Overall objective:

Important public and private stakeholders effectively promote the economy and location of the programme area and best practices influence the regional policy at national level.

- 60 percent of the enterprises organized in enterprise associations and chambers as well as Nuclei supported by ESSP employ at least 20 percent additional permanent employees.

ESSP's overall objective and one impact indicator

Table 52 shows that ESSP Component 1, Promotion of MSMEs, reached the given indicator until end of 2006: of the sample of 658 SMEs 60% – 212 enterprises founded before 2002 plus 181 startups since 2002 – increased the employment by 20% and more. Altogether the employment increased by 61%.

Formally, the indicator was reached which may lead to contentment and the registry of a success.

Nevertheless the question remains what the employment increase caused: is there only a coincidental positive correlation – a temporarily good running economy; the Nucleus Approach attracted especially growing and starting enterprises – or is there a cause-effect relation in the sense that due to ESSP's interventions and the application of the Nucleus Approach 60% of the involved enterprises increased their employment by 20% and more?

Enterprises	SMEs with increase of jobs by 20% and more		New jobs	
SMEs founded before 2002	212	32%	666	39%
Startups since 2002	181	–	381	–
Total	393	60%	1,047	61%
All SMEs	658	100%		

Table 52: SMEs with employment increase of 20% and more between 2002 and 2005

We are sceptical regarding the latter and we think the first one is more probable:

First, the target group of the Nucleus Approach are enterprises and their business chambers. The objective is that both function more efficiently also through a better relationship. Their prior interest is entrepreneurial success in terms of stabilization of the enterprise, its survival in a changing economy and growth measured in turnover and profit. For enterprises, employment is means to an end – but not an objective. Therefore, they – and a promoting programme – can be very "successful" without creating jobs. Or: a "better" enterprise does not mean automatically more employment. Under this aspect, it makes limited sense to evaluate the impact of the Nucleus Approach concerning the creation of jobs.

Secondly, many SMEs in developing countries are overstaffed due to low management quality and technological knowledge – even under consideration of the existing technical level of equipment and machinery.

Consequently, concerning the impact of the Nucleus Approach a time element has to be included:

- Phase 1: If the Nucleus works successfully, the entrepreneur first starts to improve the management and applied technologies step by step thus increasing the enterprise's effi-

ciency and reducing costs. The consequence concerning employment is
– a higher production with the same number of employees or
– the same production with fewer employees.

Example: the carpenter with three employees learned in a Nucleus training course how to use the full potential of a small router machine. Afterwards he trained his workers and explained that one worker, who used to produce one window per day before, now produces four windows – a productivity increase in one step of incredible 300% without any investments in hardware. It is obvious that this carpenter will not increase the number of employees for a long time. He might even consider working with fewer workers.

- Phase 2: With improved productivity and more products, client and employee oriented management and marketing the entrepreneur eventually increases the sales and market share. If this increase is higher than the productivity increase then one day the entrepreneur will have to contract additional employees.

The first phase lasts a minimum of estimated three to five years because of the quantity of possible improvements. The entrepreneurs do not start a revolution in their enterprises but an evolution.

Most Nucleus participants are still in this phase. The results shown in Table 53 can be interpreted as a confirmation of this development: on average, those who participate since 2002 / 2003 increased their staff less – or even decreased it – between 2002 and 2005 compared to those who started to participate later.

SMEs founded before 2002 who participate in a Nucleus since the year	**Change of employment 2002 – 2005**		
	Mal + Fem	**Males**	**Females**
2002	- 14%	- 5%	- 37%
2003	+ 14%	- 3%	+ 224%
2004	+ 46%	+ 35%	+ 131%
2005	+ 22%	+ 11%	+ 47%
2006	+ 21%	+ 20%	+ 27%

Table 53: Employment change 2002 – 2005 in reference to the SMEs' participation start in a Nucleus[153]

What has been reached during this phase is that the existence of these enterprises in a competing market might be more secured. One has to observe the changes of employment for other three and more years in order to see whether Nucleus enterprises are able to survive and compete better in the market thus increasing employment.[154]

Another point is, in which way it is realistic to expect considerable employment changes / generation from SMEs.

a) In enterprises with up to a maximum of eight employees, the owner usually participates in the production processes. S/he personally dominates everything. With more employees, the requirements concerning organization, work distribution, staff management and negotiations with clients and suppliers increase. Many small entrepreneurs do not like these

[153] R 32-04 Emp p Cha 4 Nuc 2-38 Sex 1-2 Sta 2002.pdf; ~Sex 2-2 Sta 2002.pdf; ~Sex 1-1 Sta 2002.pdf; ~2-53 Sex 1-2 Sta 2003.pdf; ~2-53 Sex 1-1 Sta 2003.pdf; ~Nuc 2-35 Sex 2-2 Sta 2003.pdf; ~Nuc 2-42 Sex 2-2 Sta 2004.pdf; ~Nuc 1-42 Sex 1-2 Sta 2004.pdf; ~Nuc 1-41 Sex 1-1 Sta 2004.pdf

[154] The results in Brazil after eight years: enterprises with up to 10 employees had on average increased the staff by +33%; with up to 25: +17%; with up to 100: +6%; with more than 100: - 6%

management functions and consequently prefer not to grow above a defined limit. – In Germany the members of the chambers of crafts and small industries employ on average about eight people. This figure did not change during the last decades.

b) In some sectors, small enterprises are more efficient than bigger ones. In order to maintain the competitive advantages it does not make sense for them to grow in terms of employment.

Consequently, major employment changes can be expected in the framework of the Nucleus Approach after more than five years mainly from

a) relatively few entrepreneurs who are able to grow personally with their enterprises – in other words: producers of goods and services turn into “entrepreneurs” in every sense of the word. – In Brazil we have seen during eleven years micro entrepreneurs, at the beginning without any self-confidence, visions and objectives, who started to grow in the context of Nuclei as personalities and employ today between 15 and 30 employees

b) a bigger group of entrepreneurs who have the potential to grow up to the above mentioned level of circa eight employees and

c) newly created enterprises.[155]

Conclusion

- If ESSP is understood as an “employment promotion programme” measuring its impact with the above indicator then the application of the Nucleus Approach for four to five years appears sub-optimal.[156]
- If ESSP is understood as a regional economy promotion programme then the question is why one of its success criteria is the impact on employment.

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[155] However, it remains an open question whether employment increases of such enterprises are compensated or even overcompensated eventually by employment decreases of bigger companies in the interior of Sri Lanka. We visited a tea factory with 400 employees. The impression was that except electricity not much had changed since the thirties. We asked the manager: “How many workers would you employ by applying the most modern technologies?” The answer: “40”, or 10%. The entrepreneurs of the Tea Factories Nucleus answered on the same question that they would need 50% of the present employees. But that was before the Nucleus visited tea factories in Malaysia In 2007. There they learned that a worker harvests with a special machine 25 to 30 kg of tealeaves per day – the respective quantity in Sri Lanka is five kg.

This indicates an extremely high competition between machinery and human labour that leads to depressed salaries in many sectors of the economy and difficulties in the reduction of poverty.

[156] Since the beginning of the nineties, it is common experience not to directly expect employment generation effects when promoting the economy. Successful interventions concerning the investment climate, public and private meso institutions and the micro level can – but must not – necessarily lead to more employment due to many additional influencing factors. One core factor is the general development of the economy.

An employment promotion programme has to be designed differently compared to an economic promotion programme because it has to apply partially different strategies. A simple example: in many developing countries the construction of even high buildings is done with only two machines: a cement mixer and eventually a lift. An economy promotion programme would try to stimulate the enterprises to invest in modern technology in order to work faster and more efficiently – and consequently with many less, especially low qualified workers. That would lead in many cases to social catastrophes. An employment promotion programme would have eventually to identify strategies to hinder the enterprises to invest in machinery and to replace workers.

We admit presently not to know a really successful employment programme in the context of development cooperation – and referring to the high unemployment rates in the industrial countries – indicating a lack of solutions – it seems to be extremely difficult to design a successful one.

Concerning the impact of the Nucleus Approach it is more interesting to look at the enterprise performance measured in e g the turnover per employee (Chapter 4.7).

In addition, the criteria employment provokes the question, how much did one additional working place cost.

The net total of 770 created jobs presented in chapter 4.6.2 refers to 658 enterprises which provided the respective data. On 31 March 2006, the Nuclei had 1,275 members. The extrapolation of this figure gives around 1,500 new jobs.[157]

The programme invested very roughly calculated about 104 million Rs / 800 T€ into the component until 03/2006. This means

- Circa 82,000 Rs / 630 € per enterprise[158] and
- Circa 70,000 Rs / 530 € per new job.

Calculating the average salary of the employees ranging between 3,500 Rs and 7,000 Rs / month then ESSP's investment refer to seven to 14 months salary.

We do not know whether these figures are high or low compared with other development programmes. But independently of an answer the following is obvious: we can consider the investment as a efficient in terms of development impact only if

- the chambers continue to evolve out of own efforts
- they create more Nuclei with many more entrepreneurs
- and the stimulated development process continues on its own.

In Chapter 7.3 we will analyse the chances for this.

The CPWCIC Beauty Culture Nucleus in India

[157] Due to the fact that the counsellors selected for the interviews presumably the more active and better entrepreneurs the real figure is lower.

[158] On 31.12.2006 the number of Nucleus members had already increased to 2,669 entrepreneurs. Calculating with this figure the investment per enterprise decreases already to 39,000 Rs / 300 €.

4.7 Turnover and Productivity

The decisive question concerning all SME promotion approaches and projects is whether they have a positive economic impact on the enterprises.

The traditional economic analysis of enterprises starts with the financial figures: turnover, costs, cash flow, profit, etc. and their development over the years.

An impact analysis with a short questionnaire encounters some difficulties to get correct detailed data. Many Nucleus entrepreneurs do not think in above mentioned business administration and financial terms but in a simple cash surplus way without consideration of depreciations etc. Therefore, even supplied financial information about profits would not be reliable.

How much was your monthly turnover / total of sales at the end of 2002, 03, 04 and 05?	**Used value for calculations**
< 5,000 Rs	2,5 TRs
< 20,000 Rs	12,5 TRs
< 80,000 Rs	50 TRs
< 250,000 Rs	165 TRs
< 500,000 Rs	375 TRs
> 500,000 Rs	1,000 TRs

Table 54: Turnover categories

Under this consideration for a rough assessment of the economic success of the enterprises we use as first indicator the monthly turnover – or, in a more simplified form, the monthly sales. A second success indicator is the productivity change measured by the development of the turnover per employee.

In order to ease and speed up the analysis we defined six turnover categories in the questionnaire as shown in Table 54. The respective calculations are done with the median values.[159]

For our purposes, the absolute turnover amounts are less relevant but their development between 2002 and 2005. In addition, the inflation of roughly 30% between 2002 and 2005 has to be considered. Consequently, all turnover and productivity changes of below 30% indicate stagnation or decrease.

4.7.1 Turnover Structure

Table 55 and Table 56 present the monthly turnover of all enterprises with the respective data for 2005 (614 Nucleus enterprises, 84 non-Nucleus SMEs).

On average, the Nucleus enterprises generated a monthly turnover of 85,000 Rs. The registered companies had with 149,000 Rs a five times higher one as the unregistered ones with 28,000 Rs.

The turnover of the male run enterprises is with 120,000 Rs about four times higher than that of the women run SMEs with 28,000 Rs.

159 Under the assumption of an even distribution of the turnover in the individual categories and with sufficient big samples, the applied algorithm leads to roughly correct results.

The turnover of the enterprises per chamber differ strongly and range from about 30,000 Rs for CCIUP, CPWCIC and PAEA, over 80,000 Rs for MDCCI, 126,000 Rs for NCHSL up to 152,000 Rs for CCICP. The registered companies with a turnover of between 50,000 Rs and 277,000 Rs mainly cause these differences. In the case of the unregistered enterprises, the span is smaller with between 11,000 Rs and 33,000 Rs; only the NCHSL stands out with 69,000 Rs due to a couple of woodcarvers with a turnover of more than 300,000 Rs.

Nucleus SMEs	Monthly Turnover 2005 in TRs / T€			
	All SMEs	Regis-tered SMEs	Unregi-stered SMEs	All SMEs in €
Total	85	149	28	654 €
– Males	120	184	38	923 €
– Females	28	50	18	215 €
per chamber				
CCICP	152	235	33	1,169 €
CCIUP	33	55	11	254 €
CPWCIC	32	51	19	246 €
MDCCIA	80	138	15	615 €
NCHSL	126	277	69	969 €
PAEA	27	50	21	208 €
per employment in 2005				
= 0	22	28	21	169 €
1 – 5	41	59	27	315 €
6 – 10	196	259	47	1,508 €
11 – 20	388	433	88	2,984 €
> 20	727	727	–	5,592 €
non-Nucleus enterprises				
Total	354	425	25	2,723 €
– Males	512	588	34	3,938 €
– Females	109	139	16	838 €

Table 55: Turnover 2005 per different samples[160]

Sectors	Monthly TO 2005 in TRs		
	All SMEs	Regis-tered SMEs	Unregis tered SMEs
Saw Mills	911	911	–
Lime Production	330	349	–
Printing	280	299	–
Woodcarving	270	–	305
Brass Making	195	294	33
Carpentry	102	127	42
Photographing	98	–	–
Bakery	85	82	–
Light Engineer.	84	91	–
Handicrafts	83	–	7
Gem& Jewellery	60	138	50
Patchwork	52	–	24
Automobile	45	63	–
Ornamental Fish	44	–	17
Beauty Culture	34	44	25
Hemp	31	–	27
Cut Foliage	29	62	12
Tailoring	26	–	18
Vegetable Prod.	24	–	6
Radio/TV Repair	9	–	8

Table 56: Turnover 2005 per sectors[161]

160 R 33-12 Turnover p Sec 1 S all Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-50 Fou 1910-2004; ~Nuc 1-65 Sex 1-1 Eth 1-3 Reg 1-4 Emp 0-50 Fou 1910-2004; ~Nuc 1-65 Sex 2-2 Eth 1-5 Reg 1-4 Emp 0-18 Fou 1971-2004; ~Nuc 99-99 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-74 Fou 1930-2004; ~Nuc 99-99 Sex 1-1 Eth 1-5 Reg 1-4 Emp 0-74 Fou 1940-2004; ~Nuc 99-99 Sex 2-2 Eth 1-3 Reg 1-4 Emp 0-34 Fou 1930-2004; ~Nuc 2-65 Sex 1-2 Eth 1-3 Reg 1-4 Emp 0-0 Fou 1980-2004; ~Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 1-5 Fou 1980-2004; ~Nuc 1-65 Sex 1-2 Eth 1-4 Reg 1-4 Emp 6-10 Fou 1910-2004; ~Nuc 3-49 Sex 1-2 Eth 1-3 Reg 1-4 Emp 11-20 Fou 1958-2004; Nuc 7-53 Sex 1-1 Eth 1-3 Reg 1-3 Emp 21-50 Fou 1950-2002

161 R 33-12 Turnover p Sec 1 S all Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-50 Fou 1910-2004; ~Reg 1-3 Emp 0-50 Fou 1910-2004; ~Eth 1-3 Reg 4-4 Emp 0-18 Fou 1910-2004

NCHSL enterprises lead the turnover ranking for the registered as well as for the unregistered companies due to some specific sectors (brass making, woodcarving, gem & jewellery) with relatively high turnover.

The difference of the turnover between the smallest enterprises – less than five employees – and the bigger ones – up to 20 employees – is in the case of the registered companies considerably higher (seven times more) than in the case of the unregistered ones (three times more). This indicates different internal efficiencies of the registered and unregistered enterprises – we will come back to this below.

The registered enterprises of the control group generate with 425,000 Rs a three times higher turnover than the Nucleus members with 149,000 Rs. This confirms that they belong to more established companies of the districts. The turnover of the unregistered enterprises of the control group corresponds with 25,000 Rs to that of the Nucleus members.

The turnover per sector shows the saw millers with 911,000 Rs on top of the list, followed by the registered lime producers, printers and brass makers with a turnover of between 200,000 Rs and 350,000 Rs. With the exception of the printers, all others deal with costly raw material what pushes the turnover up. The registered enterprises of all other sectors have a monthly turnover of between 40,000 Rs and 150,000 Rs. Of the unregistered companies, the woodcarvers generate with 305,000 Rs a surprising high turnover. That of all other sectors is between 6,000 Rs (vegetable production) and 50,000 Rs (gems and jewellery).

4.7.2 Turnover Change 2002 – 2005

Figure 23 and Figure 24 show the shares of Nucleus and non-Nucleus enterprises per turnover category in 2002 and 2005 with the respective data for this period.[162]

In 2002, 61% of the Nucleus enterprises had a turnover of less than 20,000 Rs per month. In 2005 64% have one between 5,000 Rs and 80,000 Rs. On average, the monthly turnover increased from 79,000 Rs to 119,000 Rs, which represents an increase of 52%, considerably above the inflation.

Of the non-Nucleus members, 48% in 2002 and 51% in 2005 had a turnover of more than 80,000 Rs per month. It increased on average by 19% from 308,000 Rs to 366,000 Rs. In real terms, this indicates stagnation or a shrinking.[163]

The non-Nucleus enterprises have in 2005 financially about the three to fourfold of the size of the Nucleus companies. However, when it comes to the changes between 2002 and 2005 then the Nucleus enterprises developed much more successful than the non-Nucleus companies did. This holds true for all sub samples too.

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[162] This refers to 52% of the total sample of 852, 28% of the women entrepreneurs, 69% of the male entrepreneurs.

[163] Among the non-Nucleus enterprises there are more with a turnover of above 500,000 Rs than among the Nucleus members. For these companies the chosen algorithm permits only to calculate a stagnation of the turnover (same category) or a decrease (lower category). In reality, the turnover could have increased.

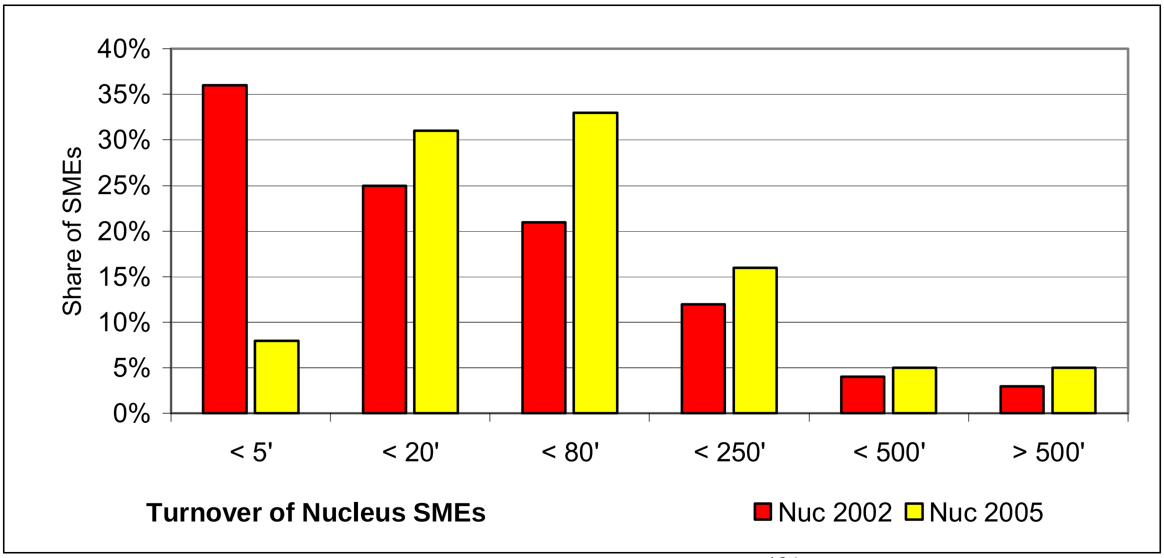

Figure 23: Monthly turnover of Nucleus SMEs 2002 and 2005[164] (data without SMEs founded after 2002)

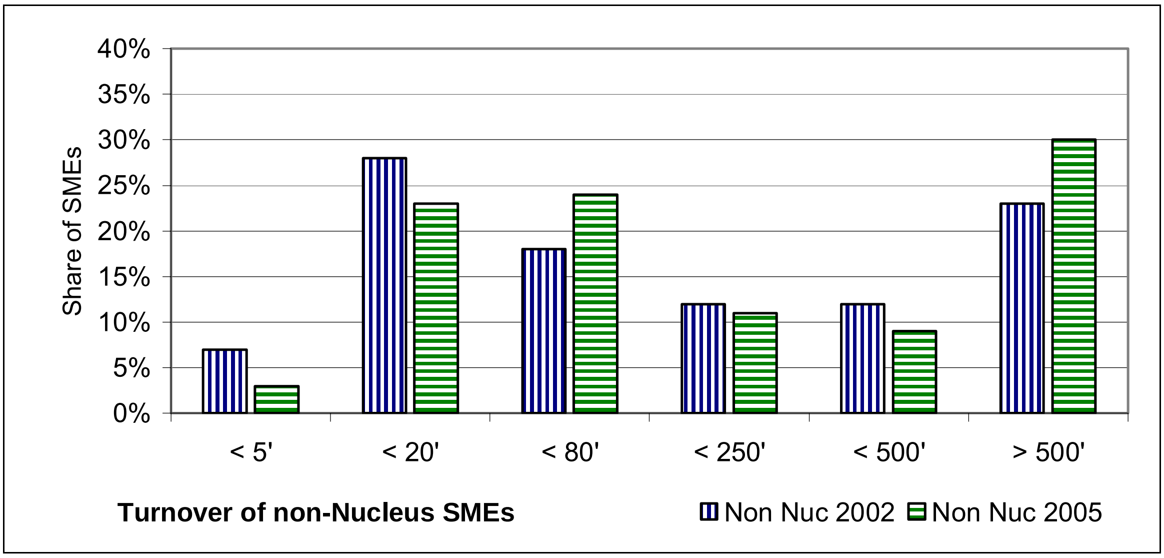

Figure 24: Monthly turnover of non-Nucleus SMEs 2002 and 2005 (data without SMEs founded after 2002)

In Table 57, it is especially impressive to see a considerable number of Nucleus entrepreneurs increasing their turnover not only by one category – what can be already a huge step – but by two and even three categories.

Table 58 shows the turnover change per different categories.

Per turnover category

205 Nucleus enterprises, more than half, 50% of the male run SMEs, 61% of the female ones, entered into a higher turnover category, but only a quarter of the non-Nucleus enterprises. 33 (8%) of the Nucleus entrepreneurs report a lower turnover category, 151 (39%) an

[164] R 33-01 Turnover p Cha 1 02-05 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-57 Fou 1910-2002.pdf; ~Nuc 99-99 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-34 Fou 1930-2002.pdf

Higher TO Equal TO Lower TO Turnover in 2002	SME shares	Turnover (TO) in 2005							Change of TO 2002 – 2005
		< 5 TRs	< 20 TRs	< 80 TRs	< 250 TRs	< 500 TRs	> 500 TRs	Aver-age TO in TRs	
< 5 TRs	36%	23%	43%	30%	4%			27	+ 974%
< 20 'Rs	25%		49%	41%	10%			44	+ 249%
< 80 TRs	21%		17%	49%	30%	2%	2%	110	+ 121%
< 250 TRs	11%		2%	20%	41%	24%	13%	298	+ 81%
< 500 TRs	4%		7%		43%	29%	21%	393	+ 3%
> 500 TRs	3%					25%	75%	844	- 16%
Ave. TO 78	100%	8%	31%	33%	16%	5%	5%	119	+ 52%

Table 57: Change of turnover categories of Nucleus members founded up to 2002

unchanged. Of 140 enterprises with a monthly turnover of less than 5,000 Rs in 2002, 60 have one in 2005 of up to 20,000 Rs, 42 one of up to 80,000 Rs and five one of up to 250,000 Rs.

Per gender

The turnover of women run enterprises increased with 172% almost four times more than that of male entrepreneurs with 46%. Even considering a much lower starting basis this result is very impressive.

Per chamber

Between 60% and 70% of the CCICP, CCIUP and PAEA Nucleus members entered in a higher turnover category leading to turnover increases of between 80% and 200%.

The CPWCIC figures bases on a small sample of ten entrepreneurs only. All of them had in 2002 a turnover of less than 5,000 Rs. Nine of them increased it until 2005 to a turnover in a higher category with the effect of an average turnover of impressing 76,000 Rs or 2,950%.

The figures of MDCCIA are well below the average but still the 54% turnover increase is above the inflation rate.

The difficulties of the brassware, the woodcarving and the gem and jewellery sector influence strongly the low NCHSL turnover increase of 8%.

Per legal status

58% of the registered companies entered into a higher turnover category, what leads to an average increase of 63%. In comparison, the turnover of the unregistered companies changed by 8% only what means in real terms a shrinking. But this result is mainly caused by the above mentioned NCHSL sectors. Also 47% of the enterprises report a higher turnover category. This confirms that 40% to 50% of the unregistered companies do quite well.

Per employment

More than 50% of enterprises with up to ten employees entered into a higher turnover class and generated a turnover growth of 54% and 95%. Of the bigger companies, less than 50% entered into a higher turnover category. In total, their turnover is with about 25% close to the inflation rate. In relative terms, the smaller enterprises were more successful during the period.

Nucleus SMEs	Turnover 2002 – 2005: Share of SMEs in a			Average TO in TRs	Change of Turnover
	higher	equal	lower		
	Turnover Category				
Total	53%	39%	8%	119	+ 52%
– Males	50%	40%	10%	140	+ 46%
– Females	61%	34%	5%	43	+ 172%
per chamber					
CCICP	61%	33%	6%	191	+ 82%
CCIUP	70%	28%	2%	52	+ 194%
CPWCIC	90%	10%	–	76	+ 2950%
MDCCIA	41%	55%	4%	106	+ 54%
NCHSL	29%	41%	30%	120	– 14%
PAEA	69%	29%	2%	31	+ 89%
per legal status					
registered	58%	35%	7%	184	+ 63%
unregister.	47%	43%	10%	38	+ 8%
per employment in 2002					
< = 5	54%	38%	8%	65	+ 54%
>5 <= 10	50%	41%	9%	272	+ 95%
>10 <=20	47%	35%	18%	391	+ 25%
> 20	34%	58%	8%	592	+ 26%
non-Nucleus enterprises					
Total	26%	70%	4%	366	+ 19%
– Males	23%	72%	5%	547	+ 16%
– Females	29%	68%	3%	114	+ 42%
non-Nucleus enterprises per legal status					
registered	26%	71%	3%	434	+ 19%
unregister.	17%	75%	8%	15	– 4%

Table 58: Turnover development per different samples[165]

Per sector

Table 59 lists some sectors in the order of the share of enterprises in a higher turnover category 2005. Some sectors in the handicraft business show a considerably reduced turnover (gem & jewellery, brassware, woodcarvers) or they increased the business below average (hemp). All other sectors generated a turnover increase above the inflation rate. Typical craftsmen / women such as light engineers, carpenters, photographers, automobile and printers increased the turnover above average. The beauty culture sector shows for 2002 an average turnover of 8,000 Rs increasing it until 2005 by 435% to 44,000 Rs. It is very impressive to see how much these female businesses have developed. They invested a lot into training activities with an average of four trainings per year. It obviously was worth it.

165 R 33-01 Turnover p Cha 1 02-05 Nuc 1-65 Sex 1-1 Eth 1-3 Reg 1-4 Emp 0-57 Fou 1910-2002.pdf; ~Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-57 Fou 1910-2002.pdf; ~Nuc 2-65 Sex 2-2 Eth 1-5 Reg 1-4 Emp 0-25 Fou 1971-2002.pdf; ~Nuc 99-99 Sex 1-1 Eth 1-5 Reg 1-4 Emp 0-34 Fou 1940-2002.pdf; ~Nuc 99-99 Sex 2-2 Eth 1-3 Reg 1-4 Emp 0-19 Fou 1930-2002.pdf; ~Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-34 Fou 1930-2002.pdf; ~Sex 2-2 Eth 1-3 Reg 1-4 Emp 0-19 Fou 1930-2002.pdf; R 33-01 Turnover p Cha 1 02-05 Nuc 99-99 Sex 1-2 Eth 1-2 Reg 4-4 Emp 0-3 Fou 1940-2002.pdf; Nucleus 99-99 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-34 Fou 1930-2002.pdf

The cut foliage sector managed to expand high above average as well which confirms the high potential of this growing sector with lots of untapped opportunities.

The samples of some sectors are big enough to compare the turnover change per registered and unregistered companies. There are always more registered enterprises in a higher turnover category and less in a lower compared with the unregistered companies. The same refers to the turnover growth 2002 – 2005. Only the unregistered carpentries grew relatively more than their registered colleagues did.

Sectors with > 10 answers	Monthly Turnover 2002 – 2005: Share of SMEs with			Average TO TRs	Change of TO
	higher	equal	lower		
	Turnover Category				
Beauty Cult	89%	11%	–	44	+ 435%
– regist.	93%	7%	–	53	+ 508%
– unreg.	85%	15%	–	34	+ 345%
Printing	67%	33%	–	331	+ 176%
Light Eng.	61%	30%	9%	90	+ 59%
Photograph	60%	40%	–	98	+ 98%
Carpentry	58%	42%	–	105	+ 68%
– regist.	65%	35%	–	132	+ 61%
– unreg.	40%	60%	–	42	+ 146%
Cut Foliage	50%	48%	2%	55	+ 184%
– regist.	65%	35%	–	111	+ 196%
– unreg.	41%	56%	3%	20	+ 148%
Automobile	36%	64%	–	48	+ 101%
Lime Prod.	33%	60%	7%	341	+ 54%
Gem & Jew	30%	30%	40%	61	– 31%
Hemp	30%	70%	–	31	+ 37%
Brass Ware	11%	44%	45%	174	– 18%
– regist.	11%	47%	42%	257	– 8%
– unreg.	16%	37%	47%	91	– 36%

Table 59: Turnover change per sector[166]

The order of the listed sectors correlates positively with the intensity of activities of the respective Nuclei. Among those sectors where 50% and more of the entrepreneurs entered into a higher turnover category, we find carpentry, cut foliage, light engineering. All respective Nuclei were very active what led to the involvement of international experts. Both facts seem to have contributed to the successful development of the participating enterprises.

In short: in sectors with more Nucleus activities, more entrepreneurs increased the turnover.

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166 R 33-01 Turnover p Cha 1 02-05 Nuc 1-65 Sex 1-1 Eth 1-3 Reg 1-4 Emp 0-57 Fou 1910-2002.pdf; ~Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-57 Fou 1910-2002.pdf; ~Nuc 2-65 Sex 2-2 Eth 1-5 Reg 1-4 Emp 0-25 Fou 1971-2002.pdf; ~Nuc 99-99 Sex 1-1 Eth 1-5 Reg 1-4 Emp 0-34 Fou 1940-2002.pdf; ~Nuc 99-99 Sex 2-2 Eth 1-3 Reg 1-4 Emp 0-19 Fou 1930-2002.pdf~Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-34 Fou 1930-2002.pdf; ~Sex 2-2 Eth 1-3 Reg 1-4 Emp 0-19 Fou 1930-2002.pdf; R 33-21 Ro v Emp 2 Sec Nuc 1-65 Sex 1-2 Emp 0-57 Fou 1910-2002.pdf

Per foundation period

In Table 60 the data are analysed in reference to the foundation period of the enterprises. In general and as expected, the turnover correlates with the age of the businesses. The older they are, the higher is the average turnover. This holds true only for the registered enterprises. In the case of the unregistered companies, the picture is diffuse. One would assume that enterprises founded before 1980 and not yet registered have really hardly any growth potential. But surprisingly, one third of this group entered into a higher turnover category and on average the whole sample shows the highest increase of the turnover (based on lowest level). This means, that some of these for a long time on a low level stagnating enterprises, started a certain development between 2002 and 2005.

Foundation Periods	Monthly Turnover 2002 to 2005: Share of SMEs with			Average TO TRs	Change of TO
	higher	equal	lower		
	Turnover Category				
< 1980	34%	56%	10%	263	+ 37%
– regist.	35%	51%	14%	349	+ 36%
– unreg.	31%	69%	–	31	+ 55%
< 1990	34%	57%	9%	140	+ 55%
– regist.	43%	52%	5%	194	+ 79%
– unreg.	50%	35%	15%	52	– 15%
< 2000	58%	32%	10%	103	+ 44%
– regist.	63%	29%	8%	148	+ 52%
– unreg.	51%	36%	13%	43	+ 16%
< =2002	58%	37%	5%	66	+ 114%
– regist.	75%	20%	5%	121	+ 225%
– unreg.	46%	48%	6%	29	+ 10%

Table 60: Turnover change per foundation period[167]

For the enterprises founded since 1990 two lines are observable: the registered ones increased the turnover above the inflation rate, the unregistered ones remained below.

Per education and professional training

The relevance of the education of the entrepreneurs for the economic success between 2002 and 2005 illustrates Figure 25. There is a clear positive correlation between turnover development and education level. The higher the education level is the higher are the growth rates. (Below O-level: – 3%; university degree: + 183%).

Concerning the training of the entrepreneurs (Figure 26), we encounter almost the same trend: the longer trained increased the turnover much more than those without training.

These figures clearly confirm that the better the entrepreneurs are educated and trained and thus better prepared for their functions the more successful they are, the more they improve their enterprises and consequently have more chances to survive in the market.[168]

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167 R 06-08 Education v TO p Cha Nuc 1-57 Sex 1-2 Emp 0-7 Edu 1.pdf; ~Nuc 1-62 Sex 1-2 Emp 0-10 Edu 2.pdf; ~Nuc 1-65 Sex 1-2 Emp 0-10 Edu 3.pdf; ~Nuc 2-65 Sex 1-2 Emp 0-9 Edu 4.pdf; ~Nuc 2-42 Sex 1-2 Emp 0-34 Edu 5.pdf

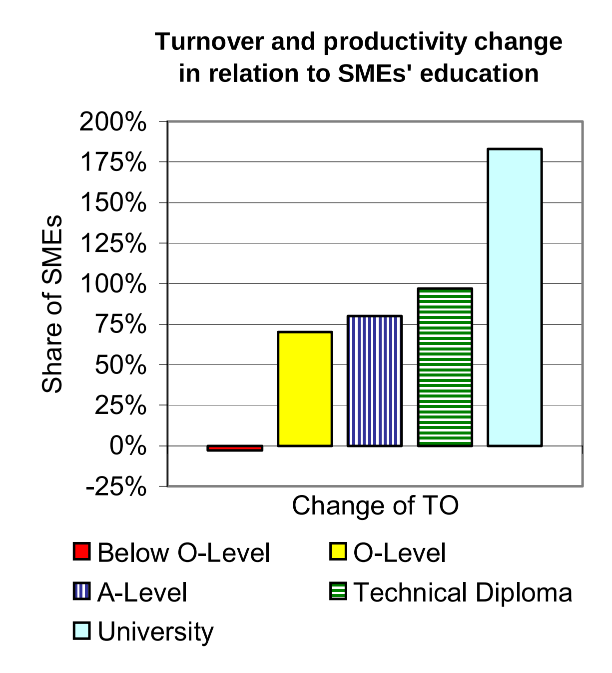

Figure 25: Turnover 2002 to 2005 in relation to the SMEs' education (SMEs with up to 10 employees)[169]

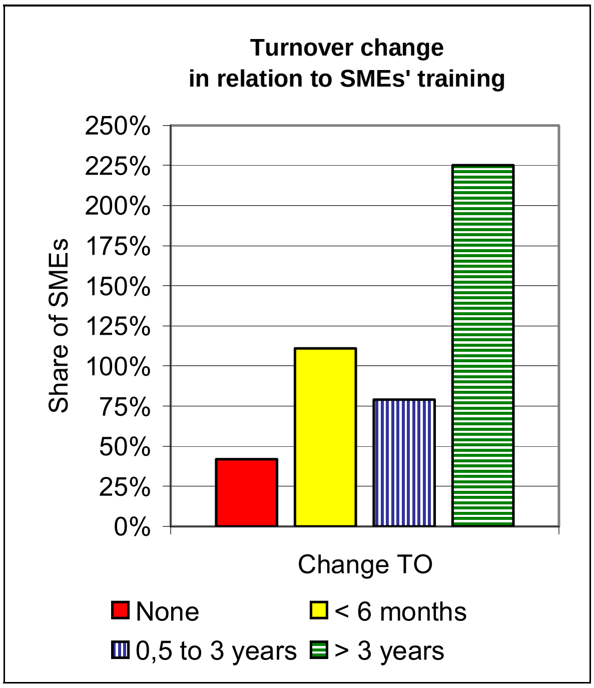

Figure 26: Turnover 2002 to 2005 in relation to the SMEs' training (SMEs with up to 10 employees)[170]

4.7.3 Turnover per Employee / Productivity

For estimating the change of the internal efficiency of the enterprises, i.e. productivity, we use the turnover per person working in the enterprise. The different results indicate some possible developments[171].

- Increase of the productivity above the inflation rate: the turnover grows more than the employment and / or higher productivity has been reached through better organizational use of the employees (less unused time for production), more efficient use of existing equipment or investments in new equipment that is more efficient.
- The productivity change is close to the inflation rate of 30%: the employment follows linearly the sales. When these grow, more workers are contracted. In real terms, the productivity stagnates.
- The productivity change is below the inflation rate but is still positive: the turnover growth is below the inflation rate and the employment was not changed; or: the employment grew more than the turnover in real terms. The enterprise works less efficiently.

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168 The respective samples of the non-Nucleus entrepreneurs are too small for proving give clear pictures.

169 R 06-08 Education v TO p Cha Nuc 1-57 Sex 1-2 Emp 0-7 Edu 1.pdf; ~Nuc 1-62 Sex 1-2 Emp 0-10 Edu 2.pdf; ~Nuc 1-65 Sex 1-2 Emp 0-10 Edu 3.pdf; ~Nuc 2-65 Sex 1-2 Emp 0-9 Edu 4.pdf; ~Nuc 2-42 Sex 1-2 Emp 0-10 Edu 5.pdf

170 R 06-08 Education v TO p Cha Nuc 1-57 Sex 1-2 Emp 0-7 Edu 1.pdf; ~Nuc 1-62 Sex 1-2 Emp 0-10 Edu 2.pdf; ~Nuc 1-65 Sex 1-2 Emp 0-10 Edu 3.pdf; ~Nuc 2-65 Sex 1-2 Emp 0-9 Edu 4.pdf; ~Nuc 2-42 Sex 1-2 Emp 0-10 Edu 5.pdf

171 Here not all theoretical scenarios are listed, but those with the highest probability in our context.

- The productivity change is negative in nominal terms: decreased turnover but the entrepreneur did not reduce the employment to the same degree.

The average monthly turnover per employee – see Table 61 – in the Nucleus enterprises is 24,200 Rs.[172] The male run companies' is 25,200 Rs and the female run businesses' is 14,800 Rs. The big difference of about 90% refers to the fact that relatively more women are working in the service sector while more men act in industrial sectors where costly raw material pushes the turnover per employee up. In addition, of the female sample are 65% unregistered enterprises but only 39% of the male sample. In total, the registered businesses generate the double turnover per employee (27,800 Rs) compared with the unregistered ones (13,700 Rs).

These differences – service / production and registered / unregistered – explain also the differences of the productivity between the chambers, which range from 16,000 Rs (CPWCIC, CCIUP) up to 29,400 Rs (CCICP). The only exception is NCHSL with 73% unregistered sample companies but with the highest turnover per employee (35,500 Rs) due to some few sectors (woodcarvers, brassware, leather).

We expected a positive correlation between the size of the enterprises measured in number of employees and the productivity because among the enterprises with more than ten employees are few unregistered ones. The data do not confirm this: those entrepreneurs with less than five employees generate a turnover of 21,300 Rs per month per worker while those with more than 20 employees show one of 23,100 Rs. The enterprises with between six and ten employees have with 30,600 Rs the highest productivity. An explanation could be, that the increasing administrative staff of the bigger companies absorbs the more efficient production leading to the more or less same turnover per capita.

The registered companies of the control group have the highest turnover per employee with 43,600 Rs.

4.7.4 Productivity Change 2002 – 2005

More interesting than the absolute amount of the turnover per employee is its development between 2002 and 2005. The third column in Table 61 shows this change for all enterprises with the respective data; the last column refers to the productivity change of those most successful enterprises, which reported a higher turnover category in 2005 compared with 2002 – see also Table 55 in Chapter 4.7.2

In the case of all Nucleus enterprises, the turnover per employee increased on average by 29%, close to the inflation rate. This seems to indicate no progress but hints at stagnation concerning the efficiency of the enterprises. However, of the 53% the enterprises that entered into a higher turnover category increased the productivity by 185%. For the majority of the enterprises this reflects high dynamism and a lot of progress, while the others rather are stagnating or seem in serious economic trouble.

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172 Just for comparison: the members of the German chambers of crafts and small industries with on average eight employees need about 850 TRs / 6,600 € monthly turnover per employee for their survival; bigger industrial companies circa the double.

The productivity change of the non-Nucleus entrepreneurs is with 4% close to zero indicating stagnation or decrease and little internal improvement. The 26% of these enterprises, which entered into a higher turnover category, increased the productivity by 118%.

Result: not only more Nucleus enterprises than non-Nucleus businesses entered into a higher turnover category (53% versus 26%) but also these Nucleus enterprises increased the productivity more than the respective non-Nucleus businesses (185% versus 118%).

In short: the best half of the Nucleus enterprises increased the productivity considerably more than the best quarter of the non-Nucleus enterprises.

This difference between Nucleus and non-Nucleus enterprises does not refer only to the whole sample but also to most sub-samples.

The existing attribution gap was mentioned be-

	A) All SMEs			B) SMEs in higher turnover category	
Nucleus SMEs	**Average TO TRs**	**Turn-over per emplo-yee in 2005 TRs**	**Produc-tivity Change 2002 – 2005**	**Share of SMEs**	**Produc-tivity Change 2002 – 2005**
Total	119	24.2	+ 29%	53%	+ 185%
– Males	140	25.6	+ 27%	50%	+ 200%
– Females	43	14.8	+ 85%	61%	+ 111%
per chamber					
CCICP	191	29.4	+ 68%	61%	+ 208%
CCIUP	52	16.6	+ 16%	70%	+ 49%
CPWCIC	76	16.2	+ 614%	90%	+ 691%
MDCCIA	106	21.4	+ 46%	41%	+ 225%
NCHSL	120	35.5	– 22%	29%	+ 82%
PAEA	31	24.2	+ 29%	69%	+ 425%
per legal status					
registered	184	27.8	+ 40%	58%	+ 181%
unregister.	38	13.7	– 13%	47%	+ 222%
per employment in 2002					
< = 5	65	21.3	+ 5%	54%	+ 171%
>5 <= 10	272	30.6	+ 62%	50%	+ 195%
>10 <=20	391	26.9	+ 18%	47%	+ 135%
> 20	592	23.1	+ 63%	34%	–
non-Nucleus enterprises					
Total	366	42.9	+ 4%	26%	+ 118%
– Males	547	51.2	+ 5%	23%	+ 97%
– Females	114	20.6	+ 15%	29%	–
non-Nucleus enterprises per legal status					
registered	434	43.6	+ 4%	26%	+116%
unregister.	15	11.8	– 10%	17%	–

Table 61: Turnover and productivity development per different samples[173]

[173] R 33-20 TO v Emp 1 Nuc 1-65 Sex 1-2 Emp 0-57 Fou 1910-2002.pdf;~Nuc 1-65 Sex 1-1 Emp 0-57 Fou 1910-2002.pdf; ~Nuc 2-65 Sex 2-2 Emp 0-25 Fou 1971-2002.pdf; R 33-20 TO v Emp 1 Nuc 1-65 Sex 1-2 Emp 0-5 Fou 1910-2002.pdf; Nuc 3-47 Sex 1-2 Emp 6-10 Fou 1930-2002.pdf; Nuc 3-49 Sex 1-2 Emp 11-20 Fou 1970-1998.pdf; ~Nuc 7-53 Sex 1-2 Emp 21-57 Fou 1970-1998.pdf; R 33-20 TO v Emp 1 Nuc 99-99 Sex 1-2 Emp 0-34 Fou 1930-2002.pdf; ~Sex 1-1 Emp 0-34 Fou 1940-2002.pdf; ~Sex 2-2 Emp 0-19 Fou 1930-2002.pdf; R 33-22 TO v Emp 3 Nuc 1-65 Sex 1-2 Emp 0-57 Fou 1910-2002.pdf; ~Nuc 1-65 Sex 1-1 Emp 0-57 Fou 1910-2002.pdf; ~Nuc 2-62 Sex 2-2 Emp 0-17 Fou 1971-2002.pdf; ~Nuc 1-65 Sex 1-2 Emp 0-5 Fou 1910-2002.pdf; ~Nuc 3-39 Sex 1-2 Emp 6-10 Fou 1933-2002.pdf; ~Nuc 99-99 Sex 1-2 Emp 0-31 Fou 1975-2002.pdf; ~Nuc 99-99 Sex 1-1 Emp 1-31 Fou 1975-2002.pdf

fore. It is not possible to define a direct cause and effect relationship and claim that this accelerated development of the Nucleus enterprises, especially of the more successful ones, is caused by their participation in a Nucleus alone. It is also possible that the Nuclei attracted those entrepreneurs who were already on the growth path and are more dynamic than the non-Nucleus entrepreneurs are. But it could well be that the Nuclei supported these entrepreneurs by making better use of their personal and entrepreneurial potentials thus contributing to and accelerating already started developments.

It would be of course interesting to compare the Nucleus enterprises' development before and since their participation in a Nucleus.[174] But first, the time period of four years is too short to professionally do such comparison, and second, the results "before" and "since" are always heavily influenced by the respective economic situation.

In addition, the productivity development varies considerably per sub-sample.

Per gender

The productivity of the female run enterprises is about 60% of that of the male ones; yet their change of the productivity is with 85% much higher than the 27% of the male entrepreneurs. The picture changes concerning the enterprises in a higher turnover category: in this group, the male entrepreneurs increased the productivity with 200% much more than the females with 111%. This indicates that half of the male run enterprises worked very successfully and the other half suffered with a stagnating or decreasing productivity leading to an overall average of 27% increase. In case of the women led businesses the difference of the productivity change between the whole sample and the best ones is relatively small (111% versus 85%). This means that the group of women entrepreneurs is much more homogeneous in its development than the group of male entrepreneurs.

Because more women work in the service sector where it is less possible to balance demand and work in accordance with the organizational capacities of the enterprise we presume that their productivity increase is less caused by technical innovations but that more business led to a better use of the working time of the employees and the entrepreneur herself.[175]

Per chamber

The productivity increase of 614% of the small sample of ten CPWCIC entrepreneurs is somehow exceptional and does presumably not reflect the members' general development. In the other chambers, the turnover change per employee ranges from plus 68% of the CCICP members to minus 22% of NCHSL enterprises. This nominal negative productivity change leads to the conclusion that the entrepreneurs did not adapt or only partially the employment to the decreased business activities. This can be a rational strategy if it is realistic that the situation will improve in future. Then they are prepared to answer a higher demand

[174] We did the "since" queries but they do not lead to additional information and conclusions.

[175] Example: a carpenter can tell his client that the table will be ready in two weeks time due to other on-going works and the client will presumably accept this date. Therefore, he can utilize fully his and his workers working time. The beauty culture entrepreneur must provide the demanded service almost instantly. This leads in times of low business to non-productive working times.

with trained and experienced workers. But if the enterprises are confronted with structural problems of the sector then this strategy might be sub-optimal.

The PAEA productivity increase is with 29% close to the inflation rate; but that of the 69% of enterprises in a higher turnover category increased by astonishing 425%. This confirms the impression we always had of the membership of PAEA consisting for about one third of “hobby” vegetable producers while the other two thirds are the “real” entrepreneurs.

Per sector and legal status

The productivity change of the registered companies is plus 40% while that of the unregistered ones decreased by 13%. But looking at the development of the turnover of the enterprises in a higher turnover category the picture changes: the respective 58% registered enterprises show a productivity increase of 181% while the 47% unregistered ones report with 222% an even higher one. This confirms that about half the unregistered entrepreneurs work very successfully.

This becomes also evident in Table 62 by the comparison of some sectors with sufficient big samples. The unregistered carpenters and cut foliage producers, for example, starting with a very low turnover per employee, show a higher increase as the registered ones.

Per employment

The picture of the productivity change per employment is diffuse: enterprises with up to five and with 11 to 20 employees show with 5% and 18% a change of the turnover per employees below the inflation rate, those with six to 10 and those with more than 20 employees with more than 60% productivity change one well above. But again the picture changes when analysing only those with a turnover in a higher turnover category. Those with up to five employees increased the productivity by 171%. This result indicates again that among the other half are many with a very poor development.

Sectors with > 10 answers	Change of TO	TO per employee 2005 TRs	Change 2002 – 2005
Beauty Cult	+ 435%	27.0	+ 217%
– regist.	+ 508%	23.4	+ 229%
– unreg.	+ 345%	29.8	+ 192%
Printing	+ 176%	43.1	+ 156%
Automobi.	+ 101%	12.1	+ 79%
Lime Prod.	+ 54%	30.6	+ 75%
Cut Foliage	+ 184%	15.3	+ 67%
– regist.	+ 196%	20.4	+ 36%
– unreg.	+ 148%	8.1	+ 90%
Light Eng.	+ 59%	29.4	+ 54%
Photograph	+ 98%	12.3	+ 9%
Carpentry	+ 68%	20.5	+ 39%
– regist.	+ 61%	26.4	+ 42%
– unreg.	+ 146%	7.9	+ 76%
Hemp	+ 37%	13.6	+ 19%
Brass Ware	– 18%	37.9	– 9%
– regist.	– 8%	40.3	– 6%
– unreg.	– 36%	32.5	– 37%
Gem & Jew	– 31%	22.0	– 40%

Table 62: Productivity development per sector[176]

[176] R 33-01 Turnover p Cha 1 02-05 Nuc 1-65 Sex 1-1 Eth 1-3 Reg 1-4 Emp 0-57 Fou 1910-2002.pdf; ~Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-57 Fou 1910-2002.pdf; ~Nuc 2-65 Sex 2-2 Eth 1-5 Reg 1-4 Emp 0-25 Fou 1971-2002.pdf; ~Nuc 99-99 Sex 1-1 Eth 1-5 Reg 1-4 Emp 0-34 Fou 1940-2002.pdf; ~Nuc 99-99 Sex 2-2 Eth 1-3 Reg 1-4 Emp 0-19 Fou 1930-2002.pdf~Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-34 Fou 1930-2002.pdf; ~Sex 2-2 Eth 1-3 Reg 1-4 Emp 0-19 Fou 1930-2002.pdf; R 33-21 Ro v Emp 2 Sec Nuc 1-65 Sex 1-2 Emp 0-57 Fou 1910-2002.pdf

Per education and professional training

Figure 27 and Figure 28 illustrate a clear positive correlation between the education level and the productivity development. The higher the education level is the higher are the growth rates. (Below O-level: – 2%; Technical Diploma and University Degree: + 50% and + 38%).

Concerning the training of the entrepreneurs, we see the same trend: those without training increased the productivity by 9%, those with more than three years of training by 100%.

These figures confirm clearly, what was said before: the better educated and trained entrepreneurs are more successful.

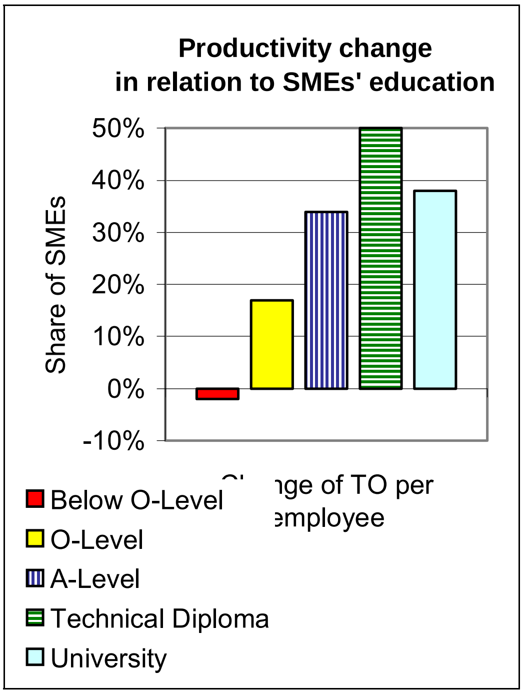

Figure 27: Productivity change 2002 – 2005 in relation to the SMEs' education (SMEs with up to 10 employees)[177]

4.7.5 Conclusion

First, the Nucleus members had much higher increases in average monthly turnover and productivity since 2002 than the non-Nucleus members.

In addition, between 50% and 60% of the entrepreneurs, namely those who entered into a higher turnover category, did not only increase the turnover, but also the productivity very much and more than the respective smaller group of non.-Nucleus members.

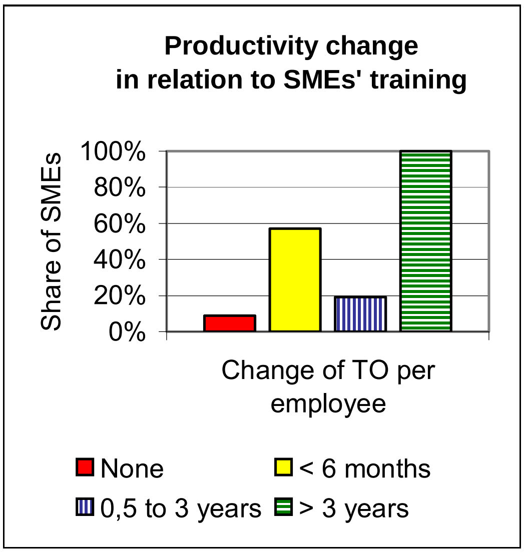

Figure 28: Productivity change 2002 – 2005 in relation to the SMEs' training (SMEs with up to 10 employees)[178]

Second, the figures for the average of the unregistered enterprises look rather weak compared with the registered ones. However, circa 40% to 50% worked very successfully and seem to have quite some development potential.

Due to the attribution gap, these facts do not provide 100 percent evidence that the participation in Nuclei causes a positive economic impact in the enterprises. But here are strong indications that the participation of entrepreneurs in Nuclei has considerably contributed to these economic advancements.

[177] R 06-08 Education v TO p Cha Nuc 1-57 Sex 1-2 Emp 0-7 Edu 1.pdf; ~Nuc 1-62 Sex 1-2 Emp 0-10 Edu 2.pdf; ~Nuc 1-65 Sex 1-2 Emp 0-10 Edu 3.pdf; ~Nuc 2-65 Sex 1-2 Emp 0-9 Edu 4.pdf; ~Nuc 2-42 Sex 1-2 Emp 0-10 Edu 5.pdf

[178] R 06-08 Education v TO p Cha Nuc 1-57 Sex 1-2 Emp 0-7 Edu 1.pdf; ~Nuc 1-62 Sex 1-2 Emp 0-10 Edu 2.pdf; ~Nuc 1-65 Sex 1-2 Emp 0-10 Edu 3.pdf; ~Nuc 2-65 Sex 1-2 Emp 0-9 Edu 4.pdf; ~Nuc 2-42 Sex 1-2 Emp 0-10 Edu 5.pdf

4.8 Investments

Investments in machinery and equipment and their changes over the years reflect different situations

- the entrepreneur has ideas and courage for investments
- the business performance and the financial situation
- the access to the necessary investment capital and its costs – see the following chapter about credits
- the economic situation and the investment climate
- in many developing countries labour is seen as flexible cost which can relatively easy be reduced in problematic situations
- labour can cause less costs than new machines[179]
- cultural values such as a positive attitude towards business growth and profit.

How much did you invest in machinery & equipment during the last 12 months?	**Used value for calcu-lations**
0 Rs	0 TRs
< 10,000 Rs	5 TRs
< 50,000 Rs	30 TRs
< 100,000 Rs	75 TRs
< 500,000 Rs	300 TRs
> 500,000 Rs	1,000 TRs

Table 63: Turnover categories

The objective in the context of the Nucleus Approach is to encourage the entrepreneurs to invest taking into account their individual situation in order to improve and / or expand the enterprise.

We asked about investments in tangible assets. We assume that not all interviewed entrepreneurs differentiated exactly between investments and current expenditures and might have included also the increase of the raw material stock, etc. in “investment.” But for our purposes this does not matter much.

The investments vary greatly over time (Figure 29). They reflect the better economic situation in Sri Lanka. In the year 2004, the Nucleus entrepreneurs invested on average 79,000 Rs. In 2005, this amount dropped to 66,000 Rs.[180]

The control group invested on average considerably more with 260,000 Rs in 2004 and 250,000 Rs in 2005 due to higher shares of enterprises with investments of more than 500,000 Rs. But amazingly 40% to 50% of the non-Nucleus members did not invest at all compared with 23% and 28% of the Nucleus enterprises; 5% of the Nucleus enterprises as well as of the non-Nucleus companies did not invest neither in 2004 nor in 2005. It remains an open question which perspectives these entrepreneurs have in future.

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179 See the high number of daily paid workers presented in chapter 4.6.1. A classical example is the labour intensive building construction sector: in industrialized countries, a lot of machinery is used due to high labour costs. Both types of costs are seen as fix costs. In Brazil, high buildings are constructed with a cement mixer and a lift. Cranes cause high fixed costs compared to relatively cheap workers whose number can always be decreased. In West Africa neither cement mixers nor lifts are used.

180 Reinprecht, K./ Weeratunge, N. (2006), p 58: One third of the entrepreneur invested up to 10,000 Rs, another third spent between 50,000 and 100,000 Rs. One quarter spent more than 100,000 Rs at business startup. The figures are not quite comparable because these are amounts required to start the business and not yearly investments. Still, they give some idea about the level of SME investment in Sri Lanka in general.

Per gender

Male entrepreneurs invested more than double with 106,000 Rs in 2004 and 85,000 Rs in 2005 than the females with 41,000 Rs in 2004 and 38,000 Rs in 2005. Although in both cases the average investment amount decreased from 2004 to 2005 the pattern differ: the number of males who did not invest at all in 2005 compared to the previous year, doubled. The number of women who did not invest decreased and in all but one category the respective shares went up. In the control group, men also spent more in 2005 than women: men 268,000 Rs, women 221,000 Rs.[182]

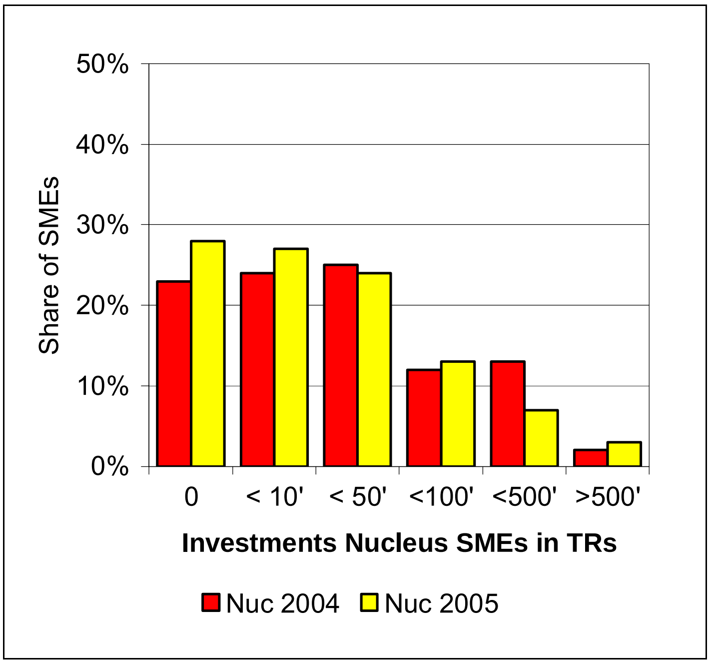

Figure 29: Nucleus members with investments in 2004 and 2005 per category[181]

Per chamber

There are also considerable differences between the chambers (Table 64).

- The CCICP enterprises invested most with on average 102,000 Rs in 2005. This is due to their highest share of enterprises in the category ”> 500 TRs”. In addition, with 11% is has the lowest number of non-investors and the highest share of mini investors (less than 10,000 Rs).
- Surprisingly, PAEA members invested the second highest average amount of 99,000 Rs in 2005. Protected agriculture with its poly tunnels and sprinkler systems is a more capital intense business than many others. The highest share (25%) of investments went into the category between 50,000 Rs and 100,000 Rs. This might also relate to the

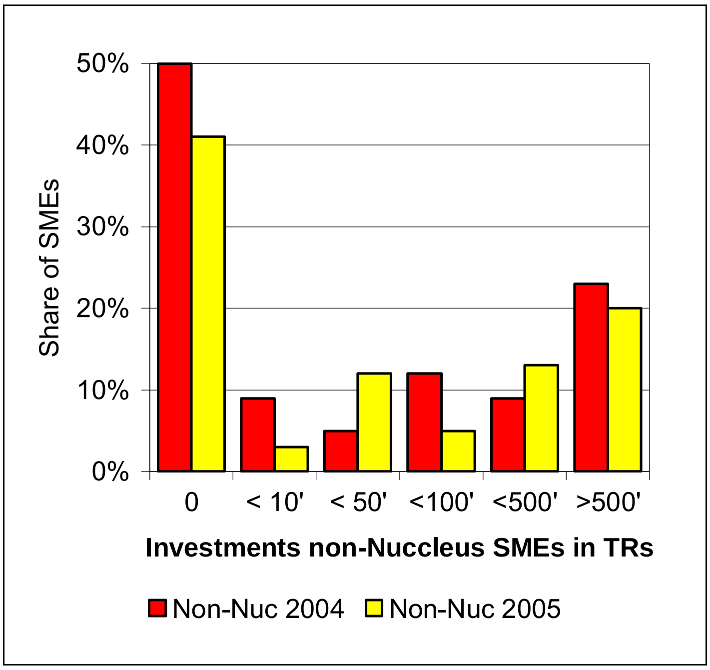

Figure 30: Non-Nucleus members with investments in 2004 and 2005 per category[183]

181 R 34-01 Investment p Cha 1 all Nuc 1-65 Sex 1-2.pdf

182 R 34-01 Investment p Cha 1 all Nuc 99-99 Sex 1-1, ~2-2-pdf

183 R 34-01 Investment p Cha 1 all Nuc 99-99 Sex 1-2.pdf

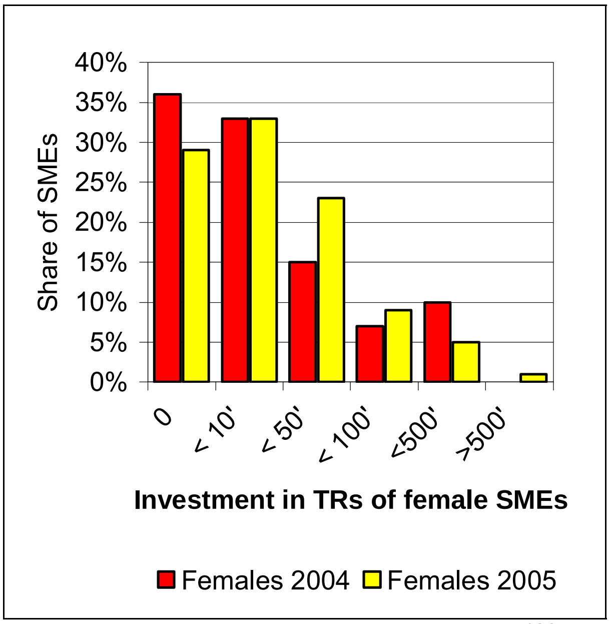

Figure 32: Investments per gender and year[186]

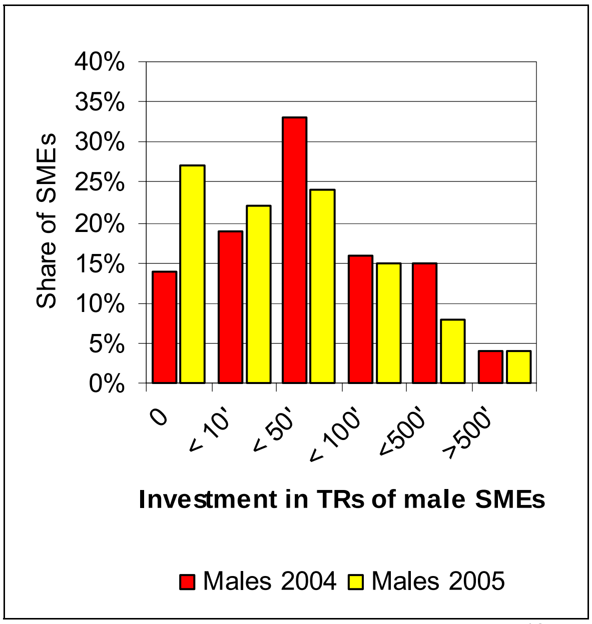

Figure 31: Investments per gender and year[184]

ESSP subsidies and what they were used for. Comparatively more than their counterparts in other chambers the PAEA members used the subsidies to invest in equipment bringing them into the high investment category.

- When considering the target group of CPWCIC (matured females, low preparation level) it is a big surprise to discover them spending on average 60,000 Rs in 2005 (17,000 Rs in 2004). The 16 interviewed Beauty Culture Nucleus members had invested on average 152,000 Rs. One can assume that this is caused by their participation in Nuclei. This is also proven by the fact that ESSP did not subsidize equipment for this particular Nuclei. The women entrepreneurs invested their own funds into the business. This indicates their willingness to expand their enterprises as a result of the technical insights gained through the participation in the Nucleus and their coming up with a business plan as a requirement of the CEFE course they participated in. This means vice versa that the

Chamber	0 TRs	< 10 TRs	< 50 TRs	< 100 TRs	< 500 TRs	> 500 TRs	Average amount in TRs
Total	28%	27%	24%	13%	7%	3%	66
CCICP	11%	39%	22%	16%	4%	7%	102
CCIUP	17%	29%	27%	18%	8%	–	47
CPWCIC	22%	23%	31%	15%	8%	2%	60
MDCCI	53%	15%	16%	5%	8%	3%	60
NCHSL	32%	30%	33%	3%	3%	–	21
PAEA	16%	21%	21%	25%	12%	4%	99

Table 64: Investments of Nucleus entrepreneurs of the different chambers 2005[185]

[184] R 34-01 Investment p Cha 1 all Nuc 1-65 Sex 1-1.pdf, ~2-2.pdf

[185] R 34-01 Investment p Cha 1 all Nuc 1-65 Sex 1-2.pdf

[186] R 34-01 Investment p Cha 1 all Nuc 1-65 Sex 1-1.pdf, ~2-2.pdf

female entrepreneurs of most other chambers invested well below the average (CCICP 17,000 Rs, MDCCI 15,000 Rs, NCHSL 11,000 Rs). Only the CCIUP women invested comparably high amounts (2004: 85,000 Rs, 2005: 44,000 Rs).

- MDCCI shows with 53% an extremely high share of non-investors.
- The lowest investment level with only an average of 21,000 Rs is found in NCHSL. Most of the traditional handicraft sector is not very capital intense with its manual work based sectors.

Per sector

As assumed above, certain sectors require more investments than others. This is reflected in the investment figures of those different sectors with more than ten answers per sector (Table 65). The surprise is the handicraft sector, because the investment with 80,000 Rs was higher than expected in a manual based work sector. On the other hand, we had expected much higher investments than 9,000 Rs in the automobile sector.

Investment intensity of the sectors in absolute terms					
High		Medium		Low	
Sector	**Investm.**	**Sector**	**Investm.**	**Sector**	**Investm.**
Lime	195 TRs	Handicraft	80 TRs	TV Repair	19 TRs
Printers	183 TRs	Photographers	77 TRs	Vegetable Cultiva.	17 TRs
Bakers	137 TRs	Carpenters	76 TRs	Gem & Jewellery	15 TRs
PAEA	99 TRs	Light Engineers	75 TRs	Patchwork	14 TRs
		Ornamental Fish	62 TRs	Automobile	9 TRs
		Beauty Culture	48 TRs	Hemp	9 TRs
		Cut Foliage	39 TRs		
		Garment	37 TRs		
		Brass / Tailoring	33 TRs		

Table 65: 2005 investments per sector[187]

Per ethnicity

The investment behaviour analysis per ethnicity leads to the impression that the results are overlaid by the other, more dominant factors such as size of the enterprises and sector[188]. Therefore, it is not possible to say that Moors, for example, do more for the development of their enterprises than Tamils, etc.

187 R 34-03 Investment p Sec 1 all Nuc 1-65 Sex 1-2.pdf

188 R 34-05 Investment p Cha 2 all Nuc 1-32 Sex 1-1 Eth 3-3 Reg 1-4 Emp 1-25.pdf, R 34-05 Investment p Cha 2 all Nuc 1-62 Sex 1-2 Eth 3-3 Reg 1-4 Emp 0-25.pdf, R 34-05 Investment p Cha 2 all Nuc 1-65 Sex 1-1 Eth 1-1 Reg 1-4 Emp 0-50.pdf, R 34-05 Investment p Cha 2 all Nuc 1-65 Sex 1-2 Eth 1-1 Reg 1-4 Emp 0-50.pdf, R 34-05 Investment p Cha 2 all Nuc 1-65 Sex 2-2 Eth 1-1 Reg 1-4 Emp 0-38.pdf, R 34-05 Investment p Cha 2 all Nuc 2-62 Sex 2-2 Eth 3-3 Reg 1-4 Emp 0-5.pdf, R 34-05 Investment p Cha 2 all Nuc 2-65 Sex 1-2 Eth 2-2 Reg 1-4 Emp 0-10.pdf, R 34-05 Investment p Cha 2 all Nuc 2-65 Sex 2-2 Eth 2-2 Reg 1-4 Emp 0-10.pdf, R 34-05 Investment p Cha 2 all Nuc 5-31 Sex 1-1 Eth 2-2 Reg 1-4 Emp 1-10.pdf

Per legal status

The investments clearly correlate with the legal status of the enterprises: according to Figure 33 the registered Nucleus enterprises invested much higher amounts (2005 average of 107,000 Rs) than the unregistered ones (2005 average of 33,000 Rs). This relation holds true also for 2004 as well as for the different genders and non-Nucleus members.

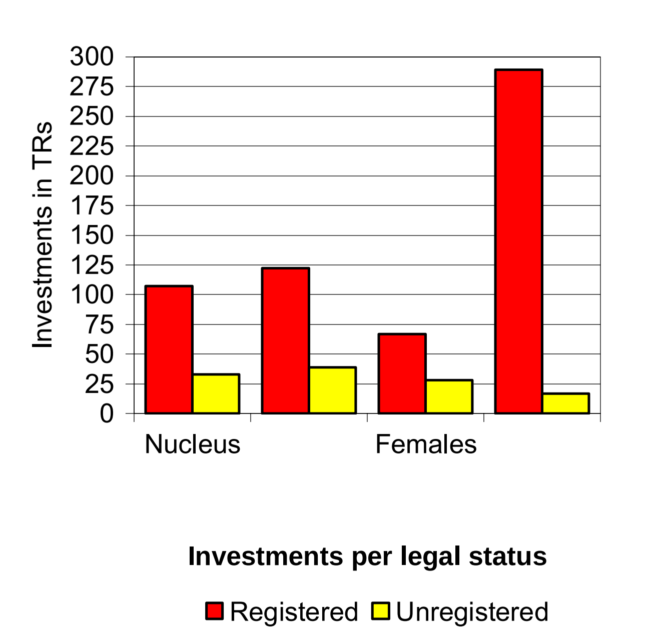

Figure 33: Investments 2005 per legal status[189]

Per employment

Logically the investments correlate with the number of employees: the more employees the enterprises have the more they invest on average in absolute terms (Figure 34).

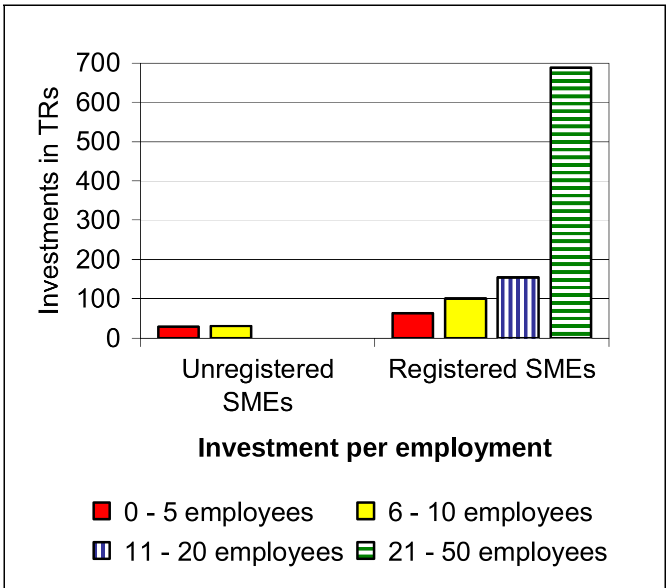

Figure 34: Nucleus members' investment in 2005 according to employment [190]

However, the picture changes when the investments are calculated per employee: in 2004 as well as in 2005 the smallest enterprises with one to five employees invested most per employee and working place (Figure 35). In addition, the figures of the unregistered companies are not far from those of the registered ones. Even if the results might be influenced by the chosen algorithm (Table 63) and the real investment amounts of the enterprises with up to five employees are actually lower than calculated they indicate that the smaller companies invest per employee at least in the same range as the bigger ones or even more.

[189] R 34-05 Investment p Cha 2 all Nuc 1-65 Sex 1-1 Eth 1-3 Reg 1-3 Emp 0-50.pdf, ~Reg 4-4 Emp 0-16.pdf, ~Sex 1-2 Eth 1-3 Reg 4-4 Emp 0-18.pdf, R 34-05 Investment p Cha 2 all Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-50.pdf, ~Sex 2-2 Eth 1-3 Reg 4-4 Emp 0-18.pdf, ~Eth 1-5 Reg 1-3 Emp 0-38.pdf, ~all Nuc 99-99 Sex 1-2 Eth 1-2 Reg 4-4 Emp 0-3.pdf, ~Eth 1-5 Reg 1-3 Emp 0-74.pdf

[190] R 34-05 Investment p Cha 2 all Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-5.pdf; ~Eth 1-3 Reg 4-4 Emp 0-5.pdf; ~Eth 1-4 Reg 1-3 Emp 6-10.pdf; ~Nucleus 1-50 Sex 1-2 Eth 1-4 Reg 4-4 Emp 6-10.pdf;~3-49 Sex 1-2 Eth 1-3 Reg 1-4 Emp 11-20.pdf, R 34-05 Investment p Cha 2 all Nuc 7-53 Sex 1-2 Eth 1-3 Reg 1-3 Emp 21-50

Figure 35: Entrepreneur's investment in 2004 and 2005 per employee[191]

Per foundation period

Table 66 and Table 67 show the investments of the entrepreneurs in reference to the foundation period of the enterprises. It is not possible to identify neither for the registered nor for the unregistered companies a clear pattern in the sense, older enterprises invest more than startups. The higher investment amounts of the registered enterprises founded before 1980 (191,000 Rs) and between 1990 and 1999 (110,000 Rs) refer to the bigger size of the respective companies; of the enterprises founded in 2002, a printer and a saw miller invested more than 500,000 Rs pushing the average for the whole sample up to 175,000 Rs.

Foundation period / year	Registered SMEs: Investment 2005 in TRs						Aver-age in TRs
	0	>0 < 10	10 – 50	50 – 100	100 – 500	> 500	
< 1980	28%	13%	28%	0%	18%	13%	191
1980 – 1989	36%	22%	16%	13%	11%	2%	71
1990 – 1999	19%	10%	36%	20%	10%	5%	110
2000 – 2001	12%	27%	37%	20%	2%	2%	53
2002	11%	16%	32%	16%	16%	11%	175
2003	21%	21%	21%	21%	14%	0%	66
2004	55%	0%	18%	9%	18%	0%	67

Table 66: Investments 2005 of registered SMEs per foundation period[192]

[191] R 34-12 Investment p Cha 4 p Emp Nuc 1-65 Sex 1-2 Eth 1-5 Reg 4-4 Emp 1-5.pdf; ~Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 1-5.pdf; ~Nuc 99-99 Sex 1-2 Eth 1-3 Reg 1-3 Emp 1-5.pdf; ~Nuc 1-65 Sex 1-2 Eth 1-4 Reg 1-3 Emp 6-10.pdf; ~Nuc 1-50 Sex 1-2 Eth 4-4 Reg 4-4 Emp 6-10.pdf; ~Nuc 99-99 Sex 1-2 Eth 1-3 Reg 1-3 Emp 6-10.pdf; ~Nuc 3-49 Sex 1-2 Eth 1-3 Reg 1-3 Emp 11-20.pdf; ~Nuc 99-99 Sex 1-2 Eth 1-5 Reg 1-3 Emp 11-20.pdf; ~Nuc 7-53 Sex 1-2 Eth 1-3 Reg 1-3 Emp 21-50.pdf; ~Nuc 99-99 Sex 1-2 Eth 1-5 Reg 1-3 Emp 21-74.pdf

[192] R 34-06 Investment p Cha 4 Fou Nuc 1-57 Sex 1-2 Reg 1-3 Fou 1910-1979.pdf; ~Nuc 1-35 Sex 1-2 Reg 1-3 Fou 1980-1989.pdf; ~Nuc 1-65 Sex 1-2 Reg 1-3 Fou 1990-1999.pdf; ~Nuc 2-65 Sex 1-2 Reg 1-3 Fou 2000-2001.pdf; ~Nuc 2-42 Sex 1-2 Reg 1-3 Fou 2002-2002.pdf; ~Nuc 1-53 Sex 1-2 Reg 1-3 Fou 2003-2003.pdf; ~Nuc 2-41 Sex 1-2 Reg 1-1 Fou 2004-2004.pdf

In the case of the unregistered enterprises, the picture is even more diffuse.

Foundation period / year	Unregistered SMEs: Investment 2005 in TRs						Average in TRs
	0	>0 < 10	10 – 50	50 – 100	100 – 500	> 500	
< 1980	46%	0%	54%	0%	0%	0%	16
1980 – 1989	34%	21%	21%	21%	0%	3%	57
1990 – 1999	25%	32%	27%	9%	6%	15%	45
2000 – 2001	18%	47%	18%	13%	4%	0%	31
2002	19%	38%	10%	24%	10%	0%	51
2003	13%	50%	18%	11%	5%	3%	58
2004	51%	32%	9%	4%	3%	0%	16

Table 67: Investments 2005 of unregistered SMEs per foundation period[193]

Per turnover

A higher turnover leads under normal circumstances to more equity funds in absolute terms for investments. Figure 36 confirms this correlation for the Nucleus enterprises as well as for the non-Nucleus companies.

Some entrepreneurs with a turnover of less than 80,000 Rs per month stem partially huge investment amounts, which correspond on average to calculated 1.2 to 7.2 months' turnover (Table 68). On the other hand, two thirds of those with a turnover of between 240,000 Rs and 500,000 Rs per month and one third with a monthly turnover of more than 500,000 Rs invested in 2005 nothing. This leads to low investment averages of 0.3 and 0.4 months' turnover for these groups.

This indicates again that roughly estimated 50% of the owners of smaller enterprises as well of the bigger ones do much in reference to their economic capacities for the development of their enterprises and try to make it fit for the future; and there is roughly one third whom one can say only: no investment – no future.

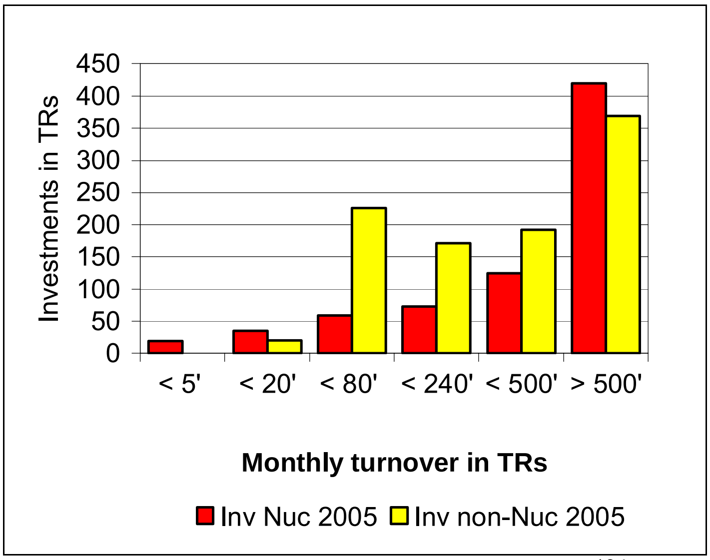

Figure 36: Investments 2005 per monthly turnover[194]

[193] R 34-06 Investment p Cha 4 Fou Nuc 1-65 Sex 1-2 Reg 4-4 Fou 1910-1979.pdf; ~Nuc 2-57 Sex 1-2 Reg 4-4 Fou 1980-1989.pdf; ~Nuc 1-62 Sex 1-2 Reg 4-4 Fou 1990-1999.pdf; ~Nuc 2-65 Sex 1-2 Reg 4-4 Fou 2000-2001.pdf; ~Nuc 3-65 Sex 1-2 Reg 4-4 Fou 2002-2002.pdf; ~Nuc 2-65 Sex 1-2 Reg 4-4 Fou 2003-2003.pdf; ~Nuc 1-65 Sex 1-2 Reg 1-1 Fou 2004-2004.pdf

[194] R 34-08 Investment p Cha 3 Turnover Nuc 2-65 Sex 1-2 TO 1.pdf, ~Nuc 1-65 Sex 1-2 TO 2.pdf, ~Nuc 1-65 Sex 1-2 TO 3.pdf, ~Nuc 1-65 Sex 1-2 TO 4.pdf, ~Nuc 1-57 Sex 1-2 TO 5.pdf, ~Nuc 3-53 Sex 1-1 TO 6.pdf; R 34-08 Investment p Cha 3 Turnover Nuc 99-99 Sex 1-2 TO 1.pdf, ~TO 2.pdf, ~TO 3.pdf, ~TO 4.pdf; ~TO 5.pdf; ~TO 6.pdf

Monthly turnover	Investment in TRs						Average invest-ment in TRs	Invest-ments in monthly turnovers
	0	>0 < 10	10 – 50	50 – 100	100 – 500	> 500		
< 5 TRs	49%	37%	7%	3%	4%		18	7.2 months
5 – 20 TRs	28%	32%	23%	12%	5%		35	2.8 months
20 – 80 TRs	15%	21%	37%	27%	7%	4%	59	1.2 months
80 – 240 TRs	21%	23%	27%	17%	10%	4%	73	0.4 months
240 – 500 TRs	48%	10%	9%	9%	14%	10%	125	0.3 months
> 500 TRs	19%	5%	5%	5%	19%	47%	420	0.4 months

Table 68: Monthly turnover versus investments 2005[195]

Chamber CEOs and counsellors bow

Workshop of the CPWCIC Beauty Culture Nucleus about the experiences in Thailand

195 R 34-10 Invest p Cha v TurnO x Nuc 1-65 Sex 1-2.pdf

4.9 Credits

“An entrepreneur without credits does not know how to make money!”
This is a common German saying. It means that the entrepreneur’s basic objective is to identify business opportunities, which yield more than the costs of credits.

The contrary is the traditional way of a head of a family who refuses to take credits as a principle. Taking credits is not honourable; they are costly and risky and cause only trouble.[196]

Do you or does the company have borrowed money? If yes, from whom?
☐ No
☐ Relatives
☐ Bank
☐ Money lender
☐ Society
☐ Other

The analysis in this chapter will indicate if and to what extend the Sri Lankan entrepreneurs have access to credit and to what kind of credit. It is common opinion that without access to credit SMEs have few chances to prosper. The recent awarding of the Nobel Prize for Peace to Muhammad Yunus, Founder of Grameen Bank, Bangladesh, for his famous microfinance initiative that provides better credit access to the poor, reflects the international recognition of the importance of credits.

Our questions were based on findings of other surveys and the comparison with other countries.

- Is the core problem for SMEs the access to credits or the costs of the credits?
- Is there considerable lack of access to credit for SMEs because of insufficient collateral, difficulty to prove the ability to repay and lack of knowledge on how to prepare financial proposals?
- What is the role of banks in SME finance? Is it minor due to the banks’ high costs at credit assessment? The fixed administrative costs of the assessment require a minimum credit amount in order to return the assessment costs. There is probably an information gap about the potential lender’s credibility.
- Do family members support the entrepreneurs with equity, especially at the startup phase as it is the case in many countries? The mentioned ILO study about Sri Lanka identified the family and friends as predominant finance source to business startup.[197]
- Do moneylenders play a role in providing funds?
- Do enterprises have different capital structures at different development stages? As the companies mature and become larger, the financial mix may change. At the startup, do the entrepreneurs rely more on equity? When expanding, are they more likely to qualify for a bank loan?

[196] Nireka Weeratunge observed that quite a big share of Sri Lankan SMEs apply this non-credit principle in their enterprise.

[197] Reinprecht, Karin / Weeratunge Nireka (2006), p 57

4.9.1 Credit Structures

Once more, the survey findings are partially very surprising because they do not quite match with the findings of other studies[198] and also our expectations. Table 69 gives an overview about the credits entrepreneurs have taken.

1. About one third of the entrepreneurs had some kind of credit in 2006; in 2005 even 50%. Considering that 78% of the enterprises have up to five employees, 90% up to 10 employees, this is a higher share than expected.

2. With 80% of the credits the banks play the major role in financing the SMEs.

3. Relatives play with only 10% a minor role in financing the SMEs with credits although 48% were founded after the year 2000, and even 67% of the ones run by females. We had expected much higher shares for the startup phase of the enterprises.

We do not know whether all the credits are linked with entrepreneurial activities. Still quite many entrepreneurs manage their business and private money from one pocket.[200] Especially the credits from money lenders might mostly be consumer and not business loans.[201]

	Credit taken		In % of SMEs with credits in 2006				
	2005	2006	Relatives	Banks	Money lenders	Societies	Others
Nuc members	**51%**	**35%**	**10%**	**80%**	**2%**	**4%**	**4%**
- Males	59%	40%	7%	84%	2%	3%	4%
- Females	33%	26%	17%	72%	1%	6%	3%
CCICP	59%	47%	15%	73%	1%	3%	8%
CCIUP	46%	36%	7%	87%	4%	-	2%
CPWCIC	–	18%	36%	55%	-	9%	-
MDCCIA	33%	27%	2%	92%	2%	4%	-
NCHSL	–	19%	-	79%	-	21%	-
PAEA	75%	59%	12%	79%	-	3%	6%
Non-Nuc. members	**50%**	**31%**	**-**	**71%**	**4%**	**-**	**25%**
- Males	52%	25%	-	86%	7%	-	7%
- Females	–	41%	-	57%	-	-	43%

Table 69: Overview about entrepreneurs' credits[199]

The share of credit takers

[198] Compare Hettihewa, S. / Batten, J. (1999), p 206 pp.: The entrepreneurs answered that 63% used family savings and only 32% finance of another source. In addition, it is maintained that in Sri Lanka moneylenders play an important role in SME finance since they understand the community, family and kin situation better than banks. Their sample was with 73 enterprises comparatively quite small.

[199] R 36-01 Credits 2006 p Cha 1 Nuc 1-65 Sex 1-2.pdf; ~Sex 1-1.pdf; ~Sex 2-2.pdf; R 36-01 Credits 2006 p Cha 1 Nuc 99-99 Sex 1-1.pdf; ~1-2.pdf; ~2-2.pdf

[200] Most basic bookkeeping courses of Nuclei started always with the message: Keep your finances separated.

[201] A money lender in Polonnaruwa confirmed only after being questioning several times that among his clients there might also be some few entrepreneurs. As a rule, he gives consumer credits.

decreased considerably from 51% in 2005 to 35% in 2006.[202] This change reflects the worse economic expectations in 2005, expressed also by a stagnation of employment and an extremely low investment climate index (Chapters 4.6.2 and 0). The structure of the credits is in the two years almost the same. In the following, we concentrate mainly on the 2006 figures.

Per gender, chambers and sectors

There are differences between the genders, the chambers and the sectors.

- With 40%, a higher share of male entrepreneurs has credits than the female ones with 26%. This can indicate different chances for access to credits for example due to lack of collateral in case of female entrepreneurs but can also express different risk behaviour. Another reason could be the smaller amounts invested by females. Banks prefer to lend larger amounts of money because of the fixed administrative credit handling costs.
- The credit sources also differ between the genders: females get relatively more support from family members (17%) as men (7%). In the case of CPWCIC, the family loans are even more common with 36%. Of the overall total of 12 family loans to women run enterprises, ten are startups founded between 2000 and 2004.
- Of the PAEA Nucleus members, 59% took loans. One can assume that this is due to the type of business they are running. In agriculture, seasonal short-term financing is needed and common.
- Only 18% of the CPWCIC businesswomen took a loan; of all females 26%.
- In the handicraft sector of NCHSL members, the share of money borrowers is also very low with only 19%.
- The MDCCIA members have the highest share of bank loans. This could indicate a better functioning micro finance system in the Matale district.
- Societies play a small role in financing Nucleus SMEs. The only exception is the handicraft sector where 21% got a loan from a society.

Per sector 2006[203]	**Credit taken**	**Banks**
Photographers	67%	75%
Printers	57%	92%
Bakers	50%	100%
Carpentry	47%	75%
Ornamental Fish	42%	80%
Light Engineers	39%	100%
Vegetable Cultivation	35%	89%
Cut Foliage	32%	77%
Patchwork	31%	–
Brass	27%	82%
Garment	25%	100%
Beauty Culture	24%	91%
Tailoring / Textile Related Items	22%	38%
Gem & Jewellery	21%	100%
Automobile	20%	100%
Handicrafts	15%	–
Lime	11%	–
Hemp	0%	0%

Table 70: Credit users of selected sectors[204]

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[202] Excluding CPWCIC and NCHSL in 2005 because respective data are not available. The figure for 2006 is 39%.

[203] Only sectors with more than ten answers were analysed. But even then the numbers of credit takers become partially extremely small.

[204] R 36-03 Credits 2006 p Sec 1 Nuc 1-65 Sex 1-2.pdf

- The non-Nucleus members show a different finance source structure: There are no loans from family members and societies. In the case of the females the share of bank credit users is much lower because six (43%) of a total of 14, all from three different Kandyan chambers, name as credit source “Others”. We do not know at present what “Other” could be – another donor project or supplier credits for clients’ advance payments?
- Certain sectors seem to have better access to credit and are more used to work with credits having a share of more than 50% up to 67% borrowers: printers, photographers and bakers. In the more traditional sectors and those dominated by women considerable less entrepreneurs confirm credits. In the sectors with the oldest enterprises – hemp, lime production – the share of those with a loan goes down to 0%. The only sector, which does not fit into this line, is the automobile one. In all sectors, banks provide between 75% and 100% of the loans. Financial support from families of more than 20% seems only common among the women dominated textile enterprises.

No credit 2005 Credit in 2006	**Absolute**	**in %**
CCICP	9	27%
CCIUP	7	17%
CPWCIC	7	13%
MDCCIA	13	23%
PAEA	6	55%
Total	**42**	**22%**
Males	27	12%
Females	15	14%

Table 71: Change of credit status 2005 to 2006[205]

Of those Nucleus members who were interviewed twice and reported not having credit in 2005 22 confirmed one in 2006 (Table 71). 74% of the credits are from banks. This seems to be a considerable change. In 2005 / 06 some banks had the opportunity to present their products to some chambers and Nuclei. Whether the bank credits are linked to these activities, we do not know.

The Peoples Bank, followed by the Commercial Bank, Bank of Ceylon and the Sanasa Development Bank, provided the most SME finance. Altogether, the entrepreneurs mentioned 17 banks.[206]

Per ethnicity

We observe (Table 72) a lower use of credits by the minorities – Tamils 27%, Moors 8% – compared to the Sinhalese with 36%. However, when comparing per gender the Tamil females have with 43% the highest share of credit takers of all groups and genders whereas the Tamil men have the lowest (8%). The low share of Moors with credits is explainable with their religious regulations concerning prohibition of interests. They allocate necessary capital more through common “profit and loss businesses” with trustworthy family members or friends.[207]

205 R 38-10 Credit 05No 06Yes Nucleus 2-42 Sex 1-2.pdf; ~Nuc 3-41 Sex 1-1.pdf; ~Nuc 2-42 Sex 1-1.pdf

206 R 36-11 Credits from banks p Bank.pdf – There were only 42 answers mentioning the name of the bank (Peoples Bank 8 times, Commercial Bank 7 times, the others between 1 and 4 times). Therefore, the information in this paragraph gives just a vague hint about SME oriented banks but is in no way representative.

207 Reinprecht, Karin / Weeratunge, Nireka (2006), p.23, stress that Muslims are more often able to mobilize larger amounts of capital form their families than others.

Per education and professional training

Ethnicity	Credit taken	Rela-tives	Banks	Money lenders	Socie-ties	Others
Sinhalese	36%	11%	79%	1%	4%	4%
- Females	26%	21%	69%		7%	3%
- Males	42%	7%	83%	2%	3%	5%
Tamil	27%	Individual absolute numbers too small				
- Females	43%					
- Males	8%					
Moors	8%					
- Females	0%					
- Males	20%					

Table 72: Credit users according to ethnicity[208]

Concerning the preparation of the entrepreneur in form of education and the duration of professional training, we defined the following thesis: the better the entrepreneurs are prepared the higher is the share of credit takers. Those ones are more qualified to identify business opportunities with sufficient return, elaborate adequate business plans, negotiate them with banks and manage their finances.

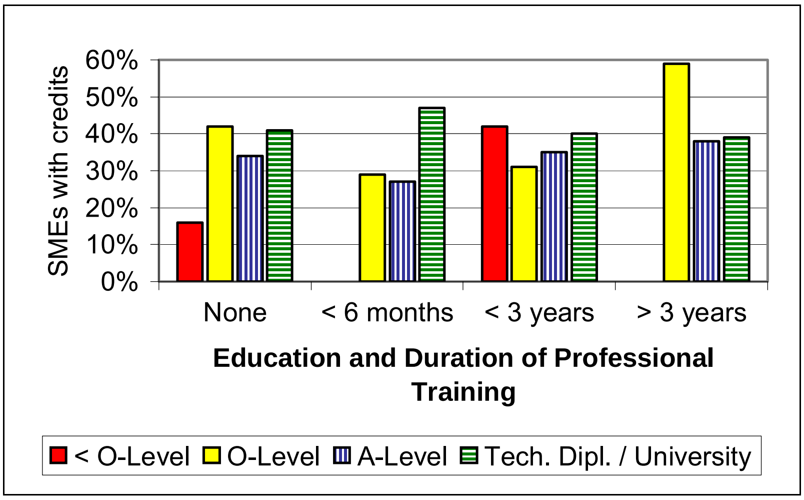

Figure 37: Credits in reference to duration of professional training and levels of education[209]

Figure 37 shows that the hypothesis is not proven. The better educated and longer trained entrepreneurs do not have more loans than the others do. The picture remains the same considering only bank credits.

Differentiating concerning

[208] R 36-05 Credits 2006 p Cha 2 Nuc 1-22 Sex 1-1 Eth 3-3 Reg 1-4 Emp 1-25.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 1-62 Sex 1-2 Eth 3-3 Reg 1-4 Emp 0-25.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 1-62 Sex 2-2 Eth 3-3 Reg 1-4 Emp 0-5.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 1-1 Eth 1-1 Reg 1-4 Emp 0-50.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-1 Reg 1-4 Emp 0-50.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 2-2 Eth 1-1 Reg 1-4 Emp 0-38.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 2-65 Sex 1-2 Eth 2-2 Reg 1-4 Emp 0-10.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 2-65 Sex 2-2 Eth 2-2 Reg 1-4 Emp 0-10.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 5-31 Sex 1-1 Eth 2-2 Reg 1-4 Emp 1-10.pdf

[209] R 36-09 Credit 2006 p Cha 7 Edu+Tra Nuc 1-45 Sex 1-2 Edu 1 PTr 99.pdf; ~Nuc 1-65 Sex 1-2 Edu 2 PTr 99.pdf; ~Nuc 1-65 Sex 1-2 Edu 3 PTr 99.pdf; ~Nuc 3-53 Sex 1-2 Edu 4 PTr 99.pdf; ~Nuc 3-58 Sex 1-2 Edu 1 PTr 1.pdf; ~Nuc 1-65 Sex 1-2 Edu 2 PTr 1.pdf; ~Nuc 2-65 Sex 1-2 Edu 3 PTr 1.pdf; ~Nuc 2-65 Sex 1-2 Edu 4 PTr 1.pdf; ~Nuc 2-57 Sex 1-2 Edu 1 PTr 2.pdf; ~Nuc 2-58 Sex 1-2 Edu 2 PTr 2.pdf; ~Nuc 2-58 Sex 1-2 Edu 3 PTr 2.pdf; ~Nuc 2-58 Sex 1-2 Edu 4 PTr 2.pdf; ~Nuc 1-45 Sex 1-2 Edu 1 PTr 3.pdf; ~Nuc 2-53 Sex 1-2 Edu 2 PTr 3.pdf; ~Nuc 2-65 Sex 1-2 Edu 3 PTr 3.pdf; ~Nuc 2-65 Sex 1-2 Edu 4 PTr 3.pdf

education / training and between those enterprises founded before 2000 and the startups since then also does not confirm that the better prepared entrepreneurs have more credits than the others.

This can – but must not – indicate also that banks do not consider the personal qualifications of their customers when taking credit decisions. Instead, the credit decision depends only on hard factors such as collateral as it is the case in many other countries as well. But it could indicate also on the other hand that the better educated entrepreneurs do not have better and more convincing business ideas than the less educated ones.

Per legal status

There are considerably less differences between registered and unregistered enterprises than expected – see Table 73: 43% of the registered companies took a credit, 28% of the unregistered. It is common assumption that only formal companies can qualify for a bank loan. Under this aspect the almost identical structure of the credit sources of registered and unregistered male owned companies is a complete surprise. Even unregistered businesses of females have a considerably share of bank loans (59% of the credit takers or 13% of all respective enterprises). Formal female businesses have the highest bank credit share 86% – does this reflect that women are perceived as more reliable debtors?

Enterprise category	Credit taken	Of credit takers				
		Rela-tives	Banks	Money lenders	Socie-ties	Others
Total Nuc members	**35%**	**10%**	**80%**	**2%**	**4%**	**4%**
- registered	43%	6%	83%	2%	4%	4%
- unregistered	28%	17%	74%	1%	4%	4%
Females	26%	17%	72%	1%	6%	3%
- registered	36%	4%	86%		11%	
- unregistered	22%	30%	59%	3%	3%	5%
Males	40%	7%	84%	2%	3%	4%
- registered	45%	6%	83%	3%	2%	5%
- unregistered	34%	8%	83%		5%	3%

Table 73: Credit users vs. registration[210]

The common rule is that informal enterprises do not get bank loans, especially not from commercial banks. We do not know from whom these entrepreneurs got the bank credits and as what: as private persons from commercial banks or from development banks?

[210] R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 1-1 Eth 1-3 Reg 1-3 Emp 0-50.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 1-1 Eth 1-3 Reg 4-4 Emp 0-16.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-50.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 4-4 Emp 0-18.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 2-2 Eth 1-5 Reg 1-3 Emp 0-38.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 2-65 Sex 2-2 Eth 1-3 Reg 4-4 Emp 0-18.pdf

Per enterprise size

One would expect a positive correlation between the size of the enterprises and the share of those with credits: the bigger the enterprise is the easier is the access to banks and the more it is probable that they can offer adequate collateral. Figure 38 illustrates the growing share of Nucleus enterprises with credits parallel with increasing enterprise size. Exception is the enterprise category with 21 to 50 employees where only 43% have taken loans.[211] Here are printers, saw millers and lime production companies without any credit.

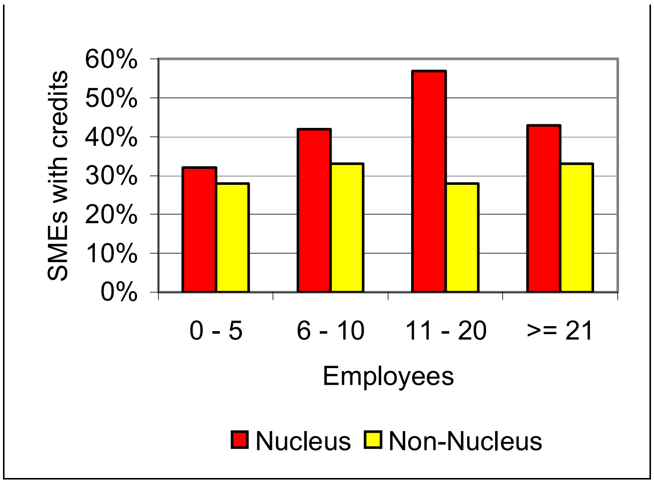

Figure 38: Nucleus and Non-Nucleus SMEs with credits according to employment[212]

The above hypothesis is not backed when looking at the non-Nucleus enterprises where in all size categories a share of between 28% and 33% confirm credits. This is surprising, also because among them is only a small group of unregistered companies. All other indicators convey that most of them belong to the local economic establishment. Why do around 70% of them and also the above mentioned bigger Nucleus enterprises do not borrow money?

- This result could be interpreted as first confirmation that the access to credits for many of these enterprises is not the main bottleneck. There must be other constraints like the credit conditions. During ESSP's negotiations with the Sanasa Development Bank about a special credit scheme for Nucleus members the participating chamber entrepreneurs stressed as main problematic point the too short grace and repayment periods. They bothered less about the interest rates. This could express the lack of SME tailored credit products.
- It is not very probable that the enterprises' profitability is so high that they are able to finance modernization and expansion measures only out of cash flows / equity. No credits can thus mean that they do not see adequate investment and business opportunities – and stagnate? We will come back to this below.

We would be happy being able to firmly argue that the different shares of Nucleus entrepreneurs and non-Nucleus entrepreneurs taking bank loans is one of the impacts of the Nucleus Approach: due to the Nucleus' work the members are more mobilised, get new ideas for business activities and learn how to apply for credits and to negotiate with banks. Nevertheless, as stated before, we cannot exclude the possibility that it is the other way around: in the Nuclei, more active and mobile entrepreneurs gather. These include those that work with loans.

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[211] R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-4 Reg 1-4 Emp 0-5.pdf. ~6-10.pdf; ~11-20.pdf; ~21-50.pdf

[212] R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-4 Reg 1-4 Emp 0-5.pdf; ~Emp 6-10.pdf; ~Emp 11-20.pdf; ~Emp 21-50.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 99-99 Sex 1-2 Eth 1-3 Reg 1-4 Emp 0-5.pdf. ~6-10.pdf. ~11-20.pdf; ~21-74.pdf

Per enterprise age

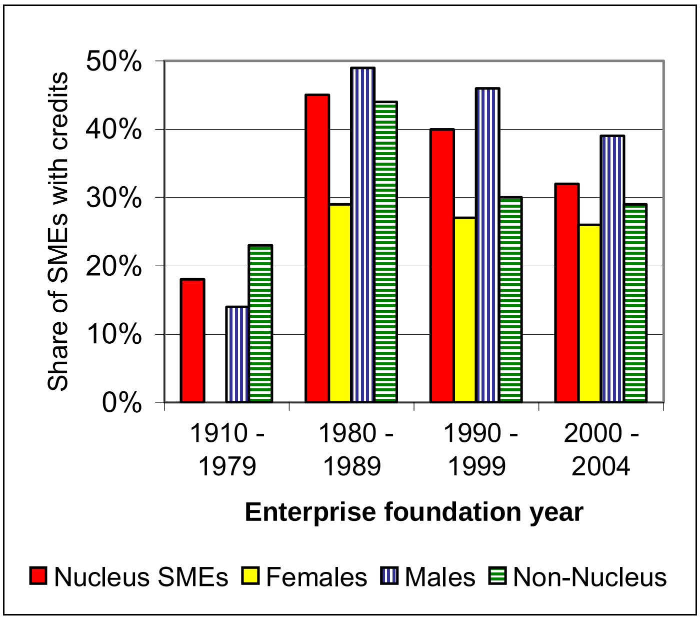

Figure 39: Nucleus and Non-Nucleus SMEs with credits according foundation decade[213]

Concerning the age of enterprises one would assume that older ones had ample time to establish, expand and prove their credibility and therefore more of them would work with credits. Figure 39 confirms this only partially. The oldest enterprises founded between 1910 and 1979 have the lowest share of borrowers of all with 18% and are therefore the exception. For the other groups the results are as expected. The highest share of credits with 45% has the second oldest enterprise category founded between 1980 and 1989 decreasing then to 40% in those founded in the nineties and 32% in the youngest enterprises founded since 2000. Enterprises run by males, by females and non-Nucleus entrepreneurs, they all follow similar patterns. The youngest enterprises have not much to show as yet, little equity and fewer chances to prove their credibility.

Family credits

In the startup phase of an enterprise one would expect a much higher share of family credits. But one has to consider the following:

- In general, family credits are provided from aunts, uncles, cousins and other members of the greater family. When parents support financially children or a husband his wife they give “grants” and never loans. This refers to all ethnicities. [214] Therefore, when we asked about family credits the entrepreneurs did not subsume this eventual family support under credit.
- In many families, nobody might be able to give a credit due of a lack of respective financial means.
- Partially it seems not to be “custom” to give credits to family members – the core family does not engage in businesses of other family members.

Of the 22 reported family credits 12 were given to females of whom 11 run an unregistered company. A high share of ten of the 22 was given in 2005 and 2006. Is that an impact of the Nucleus’ work? Or are family credits only given on a short term for business consumption material and pre-products?

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[213] R 36-05 Credits 2006 p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-4 Reg 1-4 Emp 0-5.pdf; ~Emp 6-10.pdf; ~Emp 11-20.pdf; ~Emp 21-50.pdf; R 36-05 Credits 2006 p Cha 2 Nuc 99-99 Sex 1-2 Eth 1-3 Reg 1-4 Emp 0-5.pdf. ~6-10.pdf. ~11-20.pdf; ~21-74.pdf

[214] This refers to explanations from Nireka Weeratunge.

4.9.2 Credits and Investments

We asked the entrepreneurs in 2005 and 2006 about their investments during the respective previous 12 months (i e in 2004 and 2005). In Table 74 the data about the credits and investments are put together in order to identify some trends even if not all individual cases might fit together.

We assumed that with increasing amounts of investment the asset shares would also increase. The data confirm this finding: with increasing amounts of investments, the share of entrepreneurs with credits rises continuously. 41% / 35% of the entrepreneurs with investments of less than 10,000 Rs have a credit, but 70% / 41% of those who invested more than 500,000 Rs. The data of those enterprises, which reported a credit in 2006 but not in 2005, follow the same pattern.

The economic logic would say that those who claimed to have a credit but did not invest used the money for material, means of production and eventually pre-products.

In all categories, bank credits dominate with between 75% and 100%, even in the case of no reported investments. Of the latter ones in both years more than 50% are concentrated in Matale. Credits from families, societies, moneylenders and others are concentrated in the investment categories below

Amount of Investment	Credit taken			
	Yes in 2005	Yes in 2006	No in 2005 Yes in 2006*	Yes in 2005 No in 2006**
Total = 0 Rs	31%	22%	16%	65%
- Males	41%	24%		
- Females	19%	19%		
Total < 10 TRs	41%	35%	26%	41%
- Males	52%	43%		
- Females	26%	27%		
Total < 50 TRs	54%	36%	25%	44%
- Males	58%	40%		
- Females	39%	30%		
Total < 100 TRs	64%	45%	40%	35%
- Males	68%	55%		
- Females	43%	23%		
Total < 500 TRs	68%	57%	–	33%
- Males	70%	64%		
- Females	65%	43%		
Total > 500 TRs	70%	41%	–	–
- Males	70%	40%		
- Females[215]	–	50%		

* percent of SMEs without credit in 2005 and with one in 2006 / ** percent of SMEs with credit in 2005 and with none in 2006 – it is not possible to calculate from column 1 to column 2 with the other columns because the samples differ

Table 74: Credits according to investment[216]

[215] There were only two females answering this question, therefore the results cannot be counted.

[216] R 36-12 Credit 2006 p Cha 12 Investm Nuc 1-58 Sex 1-1 Inv 1.pdf; ~2-2 Inv 1.pdf; ~1-2 Inv 1.pdf; R 36-12 Credit 2006 p Cha 12 Investm Nuc 1-65 Sex 1-1 Inv 2.pdf; ~2-2 Inv 2.pdf; ~1-2 Inv 2.pdf; R 36-12 Credit 2006 p Cha 12 Investm Nuc 2-65 Sex 2-2 Inv 3.pdf; ~1-2 Inv 3.pdf; ~1-1 Inv 3.pdf; R 36-12 Credit 2006 p Cha 12 Investm Nuc 2-51 Sex 2-2 Inv 4.pdf; ~1-2 Inv 4.pdf; ~1-1 Inv 4.pdf; R 36-12 Credit 2006 p Cha 12 Investm Nuc 1-41 Sex 1-1 Inv 5.pdf; ~1-2 Inv 5.pdf; ~2-2 Inv 5.pdf; R 36-12 Credit 2006 p Cha 12 Investm Nuc 1-53 Sex 1-1 Inv 6.pdf; ~1-2 Inv 6.pdf; ~2-2 Inv 6.pdf

80,000 Rs. However, the absolute numbers are very small and do not permit to be presented in percent.

As already was mentioned above the share of credit takers decreased considerably from the beginning of 2005 to the beginning of 2006 due to the worsening situation and respective economic expectations in 2005. 65% of those SMEs with nil investments, who had reported a credit in 2005, did not so in 2006. This percentage is decreasing in every following category. Low investments and a higher decrease of loans indicate short term credits of some weeks / months. The entrepreneur can reduced them relatively easy in accordance with the present business activities and the future expectations. In the case of higher investments financed by longer running credits such flexible adjustment is more difficult, either because the entrepreneur does not have the financial liquidity or the credit contract does not permit an early termination.

4.9.3 Credits and Premises

One would expect that enterprises functioning within their own premises work more with bank credits than those within rented premises because they can offer adequate collateral. Concerning the Nucleus members the contrary is the case: of the premises owners only 27% confirm a bank credit while of those with rented premises have 41% one (Table 75). The figures vary strongly between the chambers but only in the case of CCICP a higher share of entrepreneurs with owned premises report bank loans compared with those SMEs in rented premises; in CPWCIC and NCHSL almost no entrepreneur works in rented premises. Due to the seasonality of agricultural production, PAEA entrepreneurs are most used to credits.

The differentiation of the data per gender of the entrepreneurs and the legal status of the enterprises (Figure 40) leads in all cases to higher shares of entrepreneurs with rented premises and credits compared with those with owned premises. The same result holds true for the control group (Figure 41).

The figures vary only slightly in the categories family house and separate loca-

Share of credit takers	Premises	
	Owned	Rented
CCICP	40%	35%
CCIUP	31%	38%
CPWCIC	2%	–
MDCCIA	21%	33%
NCHSL	15%	–
PAEA	45%	100%
Total	**27%**	**41%**
Sample	470	101

Table 75: SMEs with credits in reference to premises

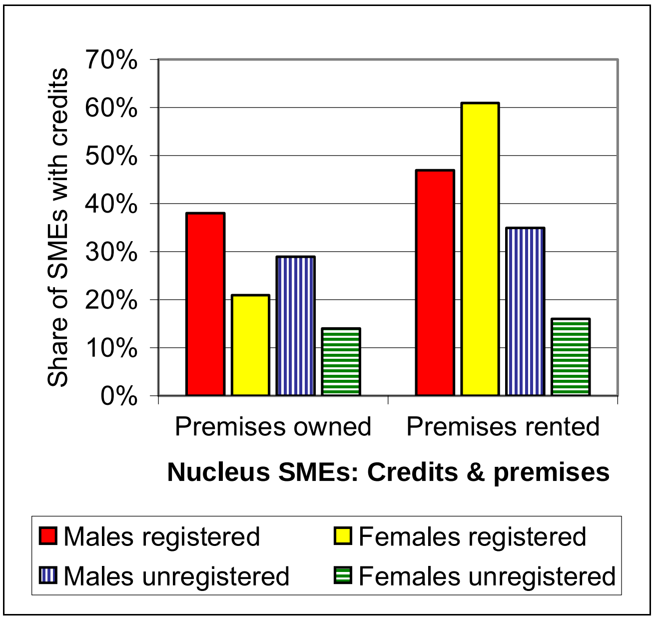

Figure 40: Nucleus SMEs with owned / rented premises and credits

tion.[217] Even the differentiation between enterprises with up to ten employees and more than ten employees – the sample is very small of those with rented premises – does not lead to different results.

This looks strange and contradictory: on the one hand entrepreneurs see the solution of their problems in getting grants and loans; on the other hand, most of those owning their premises and thus having collateral do not use them in order to obtain loans.

There are many factors, which might lead to these results. Based on the available data we can only offer possible explanations in form of hypotheses. Here are some, there might be others to consider.

a) Premises owned, relative low share of credit takers

- The profit margins from the economic activities are so high that the financial needs can be financed out of the cash flow and credits for running and improving the enterprise are not necessary. Probability: low.
- The entrepreneurs do subjectively not perceive business opportunities, which pay higher returns than the credit costs.[218] Consequently, they act economically sup-optimal, but eventually rational due to their assessment of the situation. Probability: high.
- The ideal is to be without credits. It gives security and moral honour. Only those who have problems take credits. This is in many cultures the strategy for the family household but often transferred to the business world as well. It means that credits are not perceived as a business strategy and tool in order to improve the enterprise, its output and economic results and shows limited entrepreneurial spirit. Probability: high.
- Although the entrepreneurs claim to be the owners of the premises, the premises in reality belong to a group of family members and these do not agree to sign a collateral agreement in favour of the enterprise of one of them because "it is not custom". The development of the enterprise is hindered by internal family relationships. If true, this provokes the question why

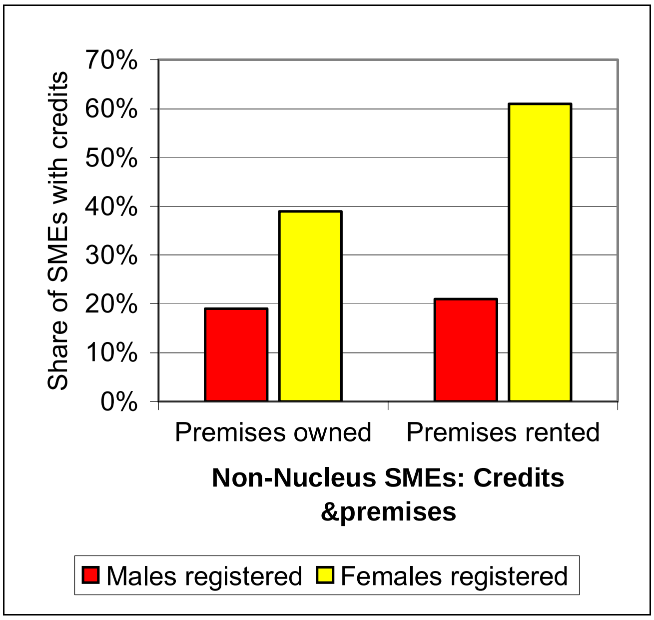

Figure 41: Credits of non-Nucleus SMEs with owned / rented premises

[217] R 36-13 Credits p Cha 13 Premises Nuc 1-47 Sex 1-2 Eth 1-3 Reg 4-4 Emp 0-18 Loc 2-2 Pre 1-1.pdf; R 36-13 Credits p Cha 13 Premises Nuc 1-65 Sex 1-2 Eth 1-3 Reg 1-3 Emp 0-50 Loc 1-2 Pre 1-1.pdf; R 36-13 Credits p Cha 13 Premises Nuc 1-65 Sex 1-2 Eth 1-3 Reg 1-3 Emp 0-50 Loc 2-2 Pre 1-1.pdf; R 36-13 Credits p Cha 13 Premises Nuc 1-65 Sex 1-2 Eth 1-3 Reg 4-4 Emp 0-18 Loc 1-2 Pre 1-1.pdf; R 36-13 Credits p Cha 13 Premises Nuc 2-65 Sex 1-2 Eth 1-3 Reg 1-3 Emp 0-10 Loc 1-1 Pre 1-1.pdf; R 36-13 Credits p Cha 13 Premises Nuc 2-65 Sex 1-2 Eth 1-3 Reg 4-4 Emp 0-10 Loc 1-1 Pre 1-1.pdf;

[218] A wise Brazilian Nucleus entrepreneur: "Before we start to ask for loans and invest we have to learn what we can do in our business!"

governments and donors should start costly support interventions when families are not able or willing to use their selfhelp potentials. Probability: we do not know presently whether this concerns only individual family cases or whether it is really a wide spread Sri Lankan cultural phenomenon. If it is the latter: how can this artificial brake be unblocked?

- When granting credits on the basis of premises as collateral the banks' and eventually also the public procedures are so complicated, time consuming or costly that entrepreneurs submit to them only in case of emergency or if they are very certain about the financial success of a business activity and / or investment. Probability: high.
- The banks are not interested in granting credits on the basis of premises as collateral because the assessment of the premises' value and / or the realization of the collaterals are too difficult, costly or legally uncertain.[219] This could also indicate that the real estate market for production premises does not work very well. Probability: high.

b) Premises rented, relatively high share of credit takers

- An entrepreneur renting her / his business premises looks for the "best" place for her / his economic activities. Consequently, s/he is automatically more market orientated. In addition, in order to earn the necessary cash flow for financing the rent s/he is under a higher pressure to calculate the business and its margins in a proper way compared with premise owners who frequently do not consider the premises' costs (depreciation, costing based interest on the premises' value, etc.). Therefore, these entrepreneurs have stronger entrepreneurial characteristics and capacities. They are more able to identify interesting business opportunities, to present them to banks and to negotiate with those successfully to obtain a credit even if they cannot offer much collateral. Probability: high.

Following this logic then the above tables provoke a question: are women in Sri Lanka the better entrepreneurs compared with men? The higher percentage rates of women working with credits seem to indicate this.

If all this is correct then it indicates that one core problem concerning credits to SMEs apart from the access – banks do not grant credits because of perceived high risks and administration costs – is the attitude of the non-entrepreneurial entrepreneur.[220]

It is obvious that such entrepreneurs cannot be reached only by an improved supply of financial services. Instead, it is also necessary to improve the demand for financial services. In the Nucleus, members can get ideas for investments, supporting feedback from the colleagues and more security about undertakings. Better prepared investment plans increase the demand for financial services.

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219 One example: Entrepreneurs own land which had been donated to them by the GoSL. They got a so called "certificate" about their ownership but not a "title". As some few interview partners explained to the authors, these certificates are marketable. Nevertheless, the banks do not accept them as collateral. Nobody was able to explain the reasons. Probability: these certificates are mainly granted in the countryside in smaller villages. We do not know how many of the interviewed entrepreneurs are owners of such "certificated land". – Ishengoma, Esther K. / Kappel, Robert (2006) refer to the complicated and highly costs involved in property registration in many countries leading to the accumulation of "dead capital" which is used suboptimally.

220 Dirk Steinwand, ProMIS – Promotion of the Microfinance Sector – GTZ, expressed the same assumption.

4.9.4 Credits and Performance – Or: No Credit – Better Enterprise?

This heading is not a joke. SME supporters and micro finance specialists always stress the importance of credits for the enterprise development assuming that those with access to credits perform better.

SMEs, which performed better "With" or "Without" credit		
Sample	**Monthly Turn-over**	**Turnov-er per Employ**
Nucleus SMEs => 11 employ. registered males+females	+ With + 526 TRs	+ With + 26 TRs + 51%
Non-Nucleus => 11 employ. registered males+females	**Without** 724 TRs	+ With + 39 TRs + 30%
Nucleus SMEs =< 10 employ. registered males+females	+ With + 94 TRs	**Without** 35 TRs + 42%
Non-Nucleus =< 10 employ. registered males+females	+ With + 235 TRs	+ With + 26 TRs +22%
Interview 2005 Nucleus SMEs =< 10 employ. unregistered females	+ With + 19 TRs	+ With + 11 TRs + 115%
Interview 2005 Nucleus SMEs =< 10 employ. registered females	**Without** 50 TRs	**Without** 17 TRs 165%
Interview 2005 Nucleus SMEs =< 10 employ unregistered males	+ With + 29 TRs	+ With + 7 TRs 106%
Interview 2005 Nucleus SMEs =< 10 employ registered males	**Without** 142 TRs	**Without** 34 TRs + 108%

Table 76: Comparison of the performance of SMEs with and without credits

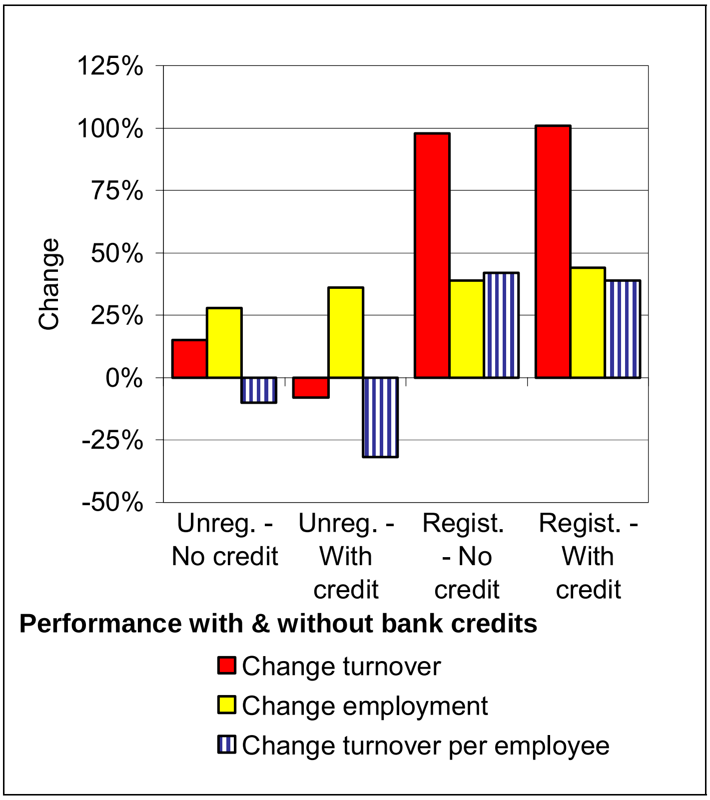

Figure 42: Performance 2002 – 2005 of unregistered Nucleus members with up to 10 employees without and with bank credits[221]

We had followed this assumption.

However, concerning the Nucleus members with up to ten employees our data do not confirm this assumption. The comparison of the monthly turnover and the turnover per employee between 2002 and 2005 in Figure 42 shows that neither the unregistered nor the registered companies with bank credits perform better than those without credits.

This is not an individual coincidence (Table 76). In some subsamples, those without credit show even a better performance than those with credits.

These results seem to contradict our observations in the previous chapter where we had found that entrepreneurs with rented premises are more used to work

[221] R 36-15 Credits 06 v TO - No Nuc 2-65 Sex 2-2 Emp 0-7 Cre N.pdf; R 36-15 Credits 06 v TO Yes Nuc 2-54 Sex 2-2 Emp 0-7 Cre Y.pdf; R 36-15 Credits 06 v TO - No Nuc 1-65 Sex 1-1 Emp 0-10 Cre N.pdf; R 36-15 Credits 06 v TO Yes Nuc 1-65 Sex 1-1 Emp 0-10 Cre Y.pdf

with credits assuming that they have more entrepreneurial characteristics – and expecting that they also work with more success. But the differentiation of the respective data per premises owned and rented (Figure 43 and Figure 44 for registered and unregistered companies) shows that entrepreneurs

- with rented premises develop concerning turnover and turnover per employee much better than the premises owners and
- that of the ones with rented premises those without bank credit perform better than those with credits.[222]

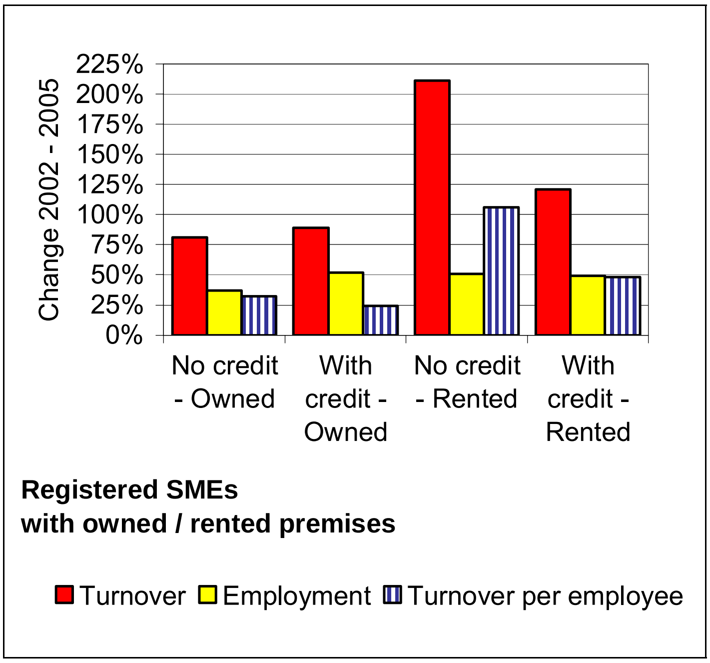

Figure 43: Performance 2002 – 2005 of registered Nucleus members with up to 10 employees without and with bank credits and with owned and rented premises[223]

All this provokes the hypothesis that the one decisive factor for the development of SME enterprises is definitely not the credit. Credits help

- market oriented entrepreneurs with entrepreneurial characteristics and spirit and
- if the existing internal economic potential for improvement concerning technology, administration and management has been widely exhausted and
- if the entrepreneur gains – through a respective positive environment which can be the Nucleus – business ideas which produce a higher return than the credit costs.

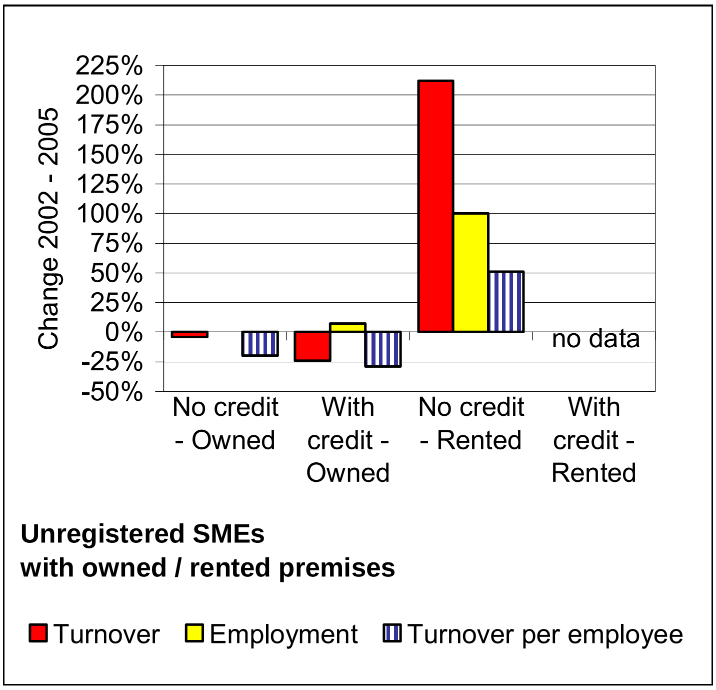

Figure 44: Performance 2002 – 2005 of unregistered Nucleus members with up to 10 employees without and with bank credits and with owned and rented premises

The Nucleus Approach works in this direction. In the Sri Lankan entrepreneurs' opinion the standard solution

222 The sample of unregistered enterprises in rented premises is too small to return reliable data; the same applies for enterprises with more than ten employees and the control group.

223 R 36-15 Bank Credits 06 v TO No Nuc 1-65 Sex 1-2 Emp 0-10 Cre N loc 1-2 Pre 1-1.pdf; ~Nuc 2-57 Sex 1-2 Emp 0-7 Cre N loc 1-2 Pre 2-2.pdf; R 36-15 Bank Credits 06 v TO Yes Nuc 1-65 Sex 1-2 Emp 0-10 Cre Y loc 1-2 Pre 1-1.pdf; ~Nuc 2-33 Sex 1-2 Emp 0-10 Cre Y loc 1-2 Pre 2-2.pdf

for their problems and the advancement of their businesses is money in form of grants and cheap loans from government, donors and banks.[224] The counter message in the context of the Nucleus Approach is: the improvement of a business does not start with money. It starts with ideas, knowledge, organization, management.

The same message conveyed the German and Brazilian carpenter, light engineering and cut foliage specialists that ESSP brought to Sri Lanka to work with the Nuclei: to demonstrate what could be done better and more efficiently with the existing equipment and machinery.

Welding Training Course

[224] Sri Lankan SMEs confronted with the Chinese saying "Why are you angry about me? I did not offer you a gift!" answer always: "For us gifts are not a problem!"

4.10 Changes in the Enterprises

4.10.1 Evaluation through the Entrepreneurs

In the context of the Nucleus Approach, the changes perceived subjectively by the entrepreneurs are at least as relevant as those that objectively occurred. The reason is of psychological nature: successful changes perceived subjectively due to own efforts encourages and permits the entrepreneur to develop more self-confidence concerning her / his entrepreneurial activities. S/he starts – hopefully – to see her- / himself less as an object of hardly understandable economic, social and political external forces and more as an active subject influencing and designing her / his own work and life environment. Such perception is the basis for further development.

We asked the entrepreneurs about the present performance of their enterprises compared with the situation before they participated in a Nucleus. This comparison makes the Nucleus entrepreneurs aware of the improvements they initiated. There are some observations concerning the results presented in Table 77 and Figure 45:

- The Nucleus entrepreneurs evaluate the present situation of their enterprises as much better compared with the situation before they participated in Nuclei. The average score increases from about "fair" (between 3.0 and 3.4) to "good" (between 3.6 and 4.1). This "Good" is relative. It does not mean that the enterprise is objectively good now. Instead, the present state of the enterprise has almost always to be defined as "Good" by the entrepreneur due to psychological reasons. S/he cannot admit permanently that the own enterprise is weak. The variable is the "Before the Nucleus", the perception of the past and that the enterprise improved in the sense: 'Compared with today my product quality / my enterprise, etc. before the participation in the Nucleus was not as good as it is today.'

  The scores concerning the overall situation of the enterprise compared with the development of the turnover between 2002 and 2005 in Table 78 confirm this phenomenon: the "Now" with a scoring of 4.1 is in all cases identical. But those entrepreneurs with an increased turnover evaluate the "Before" lower – stressing a bigger advance – than those who remained in the same turnover category and those with decreased turnover.

  If we had confronted the entrepreneurs with these questions before they started to participate in a Nucleus, the majority would have also said that it is "Good". Respectively the control group confronted only with the question

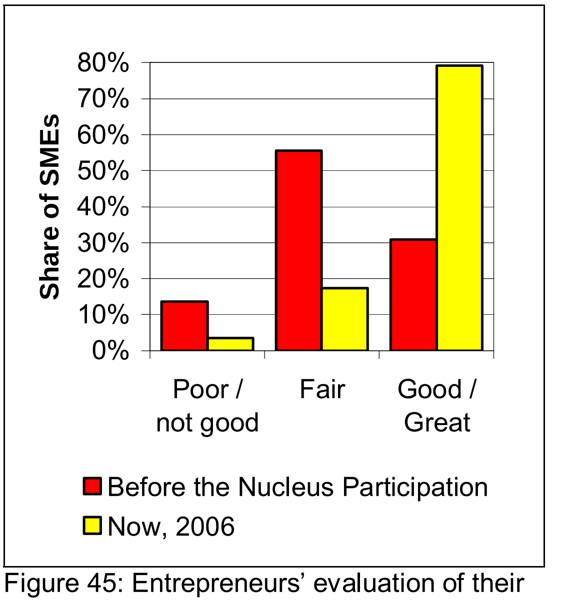

Figure 45: Entrepreneurs' evaluation of their enterprises (all scores together)

Analyse the changes in your company: How do you estimate the situation before your participation in the Nucleus and how is it today?		**Very poor = 1**	**Not very well = 2**	**Fair = 3**	**Good = 4**	**Great = 5**	**Aver-age Score**
Administration and management	Before	2%	11%	57%	30%	–	3.2
	Today	–	2%	25%	64%	9%	3.8
Finances and cost calculation	Before	6%	12%	54%	26%	2%	3.0
	Today	5%	5%	25%	57%	8%	3.6
Equipment, installations, lay-out	Before	2%	12%	58%	28%	–	3.1
	Today	–	4%	23%	63%	10%	3.8
Technological level and efficiency of production processes	Before	2%	10%	59%	28%	1%	3.2
	Today	–	2%	16%	69%	12%	3.9
Product quality	Before	1%	7%	50%	38%	4%	3.4
	Today	–	1%	11%	66%	22%	4.1
Quality and efficiency of the people working in the company	Before	5%	12%	53%	29%	1%	3.1
	Today	4%	5%	20%	59%	12%	3.7
General situation of the company	Before	2%	5%	45%	46%	2%	3.4
	Today	–	1%	11%	67%	21%	4.1

Table 77: Entrepreneurs' evaluation their enterprises[226]

concerning the present situation scores its enterprises also with 4.0. [225]

- The finances as well as the quality and efficiency of the employees receive relatively the lowest scores. These are areas where problems and weaknesses – as entrepreneurs prefer to see it – are caused more by others and less by themselves (a form of outsourcing problems).
- The product quality is scored relatively high – seen from outside surely in many cases too high – expressing on the one hand some pride of the entrepreneurs and on the other hand low market thinking. In an open market, the product quality is not an objective itself. Instead, the enterprises' objective is to gain a good profit. Depending on the market situation, the purchase power and demand of the clients the entrepreneur can reach more with high quality products but eventually also with low quality products. Most Nucleus entrepreneurs – as in many other countries – do not work market oriented. [227] They do not vary the quality of their products on reference to the clients' demand. In addition, most are not able to vary the quality because they do not know better or they are technically not in the position to produce high quality products. Instead, they deem their present quality level as good. This contentment – the entrepreneurs do not suffer – makes it more difficult to stimulate respective changes.

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[225] R 37-03 NNuc 06 p Cha 2 Nuc 99-99 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-74.pdf

[226] R 37-03 Change SME 05 p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-50.pdf

[227] An example of African market oriented SMEs: the German carpenter taught the carpenters that the four legs of a quality table have all the same length so that it does not wiggle. The answer of the African carpenters: "We do not have one client with a flat floor in his house!"

- In many cases the SMEs evaluate the different areas of the enterprise relatively critically but estimate the overall situation as “Good” or “Great” in the sense ‘Although there are a lot of problems, in the end, it is a pretty good enterprise’. This applies even for enterprises with a low turnover.
- The CPWCIC women estimate their enterprises best expressing a lot of optimism. The lowest increase with 0.2 for males and 0.3 for women show the MDCCIA SMEs.[228] Were these enterprises better than the ones in other chambers before starting in Nuclei? Or, this option seems more likely, did not so many changes occur in their enterprises? MDCCIA suffered of frequent changes of the counsellor, of not having a Nucleus counsellor for some time or of having a not very good one and consequently the Nuclei started less activities.
- There are no significant differences between the different genders, ethnicities, enterprise size measured or between registered and unregistered enterprises.
- The sectors vary considerably (Table 79). To find the traditional hemp sector in the top group is a surprise. Apparently, the sales and participation in Colombo trade fairs through NCHSL is an important step forward for these entrepreneurs. The other surprise is the scoring of the brassware sector, which perceives improvements although many ran into problems due to the raw material crisis. Maybe this is caused by successful lobby activities carried out through their engagement in the Nucleus. The others in group a) and b) are partially the longest running Nuclei and / or those with most engagement and activities. In group c) are some newly starting Nuclei (automobile, bakery), the lime production, which needs high investments in order to improve the technology and the printers that started good but ran into internal difficulties.

Chamber	Average scoring of the general situation of the enterprise			
	Males		Females	
	Bef	Now	Bef	Now
CCICP	3.2	4.2	3.0	4.1
CCIUP	3.0	4.1	2.8	4.0
CPWCIC	–	–	3.4	4.3
MDCCIA	3.8	4.0	3.7	4.0
NCHSL	3.5	4.0	3.5	4.0
PAEA	3.2	4.1	–	–
Total	3.4	4.1	3.2	4.1
Per turnover category				
05 > 02	3.4	4.1	3.2	4.2
05 = 02	3.6	4.1	3.5	4.1
05 < 02	3.6	4.1	–	–

Table 78: Performance of the Nucleus enterprises estimated by the entrepreneurs

Change of scores per sector
a) >= 1.0 – Cut Foliage – Hemp – Light Engineering – Photography
b) >= 0.5 and < 1.0 – Beauty Culture – Brass Maker – Carpentry – Garment Industry – Tailoring – Vegetable Production
c) < 0.5 – Automobile – Bakery – Gem & Jewellery – Handicraft – Lime Production – Ornamental Fish – Patchwork – Printing

Table 79: Change of enterprises' performance score per sector[229]

Especially this last point, the differentiation per sector, elucidates the impact of the Nucleus' work on the participating enterprises. Professionally managed Nuclei with many different activities lead to considerable changes in the enterprises subjectively perceived and valued by the re-

[228] The spreads are wider concerning the individual enterprise areas.

[229] R 37-04 Change SME 06 p Sec 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-50.pdf

spective entrepreneurs.[230]

More visible are the changes observed in carpentry enterprises after a short term training and consulting by a German carpenter (Chapter 5.1.)

4.10.2 98 Percent "Fair", "Good" and "Great" Enterprises: Can We Go Home?

The contentment of almost all entrepreneurs with the present situation of their enterprises – independently whether they are Nucleus members or not provokes two questions.

- What are the reasons for this result? Especially when seen from outside many enterprises are faced not with very favourable conditions.
- What has to be done?

Even in difficult situations, the majority of entrepreneurs are not able to admit that their enterprises are "weak". In case of an affirmation, they would question their own existence and capacities. The starting point for an evaluation is the present "Good" situation and the past "Before the Nucleus" is compared with it. It is obvious that such entrepreneurs estimating their enterprises as "Good" cannot be stimulated to further changes by criticizing them and confronting them with a "Entrepreneur, you have a problem!" or worse "Entrepreneur, you are a problem!" In addition, "Good" or "Weak" is relative compared to others. However, many entrepreneurs – up to big ones – have often limited knowledge about other enterprises, especially not about those in other countries. A benchmarking is hardly possible with the effect that the entrepreneur does not know her / his standing concerning management, organization and technological level compared to others. In the context of the Nucleus, both points are tackled.

- The discussions and activities of the Nucleus members lead entrepreneurs with a "Good" enterprise to new ideas and eventually visions on how to improve the enterprise even more – without questioning the present situation.
- One of the core ideas concerning the Nucleus is that the participants start to compare each other. In addition, almost all Nuclei went to visit other / bigger companies. And most important are the trips to other countries in order to start to think beyond the "shadow of the local tower" and to learn what is going on in the world.[231]

The above results indicate that these elements of the Nucleus Approach work successfully. Many experiences with the Nuclei indicate that even those groups that have rated themselves as pretty good entrepreneurs have later admitted that there is much room for improvement and growth within their enterprises. This is specially true for those groups that have undertaken field visits to larger enterprises in Colombo (light engineers, carpenters) and those that have undertaken missions to other countries (cut foliage, saw millers and beauty culture).

[230] These results – the change of the scorings ranging mostly between 0.7 and 1.2 points and the perception of the enterprises "Before" as "Fair" and "Now" as "Good" corresponds exactly to those of a study with similar questions undertaken in the nineties with Nucleus entrepreneurs in Brazil.

[231] This is stressed here because for some time on government side the opinion prevailed that there is no need for foreign trips because 'Sri Lanka is good enough for Sri Lankans'.

4.11 Future of the Enterprises

The selfevaluation of the enterprises through the owners provokes automatically the question, where they see them in one year's time: will they be worse, the same, a little better or much better.

The answers are ambiguous. They can refer

- to the fact that an entrepreneur always needs a basic optimism concerning the future of her / his enterprise due to psychological reasons – a notorious pessimist does not invest money in risky endeavours
- to the internal situation of the enterprise with the past development being extrapolated into the future
- to the expected external economic situation in the future with respective consequences for their own enterprise.

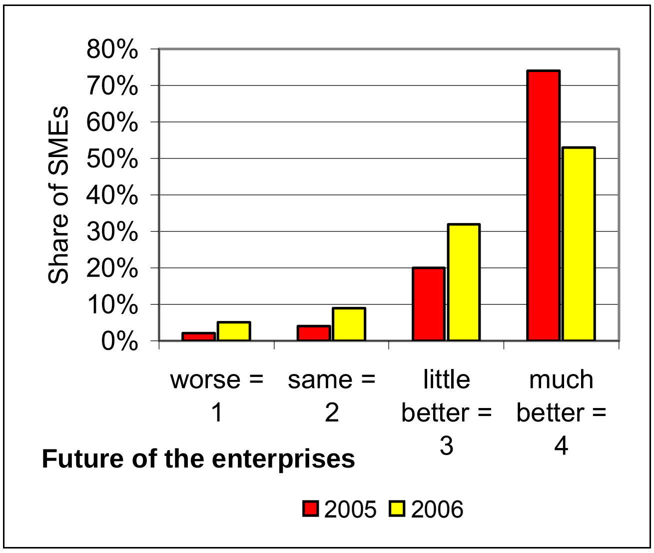

Figure 46: Expectations about the companies' future[232]

The outcome seems to represent a inseparable mixture of these three explanations.

Future of the enterprise	Average score			
	Nucleus members		Non-Nucleus members	
	2005	2006	2005	2006
Total	**3.7**	**3.3**	**2.9**	**2.9**
CCICP	3.7	3.4	3.0	2.8
CCIUP	3.8	3.8	2.7	2.9
CPWCIC	4.0	3.6	–	3.3
MDCCIA	3.3	3.1	3.0	2.8
NCHSL	–	2.6	–	2.7
PAEA	3.4	3.3	3.0	3.0

Table 80: The future of the enterprises per chamber[233]

Figure 46 indicates a very high optimism of the Nucleus entrepreneurs concerning their enterprises. In 2005 94% (score 3.7) and in 2006 85% (score 3.3) of the interviewed entrepreneurs saw the future of their enterprises in one year's time as better; only 2% respectively 5% meant to have a bleak future in front of them.

There are considerable differences between the chambers (Table 80) and 2005 / 2006. The optimism decreased from a relatively high level to a lower one in CCICP and CPWCIC; that of CCIUP remained unchanged on a high level, that of PAEA on a slightly lower level; MDCCIA is in both years below the average; the NCHSL entrepreneurs express the least optimism.

[232] R 38-01 Future 05+06 p Cha 1 Nuc 1-65 Sex 1-2.pdf

[233] R 38-01 Future 05+06 p Cha 1 Nuc 1-65 Sex 1-1.pdf; ~Sex 2-2.pdf; ~99-99 Sex 1-2.pdf;

The extremely good mood in Badulla is significant: in 2005 all entrepreneurs scored “A little bit better” and “Much better”, in 2006 98%.

The non-Nucleus entrepreneurs score in both years considerably lower than the Nucleus members do. This means either that SMEs with entrepreneurial, optimistic spirit gather in the Nuclei or that the Nuclei provide an environment where the participants are able to develop such optimistic spirit.

In the different sectors, nearly all Nuclei are a little bit less optimistic about the future in 2006. This goes in line with the stagnation / reduction of employment in 2005. Only the Lime Nucleus members’ belief in a better future increased (2005 score 2.2, 2006 score 2.7). The brassware makers’ expectations changed most from 3.8 to 1.9 that reflects their difficulties with the supply of raw material.[235]

Similar expectations towards the future are found for the different genders, the ethnic groups and the formal and legal status of the businesses.[236]

Figure 43 and Figure 47 link the entrepreneurs’ future expectation scorings and the enterprises’ performance between 2002 and 2005. The results confirm the above assumption that part of the entrepreneurs extrapolate the performance of

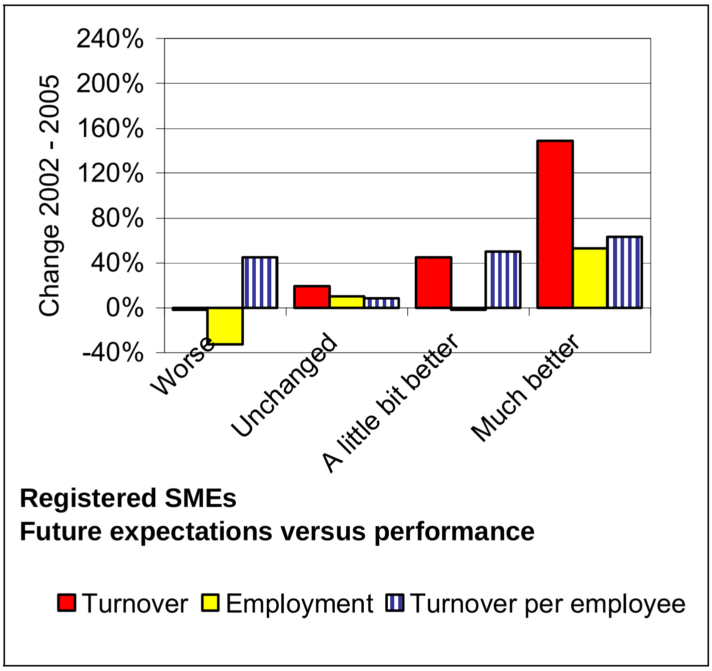

Figure 47: Performance 2002 – 2005 of registered Nucleus members in relation to the future expectations[234]

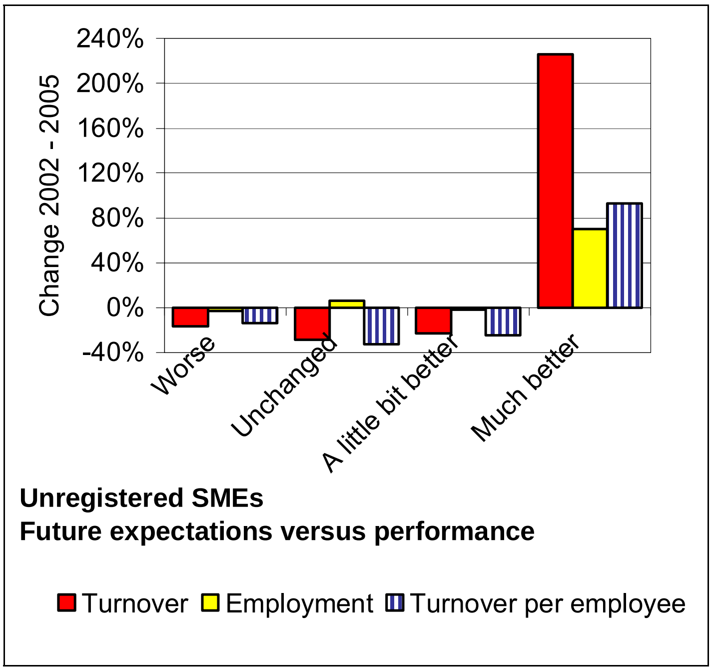

Figure 48: Performance 2002 – 2005 of unregistered Nucleus members in relation to the future expectations

234 R 38-11 Future v TO Nuc 1-47 Sex 1-2 Emp 0-34 Fut 1.pdf; ~Nuc 2-47 Sex 1-2 Emp 0-25 Fut 2.pdf; ~Nuc 1-57 Sex 1-2 Emp 0-57 Fut 3.pdf; ~Nuc 1-65 Sex 1-2 Emp 0-44 Fut 4.pdf

235 R 38-02 Future 05+06 p Sec 1 Nuc 1-65 Sex 1-2.pdf

236 R 38-03 Future 05+06 p Cha 2 Nuc 1-62 Sex 1-2 Eth 3-3 Reg 1-4 Emp 0-25.pdf~1-65 Sex 1-2 Eth 1-1 Reg 1-4 Emp 0-50.pdf; ~2-65 Sex 1-2 Eth 2-2 Reg 1-4 Emp 0-10.pdf; R 38-03 Future 05+06 p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-50.pdf; ~Reg 4-4 Emp 0-16.pdf

the past into the future. On average, those who expect their enterprise “Much better” really performed better also in the past with regard to turnover and productivity. Moreover, those who see the future “Worse” did not do well in the past. Does this indicate certain resignation in the sense: the past was not good and the future will not be better? Those scoring “Unchanged” and “A little bit better” express some scepticism, which seems to be justified analysing their performance in the past.

There is a lot of optimism and selfconfidence, which is the most important impact of the Nucleus Approach. A positive economic development will only occur if the economic actors have courage, are positive concerning the future and feel that they are able to improve their enterprises.

However, surprisingly, this optimism stands – as the following chapter will show – partially in total contradiction to a negatively perceived “investment climate”. Most entrepreneurs seem to distance their future expectations from the development of their economic environment.

4.12 Investment Climate

Business environment or investment climate are used as synonyms in the international discussion and are defined as external factors outside the enterprises influencing the business development. Factors at meso and macro level help to form the business framework conditions including economic systems (e g inflation, interest rate, taxes), governance (e g business legislation) and the social and cultural context (e g networks).[237] Some of the most important elements of the investment climate are

- institutional arrangements for governing, promoting and representing the SME sector
- market opportunities
- prevailing culture
- availability of resources such as access to credit, advice and information
- public investment which affects the infrastructure and the provision of BDS.[238]

ADB and Word Bank have repeatedly emphasized the importance of a sound investment climate for generation of economic growth and poverty reduction.[239]

We asked the entrepreneur to evaluate the present business environment for their company on a scale from 1 (very weak) to 10 (very strong) and how it is compared to the previous year.

We had some doubts whether it would make sense to confront the entrepreneurs with this question due to a simple reason: neither the interviewers nor the entrepreneurs are familiar with the expression “investment climate” and its above given definition. We were not quite sure what we were going to measure. The impression is that the entrepreneurs evaluated rather the present general economic and / or their individual situation instead of the considerably wider defined investment climate – see below.[241]

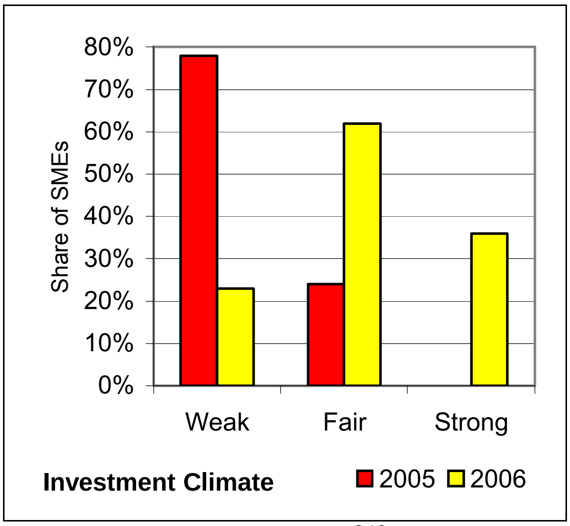

Figure 49: Investment climate[240]

Nevertheless, we continue here to use the words “investment climate”.

The investment climate assessment (Figure 49 and Table 81) changed totally from a mostly “weak” (average score 2.8) in the first half of

237 Committee of Donor Agencies for Small Enterprise Development (2002), p 11

238 ILO / Lambshead, C., Lisle, E., Richardson, P., White, S.(2004), p 8

239 ADB / World Bank (2005), p 1

240 R 39-01 Inv Climate per Cha 1 Nuc 1-65 Sex 1-2.pdf

241 ESSP / Jenders, Siegfried (2007) analyse more detailed the investment climate in the context of the ESSP.

1 to 3 = Weak 4 to 6 = Fair 8 to 10 = Strong		Investment climate				One year ago is was	
		Weak	Fair	Strong	Average Score	Better	Worse
Nucleus members	2005	78%	22%		2.8	90%	10%
	2006	11%	72%	17%	5.8	10%	87%
- Females	2005	84%	16%	%	2.3	95%	5%
	2006	12%	71%	17%	5.9	6%	92%
- Males	2005	76%	24%		2.9	88%	12%
	2006	11%	73%	16%	5.7	12%	83%
Non-Nucleus Members	2005	85%	15%		1.9	95%	5%
	2006	4%	51%	45%	6.9	9%	79%

Table 81: Evaluation of investment climate[242]

2005 to “fair” and “strong” (average score 5.8) in the respective period of 2006.

Including the respective questions about the investment climate 12 months before the picture is as follows.

- Beginning of 2004: relatively good compared with 2005 (10% answer in 2005 a year ago the investment climate was better, 90% answer worse).
- Beginning of 2005: relatively bad with a score of 2.8; confirmed by the 2006 answers about the situation 12 months before (87% better, 10% worse).
- Beginning of 2006: fair, with 5.8 close to good.

This goes perfectly in line with the Q1 and Q2 Real GDP Growth of Sri Lanka in the respective years in Figure 50 confirming that the answers refer strongly to the economic situation.

The different genders and the control group of non-Nucleus members shared all the same view about the business climate development. There are no significant differences between the

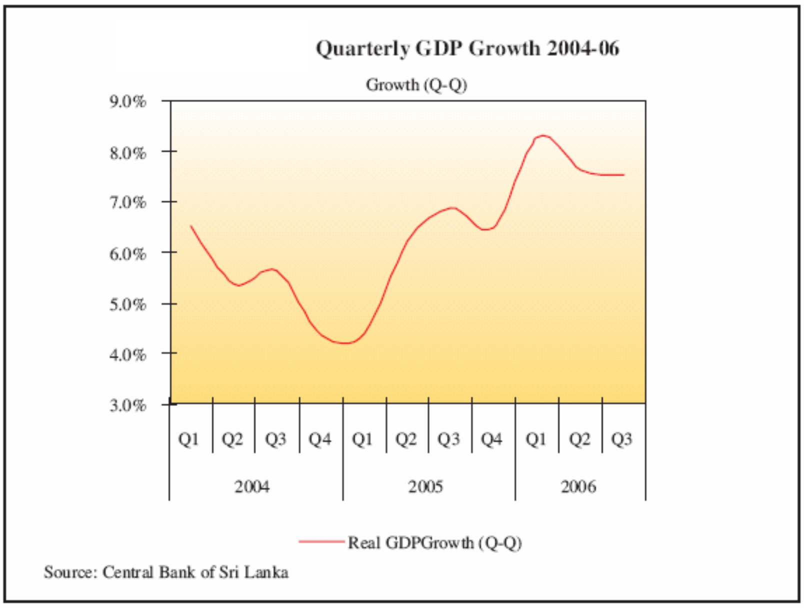

Figure 50: Quarterly GDP Growth 2004-06

242 R 39-01 Inv Climate per Cha 1 Nuc 1-65 Sex 1-1.pdf; ~Sex 1-2.pdf; ~Sex 2-2.pdf; ~99-99 Sex 1-2.pdf

sectors[243], the different ethnicities[244], the legal status[245] and the enterprise size measured in number of employees.[246]

The same applies for the chambers in Figure 51 with the exception of PAEA, where the entrepreneurs estimated the investment climate unchanged in both years with about 5 as "fair". The protected agriculture sector seems to be little affected by the prevailing economic situation.

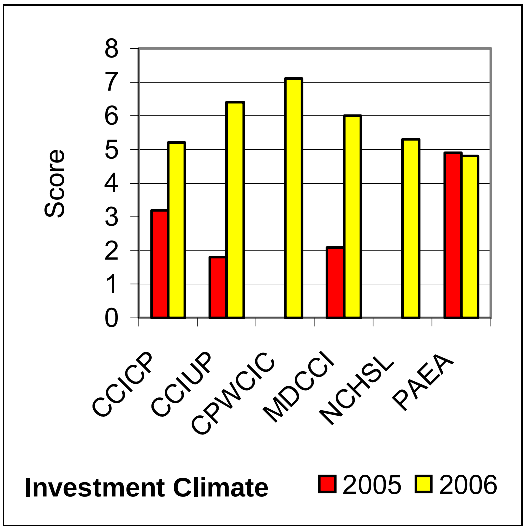

Figure 51: Investment climate per chamber[247]

Most optimistic in 2006 are the members of CPWCIC. Being a pure female organization is not the reason. Comparing the data with those of the female members of the other chambers still the CPWCIC members have the best impression about the business environment in 2006.

It is not possible to link the answers about the investment climate with the investment behaviour of the entrepreneurs in following year. The investment climate refers to the mood at the point in time of the interview; the investments themselves to a period of one year.

First, a certain level of investment is always necessary to keep up the business. This holds especially true for pure replacement investments. Only modernization and expansion investments can be influenced by the current economic situation and the investment climate.

Second, the economic situation improved in 2005 after the interviews about the investment climate and at the end the year proved to be better than originally expected.

Figure 52 leads therefore to the strange picture that those entrepreneurs scoring the investment climate at the beginning of 2005 as weak invested most in 2004 and in 2005. [248]

The expectations about the future of the own enterprise in 12 months time – see the previous chapter – seem also not to depend strongly on the current investment climate. The average expectations score 2005 was 3.0 and 2006 3.1 which demonstrates an unchanged view about the future. But at the same time the investment climate was evaluated with an average

[243] R 39-04 Inv Climate per Sec 1 Nuc 1-65 Sex 1-2.pdf

[244] R 39-02 Inv Climate per Cha 2 Nuc 1-62 Sex 1-2 Eth 3-3 Reg 1-4 Emp 0-25.pdf; ~1-65 Sex 1-2 Eth 1-1 Reg 1-4 Emp 0-50.pdf; ~2-65 Sex 1-2 Eth 2-2 Reg 1-4 Emp 0-10.pdf

[245] R 39-02 Inv Climate per Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-50.pdf; ~Reg 4-4 Emp 0-18.pdf

[246] R 39-02 Inv Climate per Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~Emp 6-10.pdf; ~Emp 11-20.pdf; ~7-53 Sex 1-2 Eth 1-3 Reg 1-3 Emp 21-50.pdf; ~Nuc 99-99 Sex 1-2 Eth 1-3 Reg 1-4 Emp 0-5.pdf; Nuc 99-99 Sex 1-2 Eth 1-3 Reg 1-3 Emp 6-10.pdf; ~Nuc 99-99 Sex 1-2 Eth 1-5 Reg 1-3 Emp 11-20.pdf; Nuc 99-99 Sex 1-2 Eth 1-5 Reg 1-3 Emp 21-74.pdf

[247] R 39-01 Inv Climate per Cha 1 Nuc 1-65 Sex 1-2.pdf

[248] R 39-08 IC v R 34 Inv 04+05 Nuc 2-41 Sex 1-2 Reg 1-4 Emp 0-34.pdf

score of 2.8 (2005) and 6.0 (2006) by the same entrepreneurs. Is that something like a psychological protection in the sense “Even if the situation is, bad or good, concerning my own endeavours I am optimistic”?

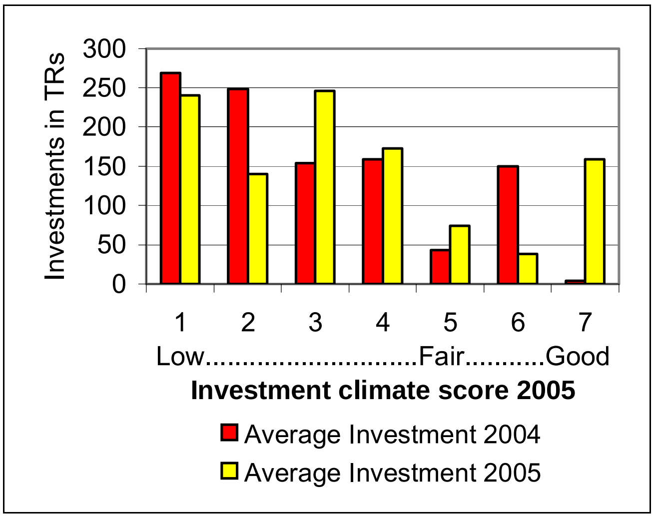

Figure 52: Average Investments versus investment climate scoring 2005[249]

Presentation of the CCIUP Light Engineer Nucleus during the Nucleus Event 2005

249 R 39-01 Inv Climate per Cha 1 Nuc 1-65 Sex 1-2.pdf

5 The Nuclei

In this chapter, we analyse the Nuclei concerning the quantitative development and the point in time of entrepreneurs' participation. Furthermore, we look at how they learned about the Nuclei, their motivation to participate, their evaluation of the Nucleus' and counsellor's performance plus the changes of the entrepreneurs' relationship with each other. The last point is analysed in addition under the aspect whether correlations exist between the relationship of the entrepreneurs and their economic performance between 2002 and 2005.

5.1 Example of the Development of a Nucleus

In order to get an idea how a Nucleus works here we present in short as an example the development of the CCICP Carpenter Nucleus:

Step	Activity	Effects
01	In June 2002: the ESSP Nucleus counsellor identifies an interesting carpenter. The counsellor explains in short ESSP's intentions. The carpenter lists other carpenters to invite for a meeting.	The carpenter proposes only those colleagues to whom he has a friendly or neutral relationship. This guaranties the necessary homogeneity of the group right from the beginning. (When all carpenters of the town come together, automatically one gathers personal enemies in a room. This is the start of the end of the Nucleus.)
02	The ESSP counsellor and the carpenter visit all 12 listed carpenters, explain who else is contacted and invite them for the first meeting.	SMEs do not react to written invitations. Personal invitations create a minimum of trust.
03	First meeting in the ESSP office with eight carpenters. Additional four had promised to come but did not appear. After a short presentation about the principles of a Nucleus the work starts: "What problems do you encounter in your daily work?"	Through visualization techniques, all participants give inputs at the same time. An elder entrepreneur observes at the end of a similar event: "I'm working in the gems and jewellery sector now for more than 40 years – today I was asked the first time about the problems I encounter in my enterprise."
04	Meetings two, three and four take place. The causes of problems are analysed. The participants contribute with ideas and experiences how they solved them.	Entrepreneurs start to counsel entrepreneurs. The trust among the participants increases.
05	12 participants.	The carpenters start to inform and invite others.
06	A sequence of meetings in the carpenters' enterprises starts: entrepreneurs open their doors to their competitors. None of them had ever been in other carpentries before.	The entrepreneurs compare each other and find out where they stand with their enterprises. Nobody knew this before.

Step	Activity	Effects
07	As first outdoor activity the carpenters decide to visit some export oriented carpenter industries in Colombo – nobody had ever seen them from inside. The ESSP counsellor contacts the respective enterprises and organizes the trip.	The carpenters have in mind: “We are good carpenters, we produce good furniture, and we have a good product quality.” They return with the impression: “We are not that good as we thought. We have to do something.”
08	The Nucleus decides to organize a technical training course. The ESSP counsellor identifies a qualified instructor in a technical institute in Colombo. 15 carpenters participate, in two cases father and son. The instructor starts to understand only slowly that he should not treat the carpenters as students. Instead, he has to deal with the technical problems presented by the carpenters.	The entrepreneurs decide about the training course and the subjects to be included. Therefore, all participate. This is the first structured demand for BDS.
09	In November 2002: the carpenters agree to continue as a CCICP Nucleus. The CCICP Nucleus counsellor assumes the responsibility for the Nucleus.	The carpenters start to perceive the chamber as useful.
10	Second trip to Colombo in order to visit suppliers of tools and equipment. The technical instructor accompanies the group.	The entrepreneurs realise that they still have a lot to learn regarding productive use of tools and machinery.
11	Informal contacts outside the Nucleus start between the carpenters.	Creation of a network with cooperation and subcontracting.
12	27 SMEs visit an enterprise in Matugama working with used German machines.	Start of discussions about machinery and investments.
13	Second technical training course.	A carpenter explains in his enterprise how he learned to use the router more efficiently. “Now I trained my worker. Before he produced one window per day, now is output are four windows.” The big surprise: a considerable improvement only through learning without any hardware investments.
14	The Nucleus meetings with between 20 and 30 participants in the CCICP office and in enterprises become a routine.	The initial phase with euphoria and spontaneous activities has passed. The carpenters increase their expectations concerning the performance of the counsellor.
15	The Nucleus decides to prepare a catalogue of products, which they are able to produce in order to improve their marketing.	Due to management problems in CCICP, it takes more than one year until the catalogue is ready. The carpenters are frustrated.
16	In 2004: technical training course and individual counselling in Nucleus enterprises by a German carpenter. The focus is to transfer ideas and visions to the Nucleus SMEs about what they could do in the framework of a Nucleus to improve their enterprises.	The master carpenter demonstrates what the Nucleus members are able to do better and faster with their existing equipment.

<table>
<tr><th>Step</th><th>Activity</th><th>Effects</th></tr>
<tr><td>17</td><td>Final event with the German master carpenter and 250 participants.</td><td>The carpenters and their Nuclei appear in public.</td></tr>
<tr><td></td><td colspan="2">
Training of Carpenter Nucleus with German master carpenter</td></tr>
<tr><td>18</td><td colspan="2">Impact evaluation: nine months later an independent consultant evaluates the effects of the training by visiting the participants. The following changes are perceived in the enterprises:
• 60 % improved their skills in tool sharpening with the effect of quality improvements
• 80 % enhanced the product quality and productivity by using the newly introduced “tongue and groove technique” and also by decreased production time
• 87 % introduced new designs to doors, windows, cabinets and beds by being able to cut oval shapes and the usage of templates, 40 % introduced new products such as panelled doors, sofas, cupboards
• 86 % increased their maintenance standards
• 80 % made changes in their workshops such as changed stocking, increased workshop space, tool placements
• 87 % increased the workshop security for their workers, e g cement floors, wood section feeder, face masks
• 73 % trained their workers about the router usage and feeding the cutting machines in a secure manner.

Some selected quotes about the training with the German carpenter:
• “Now the machines are treated with honour.”
• “We got the chance to know God’s secrets.”
• ”Before the training I did not know that stock means money.”
• “This particular technical training is one example of how many small changes can stimulate the upgrading of the businesses with little investment.”</td></tr>
<tr><td>19</td><td>The Nucleus agrees on a joint purchase of equipment subsidized by ESSP.</td><td>Joint purchasing power and more bargaining by the chamber on behalf of the carpenters lead to better prices.</td></tr>
<tr><td>20</td><td>The Nucleus with 30 to 50 participants is getting too big and is divided in two. One consists of economic stronger saw millers and more advanced carpenters. Months later a third Carpenter Nucleus is founded.</td><td>Improved homogeneity of the Nuclei: the carpenter with 25 employees has not much to exchange with one who has only two employees.</td></tr>
</table>

Step	Activity	Effects
21	The counsellors neglect the carpenter Nuclei. That leads to frustrations of the participants. In a public CCICP event, Nucleus members request sufficient and qualified counsellors.	Members start to influence the development of the chamber by requesting, proposing and pressing.
22	14 saw millers and carpenters participate in a business administration course.	Slowly the management of the enterprises get into the focus of the entrepreneurs.
23	During the Nucleus Event 2006 the Saw Millers Nucleus (including some members who started out in the Carpenters Nucleus) wins the award for the best Nucleus activity (a video about the reduction of waste)	
24	In 2007: eight Nucleus members travel to Germany visiting sawmills, furniture enterprises and the trade fair “Resale”. They are accompanied by the German master carpenter whom they have maintained contact with since 2004.	The carpenters go international in order to get a feeling where they are with their enterprises compared with industrialised countries.
25	Two thirds of the Saw Miller / Carpenter Nucleus are now chamber members, 10% of the members of the other Nuclei.	This is in spite of the little efforts of the chamber board members, CEO and counsellors to integrate the Nucleus members as membership fee paying chamber members.
26	In 2007: The leader of the Saw Millers / Carpenters Nucleus is appointed to represent all 35 Nuclei in the CCICP board of directors	The chamber has recognized the importance of Nucleus representation within the board and gives a voice to the Nuclei in the decision making related to the chamber
		

5.2 The Quantitative Development of Nuclei and Members

Figure 53 shows the quantitative development of the Nuclei and its members, Table 82 the figures per Nucleus type and chamber in December 2006.

After an initial hesitant phase until 12/2003 with 21 Nuclei, a steady increase commenced until 06/2006. Since then – after the execution of the survey interviews – almost an explosion has occurred leading to doubling of the number of Nuclei and participating entrepreneurs. This was partially caused by the announcement of the Nucleus Event 2006 and of awards for the increase of the chambers' membership. Compared to the previous years the chambers reacted very enthusiastically. SEEDS also contributed to this increase of Nuclei by starting to apply the Nucleus Approach in the second half-year quarter of 2006 with a lot of energy and success.

On average, each Nucleus has 14.7 members.

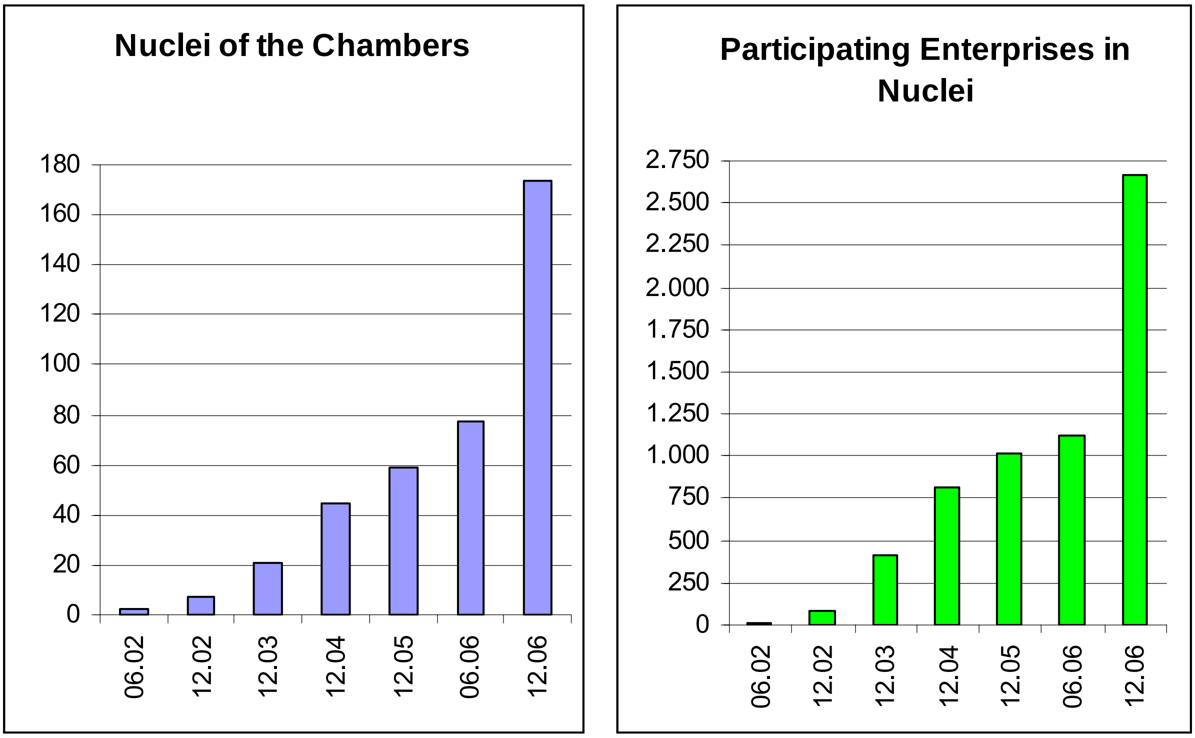

Figure 53: Quantitative development of Nuclei and their members (including SEEDS)[250]

The strongest sectors with the most participants are automobile, beauty culture, cut foliage, garment industry, mixed vegetable growers and protected agriculture.

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[250] ESSP Stat Chamber Members.xls

Nucleus		Chamber		CCICP	CCIUP	CP-WCIC	MD-CCIA	NCH-SL	PAEA	SEEDS
1	Auto AC	N: 1	P:20	P:20						
2	Advertising Agencies	N: 1	P:07		P:07					
3	Automobile	N: 7	P:147	P:100			P:20			P:27
4	Bakery	N: 1	P:28				P:28			
5	Batik	N: 1	P:10					P:10		
6	Beauty culture	N: 12	P:175	P:25	P:27	P:55	P:50			P:18
7	Brassware	N: 3	P:39	P:14				P:25		
8	Carpentry	N: 4	P:70	P:33			P:24			P:13
9	Catering	N: 2	P:17			P:07				P:10
10	Communications	N: 1	P:09							P:09
11	Computer Services	N: 2	P:22	P:14						P:08
12	Confectionaries	N: 1	P:18							P:18
13	Cut Foliage	N: 16	P:273	P:90	P:117	P:18	P:48			
14	Dress Making	N: 5	P:92	P:92						
15	Driving schools	N: 1	P:15	P:15						
16	Floriculture	N: 3	P:61			P:26	P:35			
17	Flower Arrangement	N: 1	P:23			P:23				
18	Garment Industry	N: 16	P:245				P:34			P:211
19	Gem & Jewellery	N: 7	P:87		P:20	P:08		P:24		P:35
20	Grain Grinders	N: 2	P:28	P:28						
21	Handicrafts	N: 1	P:26							P:26
22	Handlooms	N: 1	P:09			P:09				
23	Hand made paper	N: 1	P:10					P:10		
24	Hemp	N: 1	P:15					P:15		
25	IT instrcutors	N: 2	P:27	P:27						
26	Leather	N: 1	P:14	P:14						
27	Light Engineering	N: 5	P:91	P:47	P:15		P:29			
28	Lime Production	N: 1	P:15				P:15			
29	Media	N: 1	P:13							P:13
30	Mix. Vegetable G.	N: 24	P:405		P:53					P:352
31	Mobile Phones	N: 2	P:31	P:31						
32	Motor Cycle Repair	N: 2	P:21		P:08					P:13
33	Ornamental Fish	N: 1	P:15				P:15			
34	Patchwork	N: 2	P:38					P:38		
35	Photography	N: 1	P:25	P:25						
36	Pre school	N: 2	P:14			P:07				P:07
37	Polytunnel Sector	N: 1	P:17		P:17					
38	Printing	N: 3	P:60	P:14	P:22		P:24			
39	PAEA	N: 23	P:289						P:289	
40	Saw Mills	N: 2	P:29	P:14			P:15			
41	Spices	N: 1	P:20				P:20			
42	Rice Mills	N: 1	P:06							P:06
43	Tailoring / Textile	N: 2	P:20			P:20				
44	Tent Making	N: 1	P:14							P:14
45	TV radio repair	N: 1	P:07		P:07					
46	Weighing Scales	N: 1	P:14	P:14						
47	Welding	N: 1	P:08							P:08
48	Woodcarving	N: 2	P:30					P:30		
Total Participants			P:2.669	P:617	P:293	P:173	P:357	P:152	P:289	P:788
Total Nuclei		N: 174		N: 34	N: 20	N: 16	N: 16	N: 11	N: 23	N: 54

Table 82: Nuclei per chamber and type on 31.12.2006

5.3 Start of the Entrepreneur's Participation

CCICP, MDCCIA und CPWCIC started Nuclei in the second half of 2002. CCIUP joined in 2003, PAEA in 2004 and NCHSL in 2005. In December 2006 the entrepreneurs participate in a Nucleus on average for two and three quarter years.

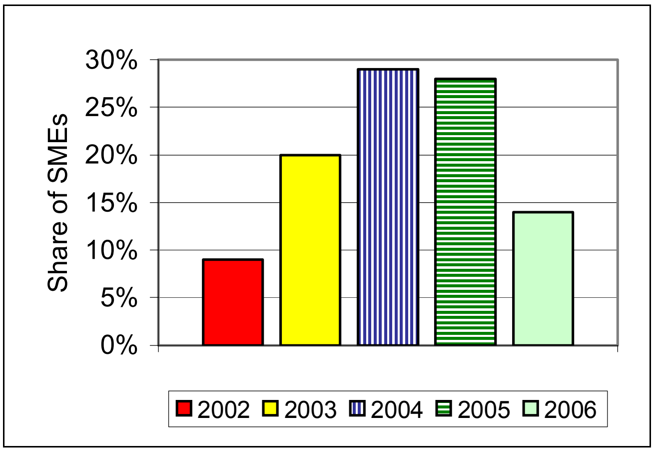

Figure 54: Starting year of entrepreneur's participation in a Nucleus[251]

In reference to their age the Nuclei can generally be described as follows:

- Start in 2006: The Nucleus is in the "starting" phase. The situation is characterized by insecurity and scepticism about possible expectations and what will happen.
- Start in 2004 or 2005: the Nucleus is in the "growth" phase: enthusiasm, more understanding of the Nucleus' functioning, experiences of success.
- Start in 2002 and 2003: "maturity" phase: the participation becomes routine, the expectations concerning the performance of the counsellor and the chamber are clearer, more medium term planning of Nucleus activities, successes but eventually also crises among the entrepreneurs or with the counsellor and chamber.[252]

These phases can be overlaid by the growth of the number of Nucleus participants. New members can provoke a different group dynamic changing the character of these phases. A few Nuclei founded in 2002/03 show new members in every of the following years while in other cases the starting group of entrepreneurs prefer to remain exclusive. A counsellor should try to avoid the latter because in a closed shop situation of a Nucleus not many new impulses for changes do occur.

[251] R 18-01 Nuc Year p Cha 1 Nuc 1-65 Sex 1-2.pdf

[252] ESSP (2006/3)

5.4 Information of the Entrepreneur about the Nucleus

How did your hear about the Nucleus?

- Through the chamber / the counsellor / ESSP
- Through another entrepreneur
- Through a supplier or customer
- Through the media (journal, radio, flyer, etc.)

58% of the interviewed entrepreneurs said that they had heard about chamber Nucleus activities from a chamber or ESSP counsellor, 36% from another entrepreneur and 6% from a customer / supplier, the media or other sources. This result corresponds with ESSP's strategies and assumptions: if the entrepreneur is cautious and full of mistrust concerning new activities s/he can hardly be reached through the media. Instead, trustworthy persons – chamber representatives, entrepreneurs – having some credibility due to their participation in the said activities are the first, most important and – under financial aspects – least costly messengers to disseminate the idea of a Nucleus. In addition, these messengers function also as a filter. They inform only those entrepreneurs about the chamber Nucleus, with whom they have a positive, or at least a neutral relationship and who they think that s/he will "fit" into the Nucleus.[253]

Chamber	M / F	Counsellor	Entrepreneur
Total	M	55%	39%
	F	62%	31%
CCICP	M	42%	51%
	F	54%	37%
CCIUP	M	66%	24%
	F	72%	22%
CPWCIC	F	63%	35%
MDCCIA	M	68%	26%
	F	43%	37%
NCHSL	M	36%	58%
	F	95%	5%
PAEA	M	55%	39%
	F	0%	100%

Table 83: Information about the Nucleus[254]

Table 83 shows considerable differences between the chambers and the gender. CCIUP had for some time a very pro-active counsellor, who did not have any difficulties to contact male as well female entrepreneurs and to mobilize them to participate in a Nucleus. The same is the case with the CPWCIC counsellor.[255] This results in a relatively high percentage of entrepreneurs informed by the counsellor. The contrary is CCICP where more entrepreneurs mobilized others.

Do male and female entrepreneurs need a different approach to mobilize them for a Nucleus? Do they have different attitudes concerning a potential competitor – "My advantage is the competitor's disadvantage" – informing her / him about – and thus inviting to participate in – a Nucleus? The table does not answer this.[256] Also other queries show results similar to the above table. Eight MDCCIA Beauty Culture entrepreneurs stated a supplier as information source.

[253] A discussion commenced, especially within the PMSME, about an intensification of PR in order to increase the number of Nucleus entrepreneurs. Presently we are not sure, whether this will lead to the intended or more to contra-productive effects because of the increasing heterogeneity within the Nuclei.

[254] R 19-01 Nuc Info p Cha 1 Nuc 1-65 Sex 1-2.pdf; ~Sex 1-1; ~Sex 2-2

[255] Only MDCCIA had a female counsellor for a couple of months, all others are and were male counsellors. The reason is that the counsellors have to visit the entrepreneurs in their workshops. This is done by motorbike. Because women are socially not accepted on such a motorbike even CPWCIC contracted a male counsellor.

[256] The Brazilian chamber partnership project organized a CEFE training course only for women. Asked at the end whether a mixed course would have been better or such a unisex course, half of them answered that in a mixed course they could learn more from experienced men. The other half stated, that now, after the course they would have the selfconfidence to participate in a mixed course, before not.

5.5 The Entrepreneurs' Motivation Engaging in a Nucleus

Table 84 shows the entrepreneur's motivation for participating in a Nucleus.

What did motivate you most to participate in the Nucleus?	All chambers	MDCCIA
Felt isolated in the enterprise and looked for contacts to other entrepreneurs	21%	8%
Was dissatisfied with the business and looked for improvements	36%	20%
Encountered problems in the day-to-day work and needed new solutions	24%	16%
Was just curious to know what will happen there	8%	18%
Hoped to get loans or subsidies	9%	28%
Other reasons	3%	10%

Table 84: Entrepreneur's motivation engaging in a Nucleus[257]

A common saying and assumption in Sri Lanka is that SMEs only want and see money in the form of grants and cheap loans as solution for their enterprises. Under this aspect, the relatively low share of 9% answering, that they "hoped to get loans or subsidies" is a surprise. Differentiating per chamber one perceives that their majority is concentrated in MDCCIA (28%) and PAEA (13%); in the other chambers the answers range between 1% and 3%.

- MDCCIA: CEOs and counsellors had been advised not to attract entrepreneurs by promising subsidies. Nevertheless, some of them ignored this advice. Of those MDCCIA entrepreneurs, who started to participate in a Nucleus in the years 2002, 2003 and 2004 between 14% and 19% stressed as motivation loans and subsidies; those starting in 2005 and 2006 48% and 42%. In 2005, new and inexperienced counsellors had started to work in MDCCIA.
- PAEA attracts its members also by marketing their products. In addition, it has a long time tradition of getting financial support from Government and donors. Therefore, when it announced Nucleus activities some might have expected what they were used to get from projects: loans and subsidies.

ESSP colleagues maintain that these answers simply mean that the entrepreneurs do not admit to the fact of joining the program in the hope of getting grants or subsidies.

This could be true. Due to the disseminated ESSP message "The development of enterprises starts with ideas, know how, organization and leadership – and not with money!" some entrepreneurs may have assumed, that the answer "loans and subsidies" might not be very much favoured and hid their "real" motivation in responding to this question.

The alternative explanation questions the validity of the data: do we really measure the entrepreneurs' motivation at the time of the start of their participation in a Nucleus, which was up to four years ago? Or are the answers overlaid by the entrepreneur's present motivation to engage in a Nucleus? In this case, the 81% answers "felt isolated …", "was dissatisfied with the business …" or "encountered problems …" express the comparison of today's better situation with a worse past and not the original motivation, which might have been to receive subsidies. Who knows only one situation – being isolated in the enterprise – cannot make

[257] R 20-01 Motivation p Cha 1 Nuc 1-65 Sex 1-2.pdf; ~Sex 1-1, ~Sex 2-2

comparisons; only who knows isolation as well as functioning networks can compare and express preferences. We will come back to this phenomenon in the context of other “Before the Nucleus and Now” questions.

We cannot state relevant differences in the answers in reference to the gender of the entrepreneurs and the ethnicity. Even owners of registered and not registered companies and those with up to 20 employees answer more or less always in the same way: Between 78% and 85%, tick the answers isolation, dissatisfaction and problems as reasons that led them to join a Nucleus. None of the 14 entrepreneurs with more than 20 employees ticked “loans and subsidies”. It remains presently an open question whether due to a more differentiated and complex enterprise organization this express’ more problem and deficit awareness and more orientation to development objectives for the company (hypothesis: they tend to rely more on themselves than on simple hope for external financial solutions).

CCIUP Cut Foliage Nucleus presentation during Nucleus Event 2005

5.6 The Entrepreneurs' Participation in Nucleus Activities

The participation in a chamber Nucleus means for the entrepreneurs investments of time and money. This time and money could be otherwise at their disposal for direct economic activities in their companies. Consequently, the entrepreneurs perceive the Nucleus not only as something where they get something but also as a burden. Therefore, the counsellors and the Nucleus itself too have to take care of two aspects.

- Not to overburden the participating entrepreneurs either concerning the required time or financial inputs.
- The return in form of time[258], money, information, etc. must be perceived as positive compared with the respective investments.

If these aspects are not considered the participants might decide to stay away. Or, positively, these requirements put pressure on counsellors and chambers to take care of the quality of the activities and their management. Some interviews contain complaints about poor organization of activities, late start of Nucleus meetings leading to a waste of time for those arriving in time, cancellation of meetings without prior notice, etc. The entrepreneurs are very sensitive concerning this quality factor.

Under these aspects the interviewers asked the entrepreneurs in how many Nucleus activities they had participated during the last twelve months. Nucleus activities mean regular meetings, visits, training, counselling in enterprise, common purchase of equipment, discussions with the public sector, etc. The objective of the question was not to get an objectively correct answer but to check, whether the entrepreneurs have a more or less intensive involvement in Nucleus affairs in mind.

Our impression from the data is that not all answered this question properly. Presumably, only those who mention six or more activities included the regular meetings into the calculations. Therefore, the reliability of the data is limited to a certain extent.

Table 85 shows the number of activities. Comparing 2004 and 2005, the average number decreases in all chambers with the exception of CPWCIC; the total from 4.4 to 3.0. The increasing number of entrepreneurs – from 6% in 2004 to 27% in 2005 – who answer that they did not participate in any activities is a significant finding. This development goes in line with a more difficult economic situation in 2005 (see the decreased usage of BDS in Chapter 4.5). In addition, changes of counsellors led sometimes to the neglect of some existing Nuclei and their members. Moreover, some Nuclei entered into crisis and stopped activities.[259]

[258] Examples: the entrepreneur can register his company in Kandy instead of going to Colombo; information about qualified suppliers makes it unnecessary to look around in the town.

[259] The decrease cannot be caused by declining motivation due to the reduction of the subsidies over time because in 2005 all Nucleus activities were still supported with 50% and more of its costs.

Differentiating the data per gender, enterprise status and employment, we observe some differences between the categories and the years, but the results do not permit any conclusions about specific tendencies.[260]

Cham-	Number of Activities						
	Year	0	1-5	6-10	11-	>15	Ave-
Total	2004	6%	63%	29%	2%		4,4
	2005	27%	58%	12%	1%	1%	3,0
CCICP	2004	2%	55%	43%			4,9
	2005	31%	54%	10%	1%	5%	3,4
CCIUP	2004	2%	43%	48%	5%	2%	6,0
	2005	25%	44%	26%	6%		4,5
CPWCIC	2004	21%	70%	9%			3,2
	2005	23%	53%	23%		2%	3,7
MDCCIA	2004	6%	80%	12%	2%		2,9
	2005	34%	64%	3%			1,7
NCHSL	2005	3%	87%	11%			2,8
PAEA	2004	5%	80%	12%	3%		3,8
	2005	34%	57%	9%			2,3

Table 85: Participation in Nucleus activities[261]

The number of activities alone does not say much about how much time and money the entrepreneurs invested into them. A Nucleus meeting including the trip there and back consumes a minimum of three to four hours; a Nucleus visit to enterprises and other institutions one day; trainings last up to 80 hours, missions to other countries a minimum of seven days. In addition, most activities require financial investments independently whether they are subsidized or not (see the SMEs' contributions to subsidized Nucleus activities in Table 03 on page 12.)

All this reflects a high involvement of the Nucleus entrepreneurs.

260 R 22-01 Num Activities p Cha 1 Nuc 1-65 Sex 1-1.pdf; ~Sex 2-2.pdf; R 22-02 Num Activities p Cha 1 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-50.pdf; ~Reg 4-4 Emp 0-18.pdf; R 22-02 Num Activities p Cha 1 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~Emp 6-10.pdf; ~Emp 11-20.pdf; ~Emp 21-50.pdf

261 R 22-01 Num Activities p Cha 1 Nuc 1-65 Sex 1-1.pdf

5.7 The Entrepreneurs' Evaluation of the Nucleus work

The entrepreneurs evaluated their Nucleus' work in 2005 (436 answers) and 2006 (605 answers) (Table 86). The average scores are with 2.1 and 2.3 for the respective years close to "Good". The female entrepreneurs express with 2.0 and 2.2 a slightly higher contentment than their male colleagues with 2.2 and 2.4.

Chamber	Year	Entrepreneur's Evaluation of the Nucleus					
		Great 1	Good 2	Fair 3	Not very Well 4	Very Poor 5	Average Score
Total	2005	13%	63%	22%	2%		2,1
	2006	16%	53%	19%	7%		2,3
CCICP	2005	13%	56%	29%	3%		2,2
	2006	17%	41%	26%	7%	8%	2,5
CCIUP	2005	14%	68%	17%	1%		2,0
	2006	5%	62%	9%	9%	14%	2,6
CPWCIC	2005	21%	71%	8%	0%		1,9
	2006	27%	41%	21%	7%	2%	2,2
MDCCIA	2005	8%	52%	34%	7%		2,4
	2006	15%	58%	19%	6%	2%	2,2
NCHSL	2006	21%	67%	11%	2%		1,9
PAEA	2005	7%	71%	22%			2,2
	2006	20%	40%	33%	7%		2,3

Table 86: Entrepreneurs' evaluation of the Nucleus work[262]

The differences between 2005 and 2006 reflect well the respective situations in the chambers. Crisis among members, interruption of meetings and activities due to failures of members and / or counsellors and changes of counsellors lead to worse scorings. Another factor is that after some time of Nucleus experience, the entrepreneurs are more realistic concerning their expectations. In addition, after having encountered more than one counsellor they are able to compare between a good counsellor and not so good one. Consequently, they become more demanding. Therefore, analysing the data of only those, who answered the question in both years, the average score changes from 2.2 in 2005 to 2.6 in 2006. This effect is also confirmed in Table 87, where the answers are sorted in reference to the entry year into a Nucleus.

As we will see in the following chapter about the evaluation of the counsellors' performance, the interviewed entrepreneurs differentiate well between the performance of the Nucleus with regard to quality of its work, relationship between the members and the performance of the counsellor. For example, in the MDCCIA the counsellor's scores went down from 2005 to 2006 while the Nuclei are scored better.

The "Very Poor" scores in CCICP and CCIUP stem mainly from two specific Nuclei which had run (or been run) into trouble.

262 R 23-01 Opinion Nuc p Cha 1 Nuc 1-65 Sex 1-2 NY 2002-2006.pdf; ~Sex 1-1 NY 2002-2006.pdf; ~Sex 2-2 NY 2002-2006.pdf; R 23-02 Opinion Nuc p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5 NY 2002-2006.pdf; ~Eth 1-5 Reg 1-4 Emp 6-10 NY 2002-2006.pdf; ~Eth 1-3 Reg 1-4 Emp 11-20 NY 2002-2006.pdf; ~Eth 1-3 Reg 1-4 Emp 21-50 NY 2002-2006.pdf

Member	Total scores in	
since	2005	2006
2002	2,1	2,3
2003	2,2	2,5
2004	2,1	2,6
2005	2,1	2,2
2006	-	1,8

Table 87: Scoring of the Nucleus' work in reference to start of participation

Yet, there might be an additional factor influencing the results: to be interviewed the first time in 2005 was new and some entrepreneurs might have been very cautious, also because it was not clear to them whether their answers would have negative consequences. When interviewed the second time in 2006 knowing already the whole process and the type of questions, especially in case of the same interviewer, they might have answered more openly, critically and been more demanding.[263]

Other queries in reference to ethnicity, formal status of the enterprise and its size do not show any significant different scorings compared with the above table. The same applies to the motivation to start participating in a Nucleus (Chapter 5.3). Those who mentioned "hope of getting loans and subsidies" as motivating factor scored with 2.2 in 2005 and 2.1 in 2006. This could indicate that they learnt that the Nucleus is good for more than just giving individual grants and gifts.

The results with about 70% scores "Great" and "Good" and with 20% "Fair" can be understood in the way that Nuclei are well accepted by the entrepreneurs. They perceive the advantages for themselves and their enterprises and as shown in Chapter 5.3 about how the entrepreneurs got information about chamber Nuclei they disseminate the Nucleus' work among the entrepreneurship.

The slightly reduced scores from 2005 to 2006 can be interpreted as something normal in a routine phase of Nuclei but also as a positive indicator. The Nucleus Approach will reach sustainable impact only if chamber and Nucleus members start to request adequate performance from their chambers concerning services and lobby. This includes the quality of the work of the Nuclei and the performance of the CEO and counsellors. To request means to compare, to develop ideas about the wanted level, to criticize, to confirm, to present operational proposals and to participate in the bodies of the chambers. The more critical scoring can also be seen as an indication of stepping into this direction. The fact that some chambers (CCIUP, PAEA, NCHSL) recruited more qualified counsellors than they had before and pay them more reasonable salaries indicate that the chambers have begun to consider the voice of Nucleus entrepreneurs demanding better performance by the chamber.

263 The additional notes 2005 / 2006 of one of the interviewers lead to this assumption.

5.8 The Entrepreneurs' Evaluation of the Counsellor's Performance

In your opinion the performance of the Nucleus counsellor is
1 Great
2 Good
3 Fair
4 Not very well
5 Very poor

The counsellor's tasks are the organization and moderation of the Nucleus meetings, group counselling, organization of Nucleus activities and to link the Nuclei with the chamber's bodies – board of directors etc. – and relevant external institutions.

One of the assumptions of the Nucleus Approach is that it is impossible to find persons as "readymade" counsellors whose salaries chambers and entrepreneurs are willing and able to finance. The main reason is that the function of a counsellor on the SME level has no tradition in Sri Lanka: due to different reasons, SMEs are not used to buying and / or using the services of counsellors and consultants.[264]

The Nucleus Approach is designed around what is available in the chambers and on the job market. The counsellor's personality in the form of selfconfidence, social intelligence, capacity to learn and grow as well as organizational skills is more relevant than specific knowledge about the sector technologies. Such persons can be trained relatively fast in the basics of moderation of working groups. The rest like business administration subjects and specific knowledge about sectors they can to learn by doing and on the job.

The chamber counsellor is the key person when a Nucleus starts for its effective operation. A chamber's successful implementation of the Nucleus Approach is inevitably and directly linked to the quality and competence of the counsellor. If s/he performs well a Nucleus has more chances to function successfully. Later, after a couple of years, under the presence of active and competent Nucleus leaders, a Nucleus can even operate successfully with a "weaker" counsellor who has more the function of an assistant than of a driving power.

Some chambers struggled to select and recruit qualified counsellors due to different reasons:

- Especially in the beginning, when the successful functioning of Nuclei was not yet confirmed, the chambers were reluctant to contract new employees and instead preferred to delegate the counsellor's task to an existing staff member who had not been selected for this task and consequently did in most cases not have the required characteristics.
- Especially owners of small and micro enterprises in Sri Lanka, but not only these, are used to working with the "cheapest" and this means less qualified, often younger employees. Employees are seen only as cost factor and not as human capital, which one has to take care of and which is to be developed. When these entrepreneurs enter into leading positions in a chamber they tend to apply the same strategy also there. Consequently, in the beginning the chambers' monthly salaries for counsellors ranged from 4,000 Rs to 7,000 Rs. The chain low salary, low staff qualification, low work output and consequently no or low Nucleus output or, positively, adequate salary, qualified counsellors, higher Nucleus output and impact was / is very difficult to imagine for the chambers' leaders.

[264] Müller-Glodde, Rainer / Lehmann, Simone (2006), p 5

CPWCIC and PAEA were the first ones to understand the importance of the counsellor's qualification and contracted some for more than 10,000 Rs. The CEOs were experienced trainers and saw the benefits of implementing the approach.

The other chambers are slowly recognizing the importance of recruiting suitable counsellors and started to pay higher salaries to better performing counsellors. CCIUP even hired a second counsellor. The exception remained MDCCIA, which never acknowledged the importance of employing and retaining a good counsellor what led to a high fluctuation with seven counsellors in four years and hindered any continuity of the Nucleus work. In most cases, the chambers see today the benefits that can be derived from the Nuclei in their organization.

Gamini Herath, with long time involvement in implementing CEFE and SME promotion projects in Sri Lanka, compared the chamber counsellors' task and necessary qualifications with that of CEFE trainers and in 2003 assessed an amount of about 20,000 Rs as adequate counsellor monthly salary.

All this was and is not surprising. In Brazil, exactly the same happened. Those chambers which started Nuclei, first needed about five years until they got the "right" feeling concerning the necessary personalities and qualifications of a counsellor and an adequate salary. Those chambers, which started years later, got this feeling much faster. It will be interesting to see whether in Sri Lanka the same is going to happen. In the context of the implementation of the Nucleus Approach through the PMSME, the Galle chamber contracted two matured counsellors in 2006 with much more life and professional work experience and started a salary scheme through which they can earn in reference to their performance (measured in Nuclei and Nucleus members) more than 20,000 Rs per month.

Due to certain occasional frustrations about the chambers' recruitment of counsellors and the fluctuation of counsellors in some chambers, the ESSP discussed whether stronger interventions would be necessary. The proposals ranged from approvals of the chambers' recruitment decisions over active participation in the decision making process up to co finance the counsellors' salaries and through this define qualification standards. It is not the place here to discuss the pros and cons of all arguments. Yet, the stronger external forces intervenes into the core functions of an organization – and to these belong staff decisions – the less ownership concerning the stimulated processes develops. This also affects the sustainability of the impact.[265] Therefore, ESSP was reluctant to go in for stronger direct interventions.

Under these prerequisites one external interviewer asked 75 SMEs in 2005 and 114 in 2006 on their opinion about the counsellor's performance utilizing a range from "Great" = 1 to "Very Poor" = 5. Table 88 shows an average of 2.1 for four chambers in 2005 and one of 2.7 for six chambers in 2006. For all those chambers, which had been interviewed in both years, the scoring deteriorates to 3.1. When differentiating these data per gender, the females assess the counsellors' performance with 1.8 and 2.9 better than the males with 2.2 and 3.3.[266]

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265 Example: FCCISL recruited and paid CEOs and installed them in the partner chambers in the regions. The consequence was that those understood themselves more as employees of the Federation that of the respective chamber.

266 R 24-01 Opinion about Counsellor p Cha 1 Nuc 2-53 Sex 1-2.pdf; ~Nuc 3-53 Sex 1-1.pdf; Nuc 2-41 Sex 2-2.pdf; R 24-01 Opinion about Counsellor p Cha 1 Nuc 2-41 Sex 1-2 a.pdf; ~Nuc 3-41 Sex 1-1 a.pdf; ~Nuc 2-41 Sex 2-2 a.pdf

The change from on average “Good” in 2005 to “Fair” one year later reflects the turbulences in the respective chambers. Counsellors left, some new ones did not function very well and were changed again. Some counsellors neglected older Nuclei and concentrated instead on new ones. For older ones the subsidization of activities had ended, thus it had more advantages to start new ones, which were eligible to receive 75% of the subsidy.

	Average Scoring	
	2005	**2006**
CCICP	2,0	3,0
CCIUP	1,8	2,6
CPWCIC		1,6
MDCCIC	2,6	2,9
NCHSL		1,7
PAEA	1,9	4,4
Total	2,1	2,7

Table 88: Scoring of the counsellors’ performance

The CPWCIC counsellor received best scoring. He is working there for more than three and a half years increasing steadily the number of Nuclei and members being supported intensively by the board. The NCHSL counsellor, starting in 2005 did a very good job from early onwards. However, this counsellor left for alternative employment and was replaced by a counsellor who had previously worked for MDCCIA.

Yet, another element enters. The Nucleus entrepreneurs that started in 2005 are still in the euphoria phase, happy and grateful that something is happening. They know only one counsellor and are not able to compare between different ones, thus evaluating them very well. Most of those who started earlier have now met different counsellors, compared them and developed increasing expectations concerning their performance. But even CPWCIC members expressed that they wanted more and better service from their counsellor.

If a counsellor stagnates and does not “grow” in the same speed as the Nucleus members these may either initiate a revolt one day – “we need a better counsellor” – or they enter into passive resistance, thus staying away.[267] Therefore, a thorough selection of counsellors needs to include an assessment whether that person will be able to “grow”.

For the different scoring from 2005 to 2006, what was said in the previous chapter about the Nucleus evaluation is also relevant here. To be interviewed the first time in 2005 was new and some entrepreneurs might have been very careful also because it was not clear to them whether the counsellors would be able to see their individual answers. When interviewed again in 2006 the second time knowing they might have answered more openly, critically and been more demanding.

Under organizational development aspects, which are most relevant for the Nucleus Approach increasing internal criticism, pressure and requests for increasing performance, are preconditions for necessary changes of the organizational structures, work flow, policies and staff decisions of the chambers. If all Nucleus members would be highly contented with the counsellors such changes would not be stimulated.

[267] Exactly this happened in Brazil with some counsellors starting after about four years. Ten years after the start of the partnership project none of the CEOs who had been in the chamber when starting to participate in the project was still there. Most of them had earlier been recruited to manage a “business club” and for this task they were sufficient qualified. When the chambers developed more and more into service and lobby institutions, they were not able to be up to the increased requirements.

5.9 The Relationship between the Entrepreneurs

The Nucleus Approach starts with the hypothesis that a local economy has more chances to prosper if the actors maintain a positive, constructive and mutually stimulating relationship.

In Brazil and other Latin American countries traditionally there is a widespread perception that

- competition is negative
- my competitor is also my personal enemy.

It was a surprise for the authors to hear frequently from Sri Lankan entrepreneurs "The same holds true here!" Colleagues of the German Development Cooperation working in Asia had always stressed, "Asia is different!"

How did you see the other entrepreneurs <u>before</u> your participation in the Nucleus and how do you see them <u>now</u>?

1 Competitor and personal enemy
2 Competitor
3 Neutral, no relationship
4 Colleague of the same sector with the same interests and problems
5 Personal and professional friend

Integral part of the Nucleus Approach is the improvement of the relationship between the entrepreneurs. Improvement means that they recognize that they have more in common than differences concerning problems, ideas and objectives. In the ideal case, they perceive that although they compete for contracts from customers and consequently income nevertheless they can cooperate in many fields, learn together and exchange experiences. The Nucleus serves as a platform for this and offers the possibility to come to a "win-win" situation.

This explains also the function and importance of the Nucleus counsellor. As neutral person, s/he has to take care that all participants "invest" into the exchange of knowledge and in return receive knowledge and ideas from others. As soon as members try to get only advantages without contributing, the Nucleus dies.

In order to see how this worked the entrepreneurs were asked about their relationship before their participation in a Nucleus and how it is now. The results in Figure 55 and more detailed in Table 89 convey a significant change of the relationship among entrepreneurs: 80% of the

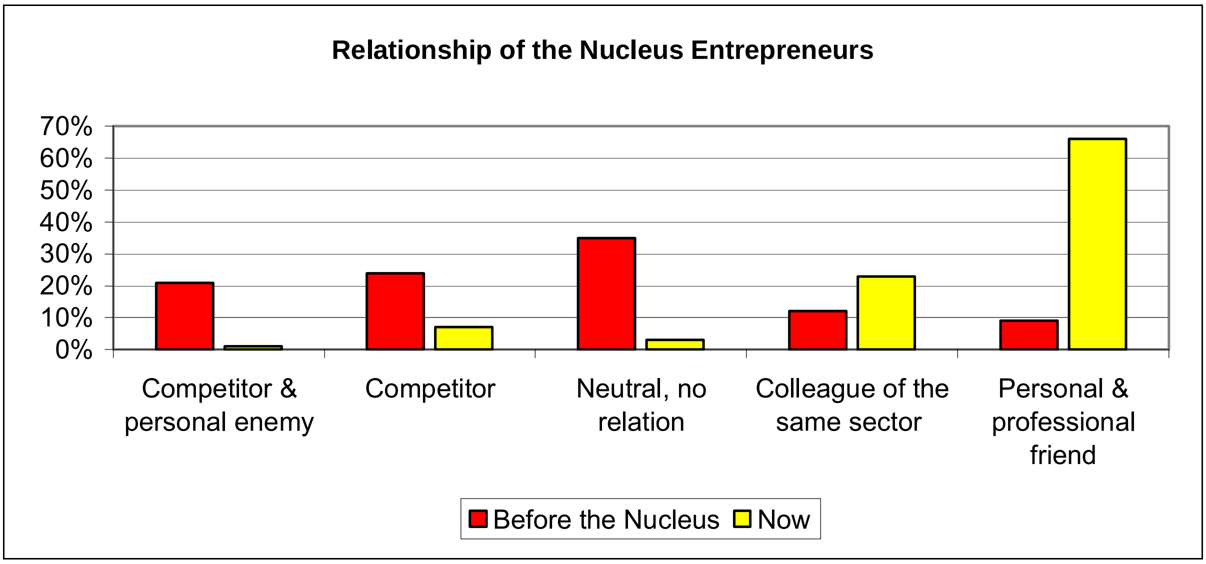


Figure 55: Change of the relationship of the Nucleus entrepreneurs "Before" their participation in a Nucleus and "Now"

Change of Relationship		**Now**					
80%	**Improved**	**Com-petitor and per-sonal enemy**	**Com-petitor**	**Neutral no rela-tion-ship**	**Colleague of the same sec-tor with the same interests & problems**	**Per-sonal and profes sional friend**	**Differ-ence between scoring “Before” and “Now”**
19%	**Unchanged**						
2%	**Worsened**						
Before		**1**	**2**	**3**	**4**	**5**	
Competitor and personal enemy	21%	3%	11%	2%	15%	69%	3.4
Competitor	24%		16%	5%	18%	61%	2.2
Neutral, no relationship	35%		2%	4%	31%	63%	1.6
Colleague of the same sector with the same interests & problems	12%		3%	1%	39%	57%	0.5
Personal and professional friend	9%		2%		4%	94%	– 0.1
Total	100 %	1%	7%	3%	23%	66%	
Average score	**2.6**	**4.5**					**1.9**

Table 89: Change of the relationship between Nucleus entrepreneurs[268]

entrepreneurs perceive it as improved, 19% as unchanged and 2% as worsened. The average score increased from 2.6 which equals “Competitor” and “Neutral” by 1.9 point to 4.5 which equals “Colleague” and “Personal and professional friend”. Before, 45% of the entrepreneurs viewed each other in a distant up to a hostile manner; now only 8%. Before, 21% mentioned a positive relationship, now 89%.

The scores per different samples do not differ very much (Table 90). The CCIUP entrepre-

Sample	**Before**	**Now**	**Differ-ence**
Per chamber			
– CCICP	2.7	4.7	2.0
– CCIUP	2.2	4.8	2.6
– CPWCIC	2.7	4.6	1.9
– MDCCIA	2.4	4.2	1.8
– NCHSL	3.7	4.0	0.3
– PAEA	3.1	4.6	1.5
Per gender			
– Males	2.7	4.4	1.7
– Females	2.5	4.5	2.0
Non-Nucleus		**3.9**	

Sample	**Before**	**Now**	**Differ-ence**
Per ethnicity			
– Sinhaleses	2.7	4.5	1.8
– Tamils	2.3	4.5	2.2
– Moors	2.6	4.4	1.8
Per status			
– Registered	2.8	4.5	1.7
– Unregistered	2.5	4.5	2.0
Per employment			
<= 10 employ.	2.7	4.5	1.8
<= 20 employ.	2.5	4.3	1.8
> 20 employ.	2.6	4.3	1.7

Table 90: Change of SME’s relationship – different samples

[268] R 21-01 SME Opinion Change 2006 Nuc 1-65 Sex 1-2 Eth 1-3 Reg 1-4 Emp 0-50.pdf

neurs express the highest change per chamber. The relatively low "Now" of MDCCIA reflects presumably the temporarily difficulties in the management of the Nuclei. Whether the high "Before" and the low "Now" in case of NCHSL are caused by the later start of Nuclei or whether there are other reasons, we do not know.

The change of scores per gender, ethnicity, status and employment remain always between 1.7 and 2.0. Only the Tamils express with 2.2 a slightly bigger one due to the fact that one third saw the other entrepreneur before as "Competitor and personal enemy". It would be interesting to know whether the "Before" as well as the "Now" refer more to other Tamil entrepreneurs or also to those of the other ethnicities. The latter case could indicate that the Nucleus helps to decrease the barriers between the ethnicities. The low representation of the minority ethnic groups in the sample prevents such generalizations.

This change of the entrepreneurs' relationship is one of the most important direct impacts of the Nuclei.

The result provokes the question whether the improved relationship correlates also with the economic success of the entrepreneurs.

- The change of turnover and turnover per employee does not depend on the absolute quality of the relationship. Those entrepreneurs who ticked "Before" as well as "Now" "Personal and professional friend" suffered on average even a decrease of the turnover per employee.[269]
- Instead, as Figure 56 shows, the economic success correlates with the change of relationship. Those with a worsened relationship indicate on average a decreased turnover and turnover per employee; those with an unchanged relationship indicate more or less stagnation and those with an improved relationship indicate economic success.

The relationship among the entrepreneurs is element of the framework conditions and business climate of an economy. The finding confirms the hypothesis that enterprises and the local economy have better chances to prosper if the actors maintain positive and constructive relationships among each other.

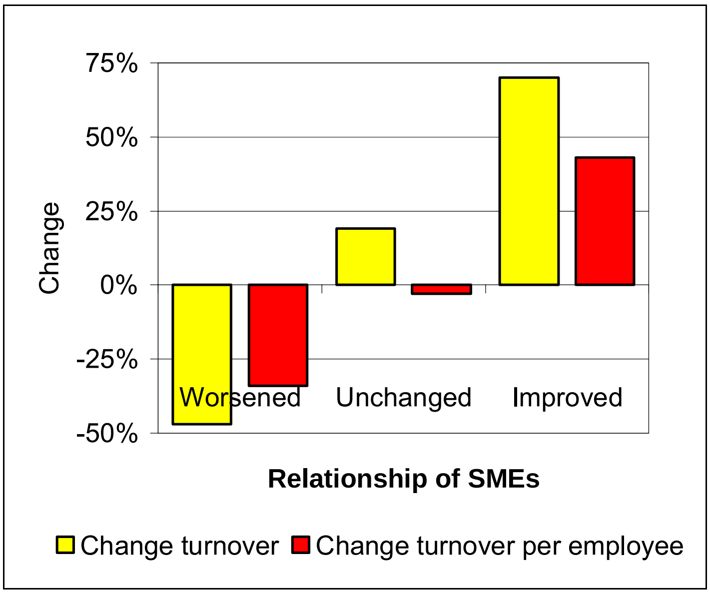


Figure 56: Change of turnover and turnover per employee 2002 – 2005 in reference to the relationship between the SMEs "Before" the participation in a Nucleus and "Now"[270]

[269] R 21-05 SME Opinion 06 TO Nuc 3-54 Sex 1-2 Bef 5 Now 5.pdf

[270] R 21-06 Opinion 06 TO - Nuc 2-45 Sex 1-2 Bef 3 Now 2.pdf; ~+- Nuc 2-54 Sex 1-2 Bef 5 Now 5.pdf; + Nuc 1-65 Sex 1-2 Bef 1 Now 5.pdf

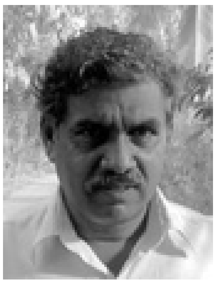
5.10 Conclusion

The previous chapters demonstrate that the Nucleus Approach works successfully and causes effects as expected:

- It is possible to mobilize increasing numbers of SMEs.
- The entrepreneurs learn to get to know and to compare one another, perceive their common interests and develop more courage in their entrepreneurial activities as well as in the chambers.
  In a society affected by violent conflicts like Sri Lanka the Nucleus Approach can be used to foster goodwill between entrepreneurs of different ethnic groups. The cross visit of the Photographers Nucleus from the East to their counterparts in the Central Province indicated that entrepreneurship and sharing of experiences between these different ethnic groups can be used to positively contribute to the peace building efforts of the chambers and business community.
- They start to put pressure on the chamber, the professional and honorary staff, "demanding" adequate performance thus stimulating organizational development processes, expecting and gaining better services.

But Nuclei remain fragile. As soon as a chamber frustrates the entrepreneurs' expectations, they stay away. The same happens when the Nucleus entrepreneurs develop faster than the chamber and / or the counsellor. The demand for better performance increases which the chamber is not ready or prepared to offer. This can lead to a situation wherein the stronger entrepreneurs break away from the chamber and set up their own organization. The Photographer, Printer and Computer Nucleus entrepreneurs already have set up such associations functioning as separate entities. Sometimes these sector specific activities are supported and even complimented by the activities of the chamber. The Cut Foliage Nuclei is the latest case in point where entrepreneurs discussed to break away from the chambers. The entrepreneurs argued that the chambers do not have the vision nor the insight of developing a long term sustainability plan for them. A strong sector feels neglected in the chambers of commerce and industry and instead of protesting and putting pressure on the chambers, the entrepreneurs react with the idea "We start our own association ….".

"I learned through my Nucleus of Light Engineering in the MDCCIA that I am not only a producer of machines but also an entrepreneur!"
D Chandararatne, Dharshana Iron Works, Galewela, Matale.



In many countries, the entrepreneurship maintains parallel two institution systems: chambers with members of many sectors for its representation in a geographical unit and in addition sector associations for dealing with specific sector interests. Their tasks partly overlap but each has also specific ones.[271] Example: the negotiations of the salaries with the unions of the workers are done by sector associations. This setup works if many entrepreneurs are willing to participate in both systems and are ready to provide the necessary finance with member-

[271] About the different tasks and structures of chambers and associations see Fundação Empreender / Müller-Glodde, Rainer (2002)

ship fees.

Under the present prevailing conditions such a division in chambers and associations does not make much sense in the interior region of Sri Lanka. Still relatively few entrepreneurs are engaged in business organizations. They are used to pay almost nothing as membership fee. A division in chambers and associations leads to weak chambers and sector associations with regard to membership and financial means. One of the core ideas of the Nucleus Approach is to enable entrepreneurs to discuss their specific sector interests under the roof of a bigger and financially stronger chamber. Here, even small groups get access to professionalized services.

Therefore, in the cut foliage example it was emphasised to the entrepreneurs that the more the entrepreneurs divide in different institutions the weaker each of them will be not only under political aspects i e lobby but also concerning services due to lower financial resources. How much would a professionalized association cost? How many potential members are there? How much membership fee would they have to pay? The optimistic calculation resulted in 5,000 Rs, five times more, as they pay now.[272] How many micro cut foliage entrepreneurs are ready to pay this amount? – At this point the discussion stopped. Presently it looks like that the cut foliage entrepreneurs will join PAEA.

Germany supports "Flori Fest 2006" in Kandy

The Regional Floriculture Nucleus supported by the German Technical Cooperation (GTZ) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), held an exhibition and sale of its products, "Flori Fest 2006", from June 1 to 3 at the Kandy Municipal Council car park.

Fifty entrepreneurs from Kandy, Matale, Nuwara Eliya, Bandarawela, Badulla and Welimada took part in the event. A wide range of new products were displayed including creative flower arrangements, plant foliages and flower plants. An information desk run by the Royal Botanical Gardens was an added highlight of Flori Fest 2006's programme where experts provided visitors with information relating to floriculture. "The Regional Floriculture Nucleus and Flori Fest 2006 are significant initiatives that came out as a result of the training program conducted in November-December 2005 by Brazilian Floriculture expert Mr Jordi Castan. Medium and large scale entrepreneurs who participated in the training decided that they could achieve more through working together rather than in isolation", explained P.G. Samaratunga, Project Director of the Sri Lankan German Economic Strategy Support Programme (ESSP).

Castan's visit was organised by the Economic Strategy Support Programme (ESSP), a joint initiative of the Ministry of Regional Development and the German Development Cooperation. The programme has two major components: promotion of micro, small and medium enterprises through the nucleus approach and contribution to regional economic development. The nucleus approach aims at mobilising individual enterprises and stimulating organisational development in business chambers and associations.

The ESSP programme, together with the Chamber of Commerce and Industry Central Province (CCICP), the Matale District Chamber of Commerce Industry (MDCCI), the Chamber of Commerce and Industry of Uva Province (CCIUP), the Central Province Women's Chamber of Commerce and Small Industry and the Protected Agriculture Entrepreneurs Association (PAEA) are working to promote the floriculture sector in the central areas of Sri Lanka.

Sunday Times 04. 06. 2006

Flori Fest 2006

[272] See also in Chapter 6.4 the answers of the entrepreneurs about how much they could imagine to pay as membership fee for a "perfect" chamber.

6 The Chambers

In this chapter, we analyse the relationship between the entrepreneurs and the chambers under the aspect of the organizational development of the chambers. We look at the opinion about the chamber before the participation in Nuclei and now, the evaluation of the chambers' performance, the membership development, the membership fees and the chamber's finances.

6.1 The Entrepreneurs' Opinion about the Chambers

What was your opinion about the chamber / association before your participation in the Nucleus and how is it today?

1 Completely unknown
2 Useless, closed for SMEs, a club of some business people
3 Very useful, open for SMEs

The Nucleus Approach works only if the acceptance of the chambers by the entrepreneurs grows and they start to perceive the chambers as their own organization.

Consequently, we asked the entrepreneurs in both years about their opinion about the chamber before their participation in a Nucleus and about their perception now.

As in the case of other similar questions the "Before" reflects less the opinion the entrepreneurs had before they had had any contacts with a Nucleus and chamber. It is rather what they today have in mind about the past after being able to make a comparison. One can presumably not generalize and say that all entrepreneurs who are not chamber and / or Nucleus member would answer as the interviewed Nucleus and chamber members. It is more likely that even more will answer that they do not know the chambers.

Table 91 shows the results of the 2006 interviews. Of the Nucleus members 80% had "Before" no or a negative opinion and 20% a

Nucleus members		Unknown	Useless	Useful	Average score
		1	2	3	
CCICP	Before	79%	7%	14%	1.4
	Now	1%	10%	89%	2.9
CCIUP	Before	77%	6%	17%	1.4
	Now		13%	87%	2.9
CPWCIC	Before	65%	5%	30%	1.7
	Now		6%	94%	2.9
MDCCI	Before	62%	23%	15%	1.5
	Now		4%	96%	3.0
NCHSL	Before	54%	4%	42%	1.9
	Now			100%	3.0
PAEA	Before	69%	7%	24%	1.5
	Now		11%	89%	2.9
Total	Before	69%	11%	20%	1.5
	Now		8%	92%	2.9
Non-Nucleus members					
	Now		16%	84%	2.8
Brazil 1993 and 1996					
	Before	66%		34%	
	Now	2%		98%	

Table 91: Entrepreneurs' opinion about the chambers before the participation in a Nucleus and now – results 2006[273]

[273] R 25-01 Chamber Opinion Before Now p Cha 1 Nuc 1-65 Sex 1-2.pdf; R 25-04 Chamber Opinion Before Now nNuc 1 Nuc 99-99 Sex 1-2.pdf

positive one; "Now" 92% have a positive one. The average score changes from 1.5 between "Unknown" and "Useless" to 2.9, almost "Useful". In comparison, the non-Nucleus members perceive their chambers with 84% slightly less as "Useful".

Differentiating the results more to the respective criteria, we get the following

- There is no difference between female and male entrepreneurs.[274]
- The same applies for registered and not registered companies as well as for those with different employment levels.[275]
- The analysis of the answers of those entrepreneurs who were interviewed in both years shows identical totals although there are small differences from chamber to chamber. This indicates that the opinion about the chambers is relatively stable.[276]
- A bit surprising is that also between Nucleus members who were chamber members even before the chamber was involved in the project and those who were not there is no verifiable difference.[277]

This change of the perception of the chambers by the entrepreneurs corresponds exactly with what happened in Brazil. Before: ignorance, scepticism, assumption that they are closed for most entrepreneurs. Now: more knowledge about their functions and what one can expect from them, perception that they are open for many more entrepreneurs.

The results confirm that chambers can gain a new positive image with the entrepreneurs by running Nuclei and thus providing, often for the first time, concrete and operational services. In addition, only if the members have a positive opinion about their institution they are motivated and interested in contributing to its further development.

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274 R 25-01 Chamber Opinion Before Now p Cha 1 Nuc 1-65 Sex 1-1.pdf; ~Sex 2-2.pdf

275 R 25-02 Chamber Opinion Before Now p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-50.pdf; ~Eth 1-3 Reg 4-4 Emp 0-18.pdf; R 25-02 Chamber Opinion Before Now p Cha 2 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-5 Emp 0-5.pdf; ~Eth 1-4 Reg 1-5 Emp 6-10.pdf; ~Eth 1-3 Reg 1-5 Emp 11-20.pdf; ~Eth 1-3 Reg 1-3 Emp 21-50.pdf

276 R 25-03 Chamber Opinion Before Now p Cha 3 Nuc 1-42 Sex 1-2.pdf

277 R 25-05 Chamber Opinion Before Now p Cha 5 Nuc 1-65 Sex 1-2 Mem 99-99.pdf; ~Mem 2-6.pdf

6.2 Evaluation of the Chamber through the Entrepreneurs

The perception of the chambers by the entrepreneurs as useful and open is one thing. The evaluation of the different activity areas and the performance is another. We asked the entrepreneurs to assess the chambers' services, lobbying / advocacy and general performance.

These questions are not easy to answer for the entrepreneurs. They require certain consciousness and knowledge about the functions and tasks of a chamber and need the possibility of comparisons.

In 2006, 63 entrepreneurs (about 10%), mainly from CCICP and NCHSL answered the three questions with "Do not know".[278] There are two possible explanations:

- Entrepreneurs are not content but do not dare to express this directly through a "Very poor" or "Not very well". There are no indicators that this happened. To the contrary, some CCICP and CCIUP Nuclei, which ran into a crisis and clearly the members, cannot be content, express their critique very openly with "Very poor" or "Not very well".
- The interviewed entrepreneurs feel that they are not in the position to answer the questions because they cannot yet really assess the services, lobby and performance of a chamber. Most of those started to participate in a Nucleus in 2005 and 2006.[279]

A consequence is that the chambers have to care more about the newcomers and to explain to them their functions and objectives as well as what members can expect from them.

6.2.1 Service

Table 92 shows the assessment of the chambers' services. In 2005 72 entrepreneurs, in 2006 581[280], in both cases about one third assessed the services as "Fair", more than half as "Good" or "Great". 12% answer with "Do not know", "Very poor" or "Not very well". In total, 88% are content with the provided services. This leads to average scorings of 3.3 and 3.4 (between fair and good).

There are no relevant differences between female and males entrepreneurs, between registered and not registered companies as well as between chamber member and non-chamber members. Entrepreneurs with more than ten employees score a bit above the average, those with fewer employees slightly below the average.

Also a bit above average are the scores of PAEA and NCHSL, below are those of CCICP. Circa 25% of those who started to participate in a Nucleus in 2005 / 06 answered with "Do not know" but responded to one of the other two questions. The percentage of "Do not know" answers is between 0% and 5% in the other chambers.

[278] They are not to be mixed up with those who did not give any answer.

[279] In 2006 circa 80% of those who started to participate in a Nucleus answered in this way.

[280] Most entrepreneurs were asked in 2005 only about the performance of the chambers; in 2006 all were confronted with questions about services, lobby and performance.

There is practically no difference between Nucleus members and non-Nucleus members. In most cases, the Nucleus is one of the first concrete and operational chamber services which contribute directly to the development of the enterprises. The question is what chamber services the non-Nucleus entrepreneurs have in mind. The answer is still relatively clear in the cases of NCHSL and PAEA. Both are involved in the marketing of the members' products. Many entrepreneurs are members because of this. It is less clear concerning the other chambers. There might be two possible explanations:

Service	Year	0 = Does not know	1 = Very Poor or 2 = Not very well	3 = Fair	4 = Good or 5 = Great	Average Score
CCICP	2005	14%	4%	32%	50%	3.0
	2006	7%	14%	38%	41%	3.1
CCIUP	2005	0%	6%	59%	35%	3.4
	2006	1%	19%	25%	55%	3.3
CPWCIC	2005					
	2006	0%	11%	38%	51%	3.5
MDCCI	2005	9%	9%	31%	51%	3.2
	2006	0%	4%	37%	59%	3.6
NCHSL	2005					
	2006	9%	2%	15%	74%	3.7
PAEA	2005	0%	0%	30%	70%	3.7
	2006	2%	7%	36%	55%	3.6
Total	2005	7%	5%	38%	50%	3.3
	2006	2%	11%	32%	55%	3.4
Males	2005	7%	5%	38%	50%	3.2
	2006	2%	10%	32%	56%	3.4
Females	2005	0%	0%	47%	53%	3.7
	2006	3%	9%	27%	61%	3.5
Non-Nuc members	2005	7%	14%	36%	43%	3.1
	2006	2%	13%	36%	49%	3.4

Table 92: Evaluation of the chambers' services in 2005 & 2006[283]

- Under "chamber service", the whole set of activities of the institution in the sense "the chamber provides services to the public, country etc." is understood and not as something what is linked directly to the enterprises.[281]
- The interviewed entrepreneurs did not evaluate the services they use themselves but which they observe in the chamber – including the Nuclei – and therefore score relatively good.[282]

The answers are highly consistent with those given to the previous question about how the entrepreneurs see the chambers now. Those who said in 2006 that the chambers are "use-

[281] This understanding of "services" and this way of seeing a chamber was / is very widespread in Brazil.

[282] The interviewers – chamber counsellors versus external ones – did not influence the answers – the results are absolutely equal.

[283] R 26-01 Perf Cha 1 Nuc 1-65 Sex 1-1 Ny 2000-2006.pdf; ~Sex 2-2 Ny 2000-2006.pdf; R 26-03 Perf Cha 3 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-50.pdf; ~Eth 1-3 Reg 4-4 Emp 0-18.pdf; R 26-03 Perf Cha 3 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~Emp 6-10.pdf; ~Emp 11-20.pdf; ~Emp 21-50.pdf; R 26-01 Perf Cha 1 Nuc 99-99 Sex 1-2 Ny 2000-2000.pdf

less" etc. assess the services with "Not very well" (2.1). Nevertheless 34% give a "Fair" or "Good". Of those for whom the chambers are "Useful" etc. 93% assess the services with "Fair" to "Great".[284] This indicates a reasonable consistency of the answers.

In total, one can say that the entrepreneurs are not enthusiastic about the chamber services but close to 90% are quite satisfied.

This is decisive for the further organizational development of the chambers. When the members experience good services then the chance increases that they will at least pressure the chamber to maintain the attained quality and quantity level or even ask for further improvements.

6.2.2 Lobby and Advocacy

All over the world business chambers, associations and similar organizations normally start to function in the following way: some entrepreneurs gather to discuss some common external problems – the market is not well organized, local taxes, etc. Common activities in order to solve the problems are initiated such discussions with public organizations, etc. The first loose cooperation leads to the foundation of a chamber / association. This one is run by honoraries only. Its task is lobby and the objective is to influence the improvement of the local / regional framework conditions for entrepreneurial activities.[285] Many small district chambers remain on this level, sometimes for hundred years and more. Due to a changing environment others start to offer services to the membership thus professionalizing the organization. The focus of a standard chamber promotion project is to orient the chamber actors to provide more and better services to the membership in order to contribute more to their socioeconomic development.

In Sri Lanka, everything is different. The Colombo based Ceylon Chamber of Commerce (CCC) has been in existence for more than 150 years doing lobby and providing services for its specific clientele. Thus, chamber knowledge has been available in the country. But this form of entrepreneurs' cooperation did not disseminate to the regions[286].

A chamber foundation process started only during the nineties, partially stimulated and promoted by donor agencies (examples: Hambantota[287], Badulla). These donors needed local partners for their SME promotion activities in the interior of Sri Lanka. The focus of the donors was less the development of chambers itself but to instrumentalize them in favour of their specific project objectives. Consequently, these chambers started with SME support and service activities and not as described above with lobbying.[288]

The consequence of all this was and this caused much surprise to us when the Nucleus Approach implementation started that in the partner chamber the core function lobby and advo-

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[284] R 26-05 Perf Cha 5 v Q25 Nuc 2-42 Sex 1-2 Q25 2.pdf; ~Q25 3.pdf

[285] For the development stages of a chamber see Table 95.

[286] Certain exceptions are the different ethnic orientated traders' associations.

[287] Karlstedt, Cecilia / Herath, Gamini B. (2005), Annex 4, p 16

[288] Differently designed is the FCCISL / SIDA / CCISS project starting in 2002.

cacy was not on the agenda neither among the chamber representatives nor among the members. Therefore, the ESSP Nucleus team organized some training workshops about this subject parallel with the FCCISL / SIDA / CCISS project in order to disseminate the objectives and instruments for chamber lobbying. Nevertheless, what chamber lobby is, what framework conditions are, in which way chambers have to influence their development, is still rather unclear although some chambers have implemented, and sometimes very successfully, some lobby activities.[289] Some examples

- Brassware Nuclei of CCICP and NCHSL convinced the Sri Lankan government to impose a tax on the export of scrap metal. The entrepreneurs did experience a grave scarcity of that raw material due to its profitable export to India.
- CCICP intervened successfully against an increase of a local tax imposed by the central provincial council.
- MDCCIA started discussions with local authorities on the car parking situation in the town.

This introduction is necessary to understand the answers to the question how the entrepreneurs evaluate the lobbying activities of their chambers. Under the described circumstances, the entrepreneurs evaluated less what is commonly defined as the lobby work of chambers but rather what they understand as lobby.

The results of 2005 (Table 93) correspond with the expectations: 34% “Do not know”, 11% “Very poor” and “Poor”, but still a relatively high percentage of 56% “Fair”, “Good” and “Great”. All this leads to an average score of 2.1, what corresponds to “Not very well”.

The results in 2006 are considerably different. The “Do not know” answers go down from 34% to 7%, “Very poor” and “Not very well” increase from 11% to 21%, “Fair” remains with 26% and 28% almost unchanged “Good” and “Great” move from 29% to 44%. The average score increases to 3.0 / “Fair”.

The scoring of the non-Nucleus chamber members remains unchanged with average scores of 2.3 and 2.4.

In all chambers, many more Nucleus members as well as non-Nucleus members dared in 2006 to express an opinion about the lobby function. Only about 15% of those who voted for “Do not know” in 2005 gave the same answer in 2006.

What caused this considerable change of the assessment of the chamber lobby work by the Nucleus members from one year to the other?

It would be great if we could put this down as one impact of the ESSP and FCCISL lobby training courses and that this subject gained importance in the Nuclei and chambers. Yet, we are sceptical:

- Those entrepreneurs who have been confronted with the lobby question in both years answer partially differently. Less do not have an opinion (“Do not know”), more are more

[289] This is not very different in many countries including Germany: SMEs are mainly interested in services, which give a direct return to them. Lobby with its indirect effects on the entrepreneurial framework conditions, which often cannot be connected to specific chamber activities, are less appreciated.

critical ("Very poor" / "Not very well"), less are content ("Fair" etc.). In the end, the scoring remains unchanged with 2.3 and 2.4.

- For those for whom the chambers are "useless" – see the previous chapter – the scoring decreases from 2.5 to 1.9, expressing much more clearly their dissatisfaction.

Other queries per formal status of the enterprises, number of employees, chamber member or not, year of start in the Nucleus, etc. do not give any different answer or only hint for other explanations about this change.

Lobby	Year	0 = Does not know	1 = Very Poor or 2 = Not very well	3 = Fair	4 = Good or 5 = Great	Average Score
CCICP	2005	32%	18%	27%	23%	1.9
	2006	5%	33%	32%	30%	2.8
CCIUP	2005	53%	12%	18%	17%	1.5
	2006	3%	28%	22%	47%	3.1
CPWCIC	2005					
	2006	5%	11%	27%	57%	3.4
MDCCI	2005	26%	9%	35%	30%	2.4
	2006	1%	14%	31%	54%	3.3
NCHSL	2005					
	2006	41%	12%	27%	20%	1.9
PAEA	2005	20%	0%	20%	60%	3.1
	2006	4%	22%	29%	45%	3.2
Total	2005	34%	11%	26%	29%	2.1
	2006	7%	21%	28%	44%	3.0
Males	2005	34%	11%	26%	29%	2.1
	2006	7%	21%	28%	44%	3.0
Females	2005	53%	7%	13%	27%	1.7
	2006	7%	16%	29%	48%	3.1
Non-Nuc members	2005	29%	21%	14%	36%	2.3
	2006	10%	40%	29%	21%	2.4

Table 93: Evaluation of the chambers' lobby and advocacy in 2005 & 2006[290]

Conclusion: the data may be understood in a sense that the entrepreneurs become more aware of the lobby function of a chamber and a Nucleus. Under organizational development aspects, this is a clear progress even if still much confusion about this subject exists.

Seen from outside and comparing with other countries the Sri Lankan chambers and entrepreneurs still have a long way to go to negotiate as equal partners with especially the public sector in order to influence successfully the framework conditions for the member enterprises.[291]

290 R 26-01 Perf Cha 1 Nuc 1-65 Sex 1-1 Ny 2000-2006.pdf; ~Sex 2-2 Ny 2000-2006.pdf; R 26-03 Perf Cha 3 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-50.pdf; ~Eth 1-3 Reg 4-4 Emp 0-18.pdf; R 26-03 Perf Cha 3 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~Emp 6-10.pdf; ~Emp 11-20.pdf; ~Emp 21-50.pdf; R 26-01 Perf Cha 1 Nuc 99-99 Sex 1-2 Ny 2000-2000.pdf

291 During a training about lobby subgroups analysed the framework conditions of two different larger Sri Lankan towns. Compared with international standards they totally overestimated the quality of the locations because they had no real benchmarks to compare.

6.2.3 Performance

The question about the chamber performance aims at a kind of overall evaluation of the chamber. Logically it would sum up the respective opinions about services and lobby.

Table 94 conveys that the interviewed entrepreneurs only partially did apply this logic. With 95% of the respondents in 2005 and 91% in 2006 answering of “Fair”, “Good” and “Great” and average scores of 3.4 and 3.5, they evaluate the overall performance better than the services and lobbying capacity.

Performance	Year	0 = Does not know	1 = Very Poor or 2 = Not very well	3 = Fair	4 = Good or 5 = Great	Average Score
CCICP	2005	4%	3%	29%	64%	3.5
	2006	0%	17%	34%	49%	3.3
CCIUP	2005	0%	2%	34%	64%	3.7
	2006	1%	15%	21%	63%	3.4
CPWCIC	2005	0%	0%	93%	7%	3.1
	2006	0%	7%	20%	74%	3.7
MDCCI	2005	7%	8%	50%	35%	3.1
	2006	0%	4%	26%	70%	3.7
NCHSL	2005					
	2006	2%	0%	14%	84%	4.0
PAEA	2005	0%	0%	28%	72%	3.8
	2006	0%	4%	50%	46%	3,5
Total	2005	2%	3%	46%	49%	3.4
	2006	0%	8%	27%	65%	3.6
Males	2005	2%	3%	46%	49%	3.4
	2006	0%	8%	27%	65%	3.6
Females	2005	0%	1%	62%	37%	3.4
	2006	0%	7%	20%	73%	3.7
Non-Nuc members	2005	7%	14%	43%	36%	3.0
	2006	0%	9%	47%	44%	3.4

Table 94: Evaluation of the chambers’ performance in 2005 & 2006[292]

The explanation could be that in the oral interviews the questions were presented in a sequential form which leads to an order like service: in general good, but could be even better; lobby: fair, but can be improved; performance: in general, the chamber is pretty good. This could mean that if we had first asked the performance question the results would eventually be a bit different.

There are no relevant differences between male and female entrepreneurs, registered and not registered companies, or those with less and more employees. The same applies for those who founded their enterprises before and after the year 2000. And even chamber members and Nucleus but not chamber members assessed the performance as “fair”. This provokes the question, why they are not membership fee paying chamber members if they

292 R 26-01 Perf Cha 1 Nuc 1-65 Sex 1-1 Ny 2000-2006.pdf; ~Sex 2-2 Ny 2000-2006.pdf; R 26-03 Perf Cha 3 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-3 Emp 0-50.pdf; ~Eth 1-3 Reg 4-4 Emp 0-18.pdf; R 26-03 Perf Cha 3 Nuc 1-65 Sex 1-2 Eth 1-5 Reg 1-4 Emp 0-5.pdf; ~Emp 6-10.pdf; ~Emp 11-20.pdf; ~Emp 21-50.pdf; R 26-01 Perf Cha 1 Nuc 99-99 Sex 1-2 Ny 2000-2000.pdf

are content with the chambers' performance? We will come back to this question in the following chapter.

The non-Nucleus members are little less content with the chambers.

The scoring of those who deem the chambers as "Useless" with close to "Not very well" (2.3) is not surprising. But still 37% of them define the chambers' performance with "Fair" and "Good. The only explanation we find for this refers to the above reflection about the effects of the sequential questioning.

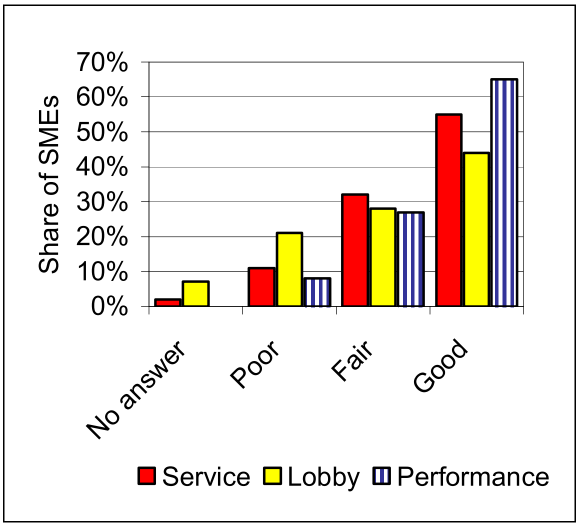
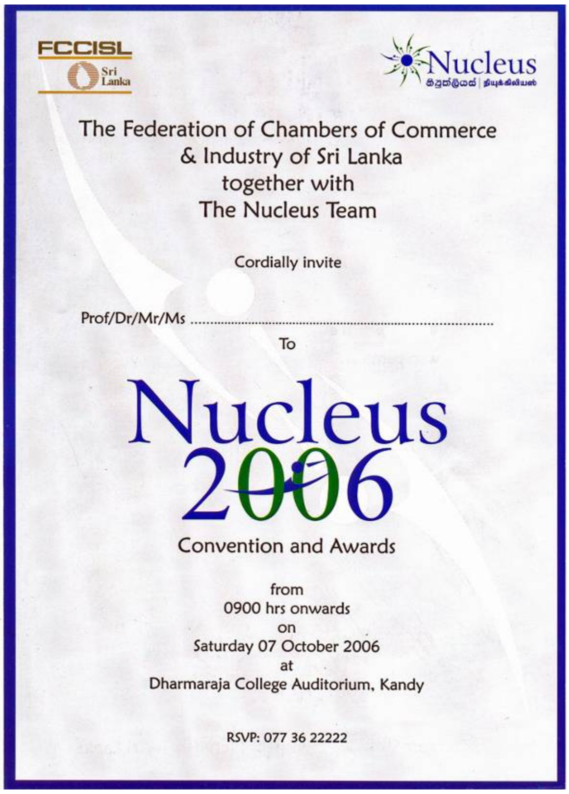


Figure 57: Entrepreneur's evaluation of the chambers

In total, the entrepreneurs show a relatively high satisfaction with their chambers in relation to their expectations. That they could expect much more and better compared with the international level is another point. But this is a snapshot. Members react fast and sensitive to problems in chambers and Nuclei due to for example change of counsellors, lower qualified counsellors and internal disputes.

The other point is that good experiences of the entrepreneurs in the chambers and the encounter with good counsellors lead to increasing expectations concerning the quality and quantity of services, lobby and performance thus stimulating further organizational development processes. This is exactly the objective of the Nucleus Approach.



6.3 The Membership and its Development

The Nucleus Approach aims at an increase of the chamber membership. The reason (Figure 07 on page 6) is simple:

- More members pay more membership fees in order to finance a more differentiated professionalized organization, which can supply more qualified and better services and lobby functions.
- More members mean more lobby power in front of government and other public and private institutions.

A more or less world wide rule says that selffinanced chambers need a minimum of about 100 SME members to start a professionalization process with the employment of a secretary and / or CEO. They need about 200 and more members for a more differentiated, services providing and selffinancing organization.

This chamber development logic is not selfevident. Chambers frequently tend to follow a more “closed shop” policy. Members of the local economic elite prefer to remain exclusive. Entrepreneurs are kept out because they disturb the social harmony and / or threaten the existing power structures.

Common instruments to keep other entrepreneurs out are long constitutions with many conditions that a SME applying for membership must fulfil, high registration and membership fees, intransparent decision making processes about the admission of members, direct and indirect messages about who is welcome and who not, etc.

The results are often small, ineffective, sometimes for long periods stagnating “business clubs” whose main task is to run after the authorities and ask for individual favours. In an economically stable environment and in authoritarian centralized political systems, this can work successfully. In a fast changing environment and decentralized open society, chambers are much more confronted with high professional requirements concerning management and organization. The “business club” is ineffective.

Elements of these “closed shop” attitudes were / are still found in our partner chambers. Few are close to stage 3 of the below Table 95.[293]

In general, the Nucleus serves as an instrument to open chambers for new groups of entrepreneurs and potential members: Chambers have something concrete and operational to offer. They are more attractive for entrepreneurs who have been isolated before.

The results (Figure 58) confirm the functioning of the Nucleus in this sense. The participating chambers increased their membership between the start of their cooperation with the ESSP Nucleus team and December 2006 (Nucleus and non-Nucleus members) by between 92% and an impressive 500%.

293 In Brazil at the beginning of the nineties 94 of 97 chambers of the respective state had the characteristics of stage 1 and stage 2 – only three of stage 3.

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Situation	• Entrepreneurs observe problems in their town, which have negative effects on their business (transit, market, taxes etc.)	• More members and more external contacts cause more administrative and organizational workload (meetings, calls, letters etc.)	• Demands of the environment on the members provoke well prepared / founded positions, which due to lack of time and specialization honoraries are not able to elaborate	• The environment produces pressure to change for the members (new laws, technologies, management). They need professionalised services	• A complex and dynamic environment causes high pressure onto the members to change. The chamber has to act and lobby on all political and business levels
Activity	• A businessman initiates discussion of common points of interest and the foundation of an chamber	• The chamber rents an office • In a further step it contracts a (part time-) secretary	• Employment of a CEO • Eventually s/he provides services to the members (legal / business administration, consultancy)	• Employment of qualified staff in different areas • Introduction of a complex organization	• A large number of qualified staff form an organization with differentiated functions and hierarchies • Creation of a service network
The number of members ...	• is small and homogeneous	• is small and homogeneous	• is larger and homogeneous / heterogeneous	• is large and heterogeneous	• is very large and heterogeneous
Activity of the chamber	• 100 % Lobby	• 100 % Lobby	• 75 % Lobby • 25 % Service	• 50 % Lobby • 50 % Service	• 25 % Lobby • 75 % Service
Tasks of the Board of Directors	• Initiate • Define opinions • Decide • Represent • Administrate • Execute	• Initiate • Define opinions • Decide • Represent • Administrate • Execute	• Initiate • Define opinions • Decide • Represent	• Initiate • Define opinions • Decide • Represent	• Initiate • Define opinions • Decide • Represent
Tasks of the employees	• Inapplicable	• Administrate • Execute	• Advise • Administrate • Execute	• Initiate • Define opinions • Advise • Administrate • Execute	• Represent • Initiate • Define opinions • Advise • Administrate • Execute
Performance of the chamber depends ...	• on 100% of the engagement and quality of the honoraries	• on 90% of the engagement and quality of the honoraries, on 10% of the secretary	• on 50% of the engagement and quality of the honoraries, on 50% of the CEO	• on 50% of the engagement and quality of the honoraries, on 50% of the professional staff	• on 25% of the engagement and quality of the honoraries, on 75% of the professional staff
After the election of a new board ...	• policy and performance of the chamber changes completely	• policy and performance of the chamber changes completely	• policy and performance changes considerably	• policy and performance changes few in short but more in long term	• policy and performance changes few in short and long term

Table 95: Development stages of chambers and associations

There are some additional explanations necessary and some “buts”.

- With the exception of PAEA all other chambers were supported temporarily or during the whole time by the FCCISL / CCISS / SIDA project which focused strongly on the functioning of the organization and its administration (provision of CEOs and other staff, hardware, training, etc.). These interventions enabled the chambers to manage the increasing number of Nuclei and Nucleus members. Without these interventions, ESSP would have had to think and act in different terms concerning the organizational capacities of the chambers. A chamber CEO put it in a nutshell: “From the FCCISL / CCISS / SIDA project we get the organizational support, from the ESSP the access to the entrepreneurs.”[294]
- The number of Nucleus members who are not yet chamber member ranges from 34% to 98% compared with the chamber members. In total 72% of the Nucleus members are not yet membership fee paying chamber members (Figure 59).

This is extremely high. It means most of the chambers did use the new access to the entrepreneurship as a means of gaining new members only to a very limited extent.

One cannot expect that entrepreneurs apply for membership directly after the start of a Nucleus. They are too cautious and mistrustful. But after a maximum of one year they should be able to evaluate the chamber’s performance and to take a decision whether it is worthwhile to invest the membership fee or not. Why did this not work as expected?

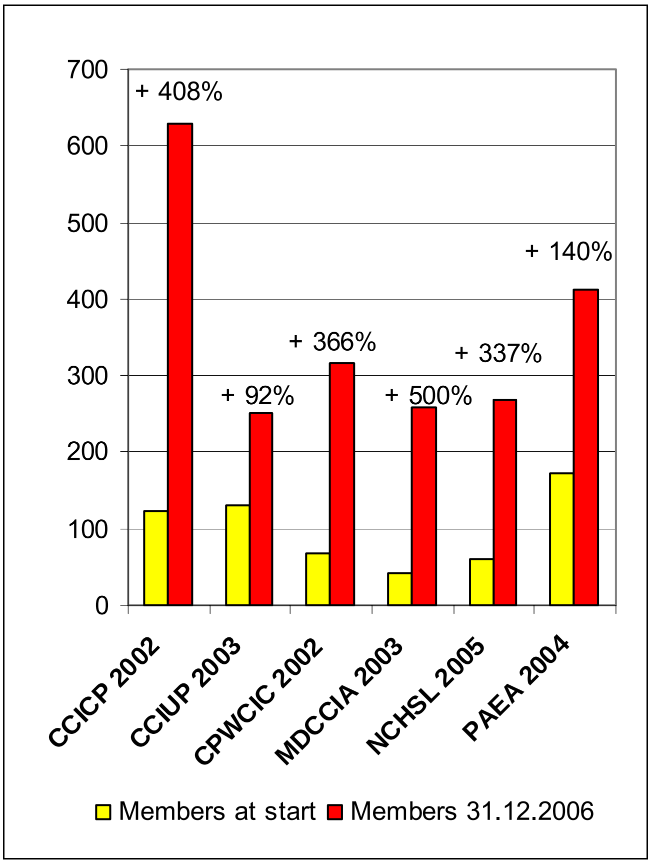


Figure 58: Development of the chamber membership between the start of Nuclei and 31.12.2006

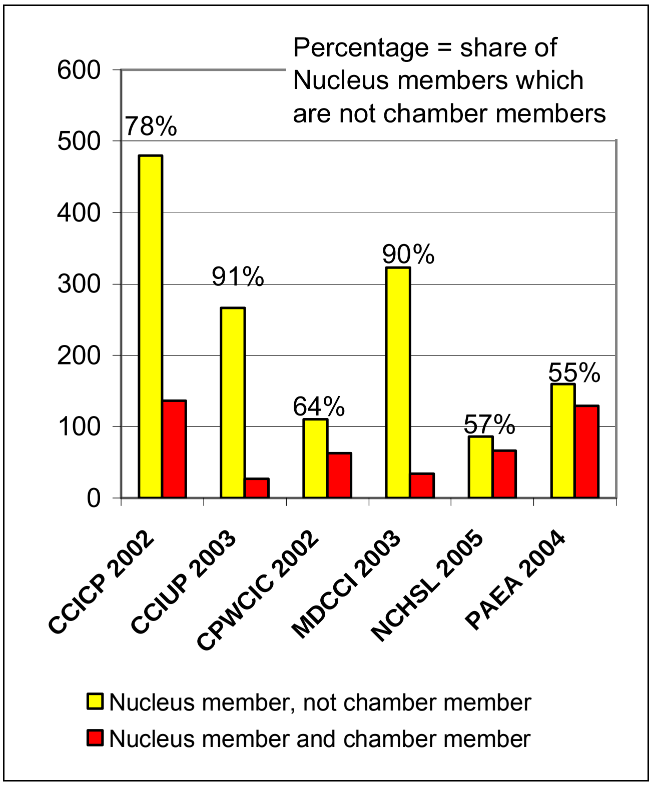


Figure 59: Nucleus chamber and non-chamber members on 31.12.2006

294 Similar argue Karlstedt, Cecilia / Herath, Gamini B. (2005), p 19

- Some chambers started Nuclei in sectors and with entrepreneurs whom they were not interested to gain as members although it was stressed on different occasions that the chamber is not a social institution but a business organization and that it is therefore suboptimal to maintain such kind of Nuclei.
- Entrepreneurs must have the feeling that they are welcome in the chamber. Nobody likes to be rejected. They want to be invited. Nobody, neither the board members nor the employees, felt responsible to approach the entrepreneurs and to invite them proactively in the sense "We, the chamber, need you as member. And you, entrepreneur, need the chamber." This indicates also that a thinking in business terms, namely Nucleus cause costs for the chamber which raises the necessity to increase the income for the chamber from the entrepreneurs, is not well developed. More about this in the next chapter.
- In some chambers, a thinking still remains that new members disturb the prevailing balance of the power. It can take a long time until members and board members perceive that more new members including micro and small scale enterprises positively contribute to the development of the chamber which results in a win-win situation for all actors.[295]

The question remains what should have been done differently in order to put more pressure on the chambers. So they select whom they want as members and when they started Nuclei with entrepreneurs then integrate them as members. One possibility in order to increase the respective pressure would have been to subsidize the activities of a Nucleus in the second and third year only if all participants are membership fee chamber members. This might have

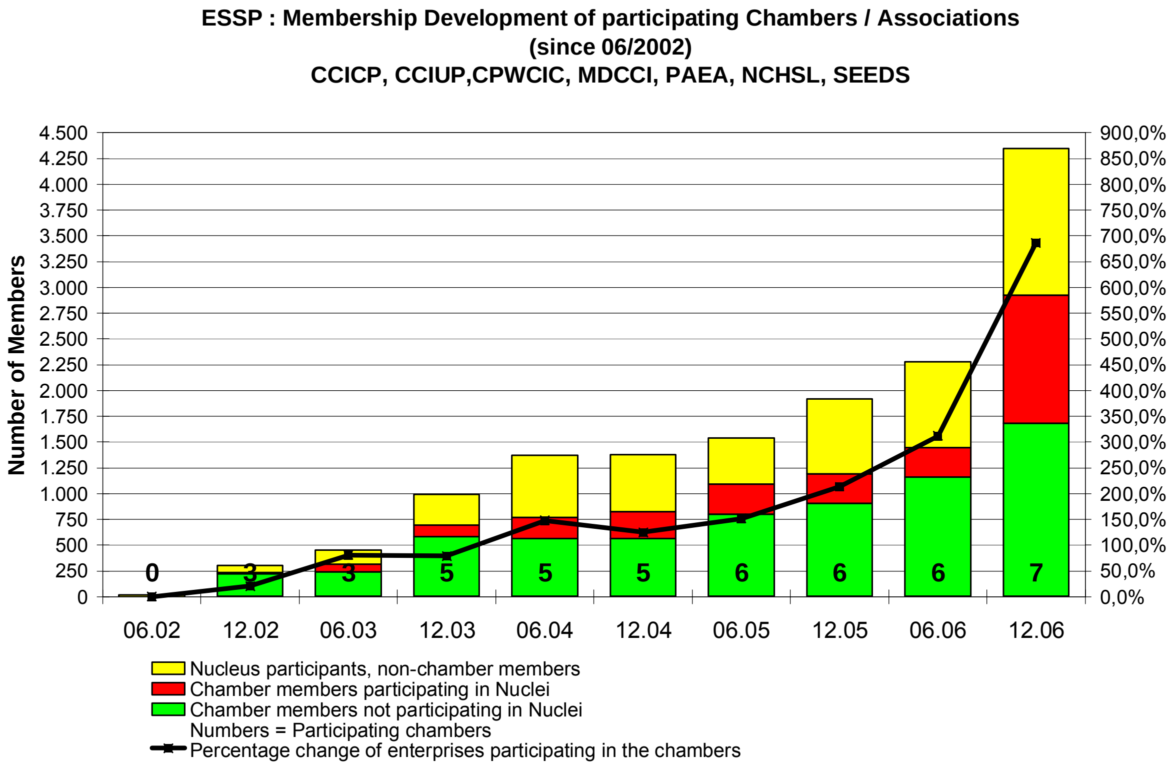


Figure 60: Chamber and Nucleus member development

[295] In Brazil it took about five years until the chamber dominating entrepreneurs understood that the Nucleus members would not be a threat for them, but these are mainly interested in the chamber services and that in addition the Nucleus served as a "school" for future chamber leaders.

required more control work for ESSP because of eventually more manipulation attempts by the chambers and might have slowed down Nucleus development: But it would have reduced the above gap between chamber and non-chamber Nucleus members. One other possibility would have been to start more Nuclei in sectors where the board members have their business in and to integrate the board members in the Nuclei from the start.

The Lime Industry Nucleus in India

Lime Kiln

6.4 Membership Fees and Finances

This is the dark chapter of the impact analysis of the Nucleus Approach in Sri Lanka.

Since 2002, the chambers increased their income through membership fees from considerably more members. Partially they learnt to get additional financial means through service activities (training courses etc.), but the decisive point has not been tackled and solved: the introduction of a reasonable membership fee system and with it financial sustainability of the chambers.[296]

Most Sri Lankan chambers apply a membership fee system which is suitable for a business club. Almost all members pay the same amount, normally about 100 Rs per month. The membership fee of CCICP is on average a little bit higher. PAEA just increased it from 50 Rs to 80 Rs. Between 2002 and 2007 most chambers did not change the fees. Considering the inflation, the fees in real terms decreased by more than 40%.

A monthly fee of 100 Rs is enough to buy two bottles of soft drinks. When one asks the entrepreneurs what services they can expect from a chamber for these two bottles of soft drink they laugh embarrassedly and admit “Nothing”.

The absolute amount of the membership fee is not the core problem. The problem is the system. If the fee is relatively high, smaller enterprises are kept out. A low membership fee eases the entry of more small enterprises. But in both cases the income from the members remains suboptimal.

In many other countries, chambers apply a tier system, which reflects the economic strength of the members; possible indicators are turnover, profit or number of employees. Consequently, bigger enterprises pay more than smaller ones which results in the membership fee causing more or less the same financial burden for each member relative to their economic strength.[297]

Under the aspect of sustainability, a subsidization of the business chambers through a development intervention like ESSP is only justifiable if after the end of the project promotion the chambers would be financially stable to continue the introduced services.[298]

The subject membership fee system has been discussed with chambers in the context of meetings and workshops since 2003. In 2004 the Nucleus team submitted the paper “Considerations about the Membership Fee Systems of Business Chambers and Associations in Sri Lanka” to the FCCISL (Annex 10.4) including an analysis of the financial structures of the

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[296] Karlstedt, Cecilia / Herath, Gamini B. (2005), p 39, observe for MDCCIA and CPWCIC in 2004 that they financed 42% and 60% of their fixed costs (without activity costs) with own income. Since then the income from membership fees increased considerably – also if only 50% of the members pay the fees, but for example the financial crisis of MDCCIA in 2006 demonstrated clearly the chambers’ financial vulnerability.

[297] In many Brazilian chambers the smallest enterprises pay between 5 and 10 US$ per month, big ones up to 2,000 US$.

[298] ESSP / Müller-Glodde, Rainer (2003)

chambers. It explains also why it is an illusion to hope that chambers could finance themselves mainly through service fees.[299]

These activities had no impact at all. The subject was and is too unpopular and uncomfortable:

- ESSP hesitated to put more pressure on the chambers and the FCCISL in order to avoid eventual conflicts.
- FCCISL: The Federation always avoided the subject with the argument “Then members will stay away… “ and “… later …”. And as long as it received enough money from donors for itself and for the chambers apparently it did not feel any problem. In this context the tsunami in December 2004 has to be mentioned, The Federation got relatively high amounts for relief activities. That again reduced the pressure on the whole chamber setup to revise the membership fee system.
  One could argue in addition that underfinanced chambers are more dependent on funds channelled through the Federation making the latter more powerful. Financially independent chambers might as well become more independent from the Federation’s influence and are therefore not in its interest.
- Chambers: When the tier system was presented in chambers, the participating board members at once calculated how much they would personally have to pay. Having this in view and also possible conflicts with members, they froze. In addition, the end of the ESSP promotion seemed always far away and when it finally arrives, there is always hope for another donor. One has to admit that this strategy had worked successfully for a long time and the question is justified, why should it not work successfully also in future?[300]

Therefore, the interviewed entrepreneurs were confronted with the question “Try to imagine a ‘perfect’ chamber. To be ‘perfect’ it needs membership fees from the members to finance the services. Comparing the services you receive from the chamber, how much would be a ‘fair’ membership fee and up to how much Rs could you imagine to pay per month?”

Table 96 shows the results:[301]

- On average the entrepreneurs estimate a monthly membership fee of 217 Rs (180 Rs in 2005) as “fair”. About half of them perceive the prevailing present amount of 100 Rs as justified; 9% one of 500 Rs and more.

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299 Chambers in industrialized countries normally generate between 30 and 50% of their income from membership fees. We personally do not know one chamber, which is able to finance itself through services for the members. This seems to be possible only if a chamber gets a monopoly from the government for certain services (examples: at the beginning of the last century some northeast Brazilian chambers got much money from the sugar export; the Ceylon Chamber of Commerce presumably finances itself mainly through the tea auctions).

300 That donors as the German Government did in 2006 could totally stop the start of new projects due to the interrupted Sri Lankan peace progress was not foreseeable.

301 R 31-01 Membership fee 1 Nuc 1-65 Sex 1-2.pdf; ~Sex 1-1.pdf; ~Sex 2-2.pdf; R 31-01 Membership fee 1 Nuc 99-99 Sex 1-2.pdf; R 31-02 Membership fee 2 Nuc 1-65 Sex 1-2 Eth 1-4 Reg 1-3 Emp 0-50.pdf R 31-02 Membership fee 2 Nuc 1-65 Sex 1-2 Eth 1-4 Reg 1-3 Emp 0-50.pdf; ~Nuc 2-65 Sex 1-2 Eth 1-3 Reg 4-4 Emp 0-18.pdf; R 31-04 Membership fee 4 Turnover Nuc 2-65 Sex 1-2 TO 1.pdf; ~Nuc 1-65 Sex 1-2 TO 2.pdf; ~Nuc 1-65 Sex 1-2 TO 3.pdf; ~Nuc 1-65 Sex 1-2 TO 4.pdf; ~Nuc 1-57 Sex 1-2 TO 5.pdf; ~Nuc 3-57 Sex 1-1 TO 6.pdf

	The entrepreneur could imagine to pay for a "perfect" chamber a monthly membership fee of							
	100 Rs	**200 Rs**	**300 Rs**	**500 Rs**	**TRs**	**> TRs**	**Aver-age 2006 in Rs**	**Aver-age 2005 in Rs**
Total	49%	35%	7%	4%	5%	–	217	180
CCICP	13%	66%	12%	5%	4%	–	249	238
CCIUP	37%	23%	15%	7%	18%	–	341	146
CPWCIC	61%	29%	6%	4%	–	–	156	106
MDCCIA	85%	11%	1%	–	3%	1%	146	145
NCHSL	50%	43%	3%	3%	1%	–	172	–
PAEA	61%	22%	4%	11%	2%	–	193	264
non-Nucleus members	11%	54%	19%	14%	1%	1%	275	–
Per gender								
Males	47%	32%	8%	6%	7%	–	234	202
Females	52%	37%	6%	2%	3%	–	189	142
Per Status								
Registered	40%	35%	9%	6%	10%	–	265	189
Unregistered	56%	34%	5%	3%	2%	–	176	170
Per Turnover								
< 5 TRs	69%	21%	7%	2%	1%	–	151	128
< 20 TRs	55%	30%	7%	3%	4%	–	204	166
< 80 TRs	42%	38%	4%	6%	9%	–	254	189
< 250 TRs	41%	36%	9%	8%	6%	–	242	214
< 500 TRs	25%	50%	17%	4%	4%	–	238	408
> 500 TRs	23%	59%	5%	5%	8%	–	268	236

Table 96: Monthly membership fee for a "perfect" chamber

- There are considerable differences between the chambers and between the answers in 2005 and 2006:
  – CCIUP increased by 133% to 341 Rs and CPWCIC by 50% to 156 Rs;
  – CCICP and MDCCIA remain unchanged; MDCCIA shows with 146 Rs the lowest amount;
  – PAEA decreased to 193 Rs.
- These figures indicate that the entrepreneurs' decision was less oriented to a "perfect" chamber and partially influenced by their present satisfaction with their chamber. Where the entrepreneurs assess Nuclei, services, lobby and chamber performance from 2005 to

2006 better, the respective membership fee amount increases; where the assessments are unchanged or went down the amount remains the same or is reduced.

- One could imagine that those entrepreneurs who participate since 2002 and 2003 would be ready to pay a higher membership fee due to longer positive experiences with the chambers. But the duration of the participation in a Nucleus has no observable impact.
- As expected the size of the enterprises measured by the turnover has influence on the answer of the entrepreneurs concerning the membership fee. This picture fits to the on average bigger non-Nucleus entrepreneurs with an amount of 275 Rs. 90% of entrepreneurs with a monthly turnover of up to 5,000 Rs prefer a membership fee of 100 or 200 Rs, on average 151 Rs. 84% of those with a turnover of more than 500,000 Rs also are not ready to pay more than 200 Rs. Although they have at least a 100 times higher turnover as the first group they find with 268 Rs an only 77% higher membership fee justified. This provokes the question what they have in mind concerning their expectations from their chamber and how they do expect a service for practically nothing? The entrepreneurs might also determine the amount they are willing to pay based on the present performance of the chambers. Then even entrepreneurs belonging to the high turnover category may be unwilling to pay higher membership fee to an organization they perceive as performing inadequately.

The good news is that the entrepreneurs can imagine paying on average about double of what they pay now; and there are in addition considerable numbers for whom the chamber services are worth even more. The bad news is that even an average fee of 217 Rs will result in a monthly income of 43,400 Rs for a 200 member chamber. This corresponds to about 25% of the costs of a professionalized and qualified chamber.[302] This is still too much to die and not enough to do some effective work.

[302] See the calculation examples in Annex 10.4

6.5 Conclusion

The previous chapters demonstrate considerable organizational changes in the chambers since 2002 caused by the creation of Nuclei. This was triggered by additional activities concerning lobby, services and organization by ESSP and concerning most of the chambers by the FCCISL / SIDA / CCISS project that ran parallel for most of the time.

The number of entrepreneurs being member of one of the six chambers increased by 442% from 597 to 2,916. Through the organization of Nuclei the chambers and SEEDS mobilized 4,341 entrepreneurs by end of 2006.

The chambers made decisive steps into the direction of becoming a professionalised body for services and lobbying. The increased membership organized in Nuclei participates more actively in the development of their chambers. Under this aspect, the Nucleus Approach worked successfully. Its logic is functioning.

The five years promotion through ESSP aimed at enabling the chambers to improve their performance and thus leading the members step by step to an income and membership fee level can cover the full costs of a chamber. This did not work. Although a part of the chamber overhead cost subsidy was linked to the payments of membership fees of Nucleus members, the income generation from members was not given the necessary importance in all chambers. Partially they started Nuclei with entrepreneurs whom they did not want as members. This produced only costs and no income. In a certain way, we overestimated the entrepreneurial spirit of the chambers, their thinking in financial terms and their interest (or capacity) to understand the partnership with ESSP as a business.

What would we do differently if we could turn back the wheels of time?

- Put more pressure on the chambers concerning an efficient membership fee system – although we do not know how this would have been possible under the 2002 / 03 prevailing conditions.[303]
- Link any subsidies, those for the overhead costs as well as those for Nucleus activities, still stronger with income generating endeavours of the chambers.[304]

The question is whether under the aspect of sustainability the stimulated processes will continue after the end of the ESSP promotion.

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303 In the context of the implementation of the Nucleus Approach in Algeria, both points are presently in discussion. Here the financial structures of government dominated chambers are even more precarious with 3 € yearly membership fee defined by the government plus a never sufficient donation from government.

304 As a reaction on repeated requests to increase the subsidies at the end of 2004, ESSP confronted the chambers with calculations how many more membership fees and overhead costs subsidies they could have made during the previous 12 months if they had integrated 25%, 50% and 100% of those Nucleus members who were not yet chamber members. Because the chambers always complained, having no money to finance more and better counsellors the calculation was also made in the equivalent of counsellor months. The results ranged between three months and 78 (!!!) monthly salaries of a counsellor. This presentation had no effects.
Another example: a chamber offered to members a "life-membership fee" for a one time payment of 15,000 Rs. It is not known how the decision takers wanted to finance the chamber in the further future. One might put this into the chapter "institutionalized irresponsibility" by which chambers are characterized sometimes.

7 Impact of the Application of the Nucleus Approach: Conclusion

The criteria for assessing the impact of the application of the Nucleus Approach in the context of the ESSP were presented in Chapter 2.1.

7.1 Significance

The impact caused by the introduction of Nuclei in business chambers is clearly significant![305]

- Many Nucleus entrepreneurs started considerable changes in their enterprises with positive economic and employment effects (Chapter 4).
- The relationship between entrepreneurs, chambers and their business environment shows major changes. They cooperate more in a constructive way stimulating each other to undertake more and more activities (Chapter 5 and 6).
- The participating chambers changed very much. New organizational structures, increased and more demanding membership, more services and first lobby activities (Chapter 6).
- Even the national SME NGO SEEDS that is strong in SME promotion started to apply the Nucleus Approach. It is changing its strategies and ways of working with SMEs under qualitative and quantitative aspects.

7.2 Broad Effects

It is an inherent element of the Nucleus Approach to reach as many chambers and SMEs as possible in order to stimulate selfdynamic processes.

- At the beginning of 2007, in the ESSP programme area six chambers and SEEDS are running about 180 Nuclei with close to 2,700 participating entrepreneurs.
- In addition, the PMSME applies the Nucleus Approach in districts along the coast in the southern and eastern provinces.
- Some chambers outside these areas started Nuclei without external support.

The Nucleus Approach has reached many parts of Sri Lanka.

7.3 Institutional Sustainability

If the result of a SME promotion project is an increased but afterwards stagnating performance (Figure 61 / left) then it hardly causes sustainable impact: after some years SMEs, chambers and / or their government return asking for another project for a further SME performance increase.

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[305] Concerning the impact of the Nucleus Approach on the micro level see also ESSP / Jenders, Siegfried (2007).

Sustainability in the context of the Nucleus Approach means that the entrepreneurs and chambers by themselves continue the stimulated change processes (Figure 61 / right).

- The entrepreneurs proceed to work together in chamber Nuclei, finance the respective costs themselves or find other external support. They continuously improve their enterprises.
- The chambers maintain counsellors, take care of their human resource development, integrate and prepare new counsellors thus continuously improving their organizational capacities. They continue to increase the number of Nuclei and participants, integrate them as members and support the Nuclei through lobby and service activities.
- The chambers continue to cooperate in the context of a network on regional level in order to exchange information and experiences. They start common activities concerning the improvement of the regional framework conditions for the economic activities of their entrepreneurs.

What are the chances for this?

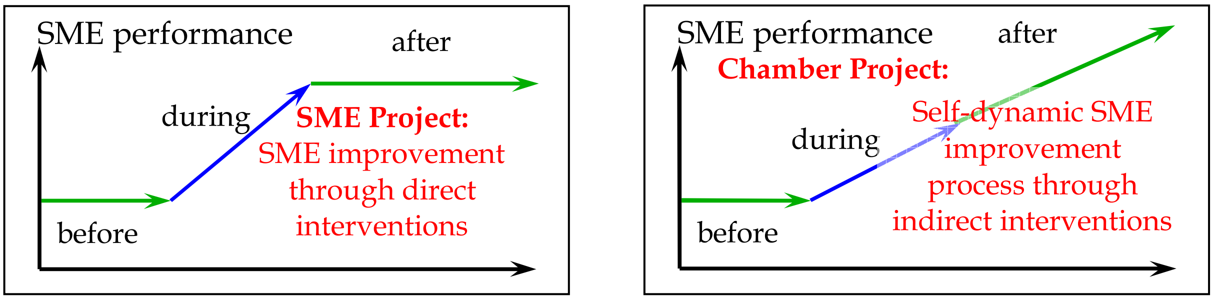

Figure 61: “SME Project” versus “Chamber Project”

7.3.1 The Entrepreneurs

When the application of the Nucleus Approach started in 2002, it was clear right away that the application of the Nucleus Approach would have relevant economic and sustainable impact only if the participation of SMEs in Nuclei develops into a “mass movement” and if it becomes a must for chambers to run Nuclei.[306]

The figures per 12/2006 confirm that a sort of mass movement has been created. Beside the 174 Nuclei with close to 2,700 participants in the ESSP supported chambers and SEEDS there exist presumably more than 70 Nuclei with more than 1,000 entrepreneurs in the PMSME supported chambers and in addition some new Nuclei in the chambers of Kegalle, Anuradapura and Sabaragamuwa. The latter have started Nuclei on their own[307]. In other words, Nuclei and Nucleus entrepreneurs are now spread all over the country.[308]

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[306] ESSP / Müller-Glodde, Rainer (2003)

[307] The ESSP supports them in the context of its dissemination task by counselling them and training their counsellors, but not financially.

[308] This was of course eased very much through the start of the PMSME in September 2005 in the aftermath of the December 2004 tsunami. PMSME has adopted the Nucleus Approach as one of its main interventions. Without this project, it would have been much more difficult to reach a sort of nationwide dissemination of the Nucleus Approach.

The question is whether the entrepreneurs are willing to continue their participation in Nuclei also without external subsidies.

In general, we assume: yes. A certain percentage of entrepreneurs might stay away, but an increasing part seems to understand that more relevant for them is the common work in the Nuclei than a little bit reduced costs through the subsidies of Nucleus activities. In addition, the first chambers outside the programme area have started Nuclei without any subsidies.

If this development will continue then

- the defined exit strategy has worked, and
- the mentioned justification for the subsidies was correct. The subsidization of the Nucleus activities only served to attract entrepreneurs like a bait and managed to speed up the process of creating Nuclei, in order to reach a quantitative momentum for a selfdynamic process.

The decisive point concerning the continuation of Nuclei is the chamber.

Lessons learned

- Before starting the application of the Nucleus Approach in Sri Lanka in 2002 we were confronted with the question that the Nucleus Approach might work in Latin America, perhaps in Africa, but whether Asia would not be totally different.

  Sri Lanka proves that the Nucleus Approach can successfully function also in Asian countries.

  The reasons: clearly, there are uncountable socioeconomic and cultural differences between countries and continents. Instead of stressing these differences, it is more fruitful to check what entrepreneurs and chambers in different countries and continents have in common. In this context, the underlying assumptions of the Nucleus Approach about the situation of SMEs and chambers, their subjective logic and their interaction proved to be correct and the applied instruments functioned accordingly.[309]

7.3.2 The Chambers

The previous chapters demonstrate considerable organizational changes in the chambers since 2002 caused by the introduction of Nucleus Approach and by the parallel support from the FCCISL / SIDA / CCISS project followed by increasing numbers of activities concerning lobby, services and organizational development.

The chambers made decisive steps into the direction of professionalized enterprise service providers. The increased membership participates more actively in the development of their chambers. Under this aspect, the Nucleus Approach worked successfully. Its logic, the stimulation of bottom up developments is functioning.

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309 Therefore, it will be very interesting to experiment and see, whether it works in the same or different way also in Senegal and Algeria where chambers due to the copied French chamber model are very much state driven.

Where are the chambers with their quantitative and qualitative performance presently compared to what is imaginable and compared to countries in similar economic situation? We very roughly estimate

- services: perhaps 40% to 50%
- lobby: perhaps 10% to 15%
- organizational capacities: perhaps 25% to 30%.

The question is whether under the aspect of sustainability the stimulated processes will continue after the end of the German support to ESSP.

As shown before there are three critical factors concerning the sustainability.

- Three quarters of the Nucleus members are not yet membership fee paying chamber members.
- The chambers do not yet have an efficient membership fee system which generates the necessary own income from the members.
- Under the aspects quantity and quality the chambers have not yet fully professionalized their services and lobbying activities.

The chambers have not yet developed sufficient ownership of the Nucleus Approach. After the end of the German contribution to ESSP it will be very difficult, if not impossible to still influence these success factors from outside. This is regrettable. They might make the chambers amenable for giving up Nuclei because of the costs or because another donor enters with another attraction and promotion strategy. And it remains an open question whether the Nuclei and their members are already strong enough to insist on qualified chamber employees and the continuation of the Nuclei without subsidies. The fact that a majority of the Nucleus members are not membership fee paying members of the chamber means that they will have only limited influence on organizational changes within the chambers in a manner that would be conducive to continuing the Nuclei.

In general, chambers with volunteer members are fragile and often instable organizations, frequently even in industrialized countries.

- The institutionalized frequent change of the chairperson and the board members of chambers hinders, especially when the professionals also change frequently or when they are weak, the development of a chamber knowhow and memory. Often after the election of a new board they start again on level zero changing totally its directions and strategies. When as some chambers did a system of succession is introduced wherein the future chairperson is selected early even two terms before and s/he is gradually prepared to take over, the chances for steady organizational development increases.
- Chairpersons and board members, the members as well, frequently have a limited knowledge about the important functions of a chamber as element of the meso level economic system, the tasks, objectives and organizational structures. As mentioned before, the management style of the entrepreneurs applied in their enterprises is often not the right style in a chamber. In addition, many entrepreneurs are not used to dealing with other persons on the same level in a board.

- And last not least, every mistake a chamber can do, a chamber will do one day.[310]

These are not things to complain about. These are inherent elements of business chambers and honorary institutions.

Therefore, when ESSP started the Nucleus Approach in 2002, we had strong doubts that at the end of the project's interventions – originally planned for December 2006 – due to their situation and level the chambers would be stable and qualified enough to continue the introduced processes and services on their own. We started an experimental process and did not know how the economic system in the programme area would react to it. Why should the chambers – or in general: socioeconomic developments – be "ready" exactly at the time of the end of the project which is defined by the donor for totally different reasons? [311]

This meant and means that in our view continued external interventions are still necessary in order to keep the chambers on track concerning Nuclei for a longer time. We presume that without such interventions the application of the Nucleus Approach might deteriorate in some chambers, not automatically in all, in a shorter or longer period.

External interventions mean

- counselling and accompaniment of counsellors, CEOs and chamber honoraries concerning the running of Nuclei and the organizational development of the chambers;
- training of counsellors, other employees, leaders of Nuclei and other honoraries.

External interventions in this sense do not automatically mean financing.

If no external support is forthcoming, this leads to the necessity that a national organization assumes the ownership of the Nucleus Approach in order to accompany and support the chambers in their work and to continue the dissemination of the approach in the country.[312]

The following models have been and / or are under discussion:

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[310] Example: due to frustrations about different CEOs, a chamber decided to abolish this function and to run the chamber without CEO. Wherever this was tried out, gradually the honorary president or secretary took over the tasks and responsibilities of a CEO. In all cases this led to overburden the honoraries and consequently to a mess. Without a professional CEO chambers do not function properly.

[311] One might answer, that this is inherent part and destiny of so called projects of Development, especially Technical Cooperation. But we have a counter example: the partners of the partnership project between the Chamber of Crafts and Small Industries for Munich and Upper Bavaria and the Fundação Empreender, Brazil, decided in the middle of a promotion phase – during the tenth promotion year – to end the project. It was "ready", there was nothing more to do and to reach for the German partner, because the dissemination of the Nucleus Approach was assumed by national Brazilian institutions. This possibility made the German chamber very proud.
This is unfortunately not the set up of Technical Cooperation in the so called narrow sense. Here, GTZ is carrying out programmes on behalf of the German Federal Ministry for Economic Cooperation and Development. These projects always have fixed time frames. Sometimes unplanned extensions of German support are possible, but that has become very restricted under the newly introduced commissioning system .between BMZ and GTZ.

[312] In Brazil this worked perfectly: the confederation CACB and the SME promotion institution SEBRAE entered and made the Nucleus Approach to their own product.

1. The ideal would have been and would be if the Federation of Chamber of Commerce and Industry Sri Lanka (FCCISL) would take up that role. To support and accompany its member chambers for example in the above way could be a natural task for such federation.

   A possible scenario: the FCCISL installs four to five regional chamber coordinators whose office is in one chamber. These regional coordinators execute the above tasks in comparable form like the ESSP Nucleus team and the PMSME Regional Coordinators.

   The problem is the financing: the chambers have little income from members and consequently they pay little or nothing to the Federation.[313]

   During the planning phase of the PMSME it was considered to negotiate a partnership with the FCCISL and to establish the project's Colombo office within the FCCISL. Eventually then it might have been successfully possible to create the above system including the ESSP promoted chambers. Due to doubts that it would work under the post tsunami circumstances, the stakeholders decided not to follow this path.

2. A second model close to No. 1 assumes that the second phase of the FCCISL / SIDA / CCISS chamber promotion project finally starts. The evaluation team of the first phase had recommended integrating the Nucleus Approach into it's next phase.[314] In its context, the above financial gap could be closed in order to give the chambers and the FCCISL more time to generate more and sufficient income from membership and service fees.

   Since the beginning of 2005, the second phase of the project is under discussion between the FCCISL and SIDA. The tsunami brought huge SME promotion projects for the affected areas to FCCISL so the pressure on FCCISL to go ahead with the SIDA financed project decreased. This is also an example of poor donor coordination: ESSP managed to bring together all donors that wanted to work with the FCCISL (Netherlands, Sweden, Norway, Koblenz Chamber) but the high pressure to disburse the huge tsunami funds under conditions of donor competition led to the decision of the Dutch just to press ahead.

   Assuming that this SIDA supported project could become the (second) vehicle to disseminate the Nucleus Approach nationwide (as was proposed in the above mentioned evaluation report), ESSP regularly met with FCCISL (giving them inputs for the project proposal) and SIDA. Up to this date it is not clear whether both partners will still agree on the second phase of the project or its time has already passed.

   We must admit that the construction looks somewhat odd: the sustainability of the impact of a project of one donor is dependent on the start of another project by another donor. But, why not, it could be one of the rare cases of successful donor coordination.

3. The third model we call an anti chamber development system. Frustrations arise about difficulties in and with chambers. Things do not work as they should work, inefficient use of financial means, Nucleus do not function, recruitment of "wrong" counsellors, inadequate salaries, etc. It is almost a reflex that leads a chamber umbrella body and / or donors to intervene stronger and, for example, to contract chamber staff directly. This has in the extreme case the consequence that a federation / donor runs the chamber for the en-

[313] Another problem related to this is the lack of competent staff and the fact that FCCISL has a huge nationwide post tsunami project "Back to Business" with abundant funding by the Dutch Government and therefore is at the moment not in need of another "project".

[314] Karlstedt, Cecilia / Herath, Gamini B. (2005), p 7

trepreneurs and not the entrepreneurs themselves. One can characterize this as a top down approach with lack of ownership of the entrepreneurs and no more responsibility. They can sit down and complain about the errors of the federation / donor. The MDCCIA at present seems to be exactly in this situation with a CEO appointed by the Federation reporting directly to Colombo with no accountability to the members of the board.

The creation of a "national chamber" with the entrepreneurs as its members and the national chamber maintaining branches in the districts was once tried in a southern African country. It failed terribly because of the resistance of local entrepreneurs who insisted on their own chambers for defending their own local interests. It was also tried in Sri Lanka and failed as well. The oldest, strongest and most professionalized Ceylon Chamber of Commerce (CCC) once was a member of the FCCSL,. The CCC subsequently left the Federation when the FCCISL was not able to deliver satisfactory coordination functions and started to compete with the member chambers. Based on the experiences with the Sri Lankan chambers we presume that such a chamber system would again fail here too.
In addition, this model stands in total contradiction to the Nucleus Approach, which tries to stimulate bottom-up movements.

4. The fourth and presently most discussed model is the creation of a non-profit Nucleus foundation. It makes the Nucleus Approach its product, counsels, trains and supports the respective chambers and NGOs and disseminates it further in Sri Lanka. In addition, it tries to develop other products for and with SMEs, chambers and NGOs, for example trade fairs. It develops into the direction of a consulting company.

   There still are a lot of open questions about its composition such as individual persons, institutions, its functioning and especially its financing. It is very probable that for a start such a foundation would depend on donors' efforts and funding. Here, the PMSME can play a central role as it is still running until mid 2008. PMSME can be the necessary back up support to nurture the foundation and make it strong enough to stand on its own feet when PMSME is phasing out in June 2008.

   Another question is whether the FCCISL would be in favour of such an institution doing partially its tasks concerning interventions in regional chambers. It was discussed with the FCCSIL to become an important stakeholder in this foundation, but again we received no clear expression of interest.[315]

Lessons learned

- The Nucleus Approach signifies the initiation of an open socioeconomic process. In reference to the situation at the outset, not everything and not all developments can be imagined and planned as in a closed logic system. There always remain many trial and error steps including risks of errors and failures.

[315] The Nucleus running chambers supported by the German - Brazilian chamber partnership project created the foundation Fundação Empreender in 1996 in order to institutionalize the cooperation of the participating chambers and to disseminate the Nucleus Approach. The members / owners were the membership fee paying chambers of the region. It proved to be the right solution at the right time for a transition period. For some time it worked very well as a kind of regional federation. But on the long run it turned into a disturbing element in the chamber – federation – confederation structure and suffered set backs. Only when the federation entered as member and defined it as its service arm its continuation was secured. Six years after the end of the partnership project, it still exists as micro institution responsible for the maintenance of the ongoing cooperation with the Munich chamber. But on the long run it will presumably be given up because of its disturbing role in the chamber system.

- Inherent element of the Nucleus Approach is that the chambers with better and more services are able to generate respective income from more members. The positive experiences generated by CPWCIC and PAEA indicate this. One has to very early check whether the membership fee system is adequate. If it is not possible to convince the partner chambers to stimulate changes of the system on regional level one should try to involve the Federation much more.
- In reference to the above point one should consider to link eventual overhead costs subsidies still stronger with the successful income generation endeavours of the chambers in order to increase the respective pressure.[316]
- More pressure should have been exerted from ESSP on one hand on the chambers to be open to integrate the Nucleus members into the organizations, and on the other hand on the Nucleus members to become chamber members.
- The organizational development of chambers means long term accompaniment and interventions. Under consideration of the limited time of donor support projects and the improbability that the chambers are just “ready” when the project support ends, the question of an institutionalized national support has to be thought of and considered right away from the moment it is clear that under the given circumstances the Nucleus Approach works.

7.3.3 Chamber Network

An isolated chamber remains always suboptimal concerning its efficiency and its impact on local, regional and national level. They work better in networks. In many countries the chamber system consists of three levels with local (or district) chambers, district (or regional or state) federation and a national federation (or confederation). Normally the chamber system reflects the geographical and political structure of the country.

The respective members of the district chamber are the local chambers, of the national federation the district chambers. In countries where the higher levels accept also individual enterprises as members frequently we find a difficult situation between the different levels: the higher levels compete with the own member chambers for the same entrepreneur (and his / her membership fee). In consequence, district chambers / federations weaken their own member chambers.

The internal logic of such chamber systems is that what can be done more efficiently on the lower level should be done there. Most of the services for SMEs are provided at a local level; the training of the employees and honoraries is executed normally on a higher level in order to get the necessary critical quantities for an efficient training.

Under this aspect ESSP for some time partially fulfilled the functions of a federation on regional level for the district chambers. There was nothing similar in the ESSP region when it started. The six chambers in the region were brought together at regular CEO and counsellor meetings and other events leading to the gradual development of a regional network of

316 This is presently discussed in Senegal and Algeria.

chamber. Otherwise, one would have had to consider channelling all support for the chambers via such a district chamber in order to strengthen the whole system.

In 2002 a regionalization process started in Sri Lanka subdividing the country into eight development regions, one of them the Central Region. The six districts of Kandy, Matale, Nuwara Eliya, Badulla, Anuradhapura and Polonnaruwa made up the Central Region. During this period, a Central Region Chamber emerged, the Chamber of Commerce and Industry, Central Economic Region (CCICER). Unfortunately, the frame conditions were extremely unfavourable. It was founded by a group of bigger enterprises, which had separated from the CCICP due to internal conflict within that organization. The idea was to associate individual entrepreneurs and the chambers of the region. The other chambers were not ready for this. ESSP cooperated with its then partner, the Ministry of Central Region Development (MCRD) and the FCCISL to establish a regional Chamber Forum for the Central Region with all chambers in the region as members. It met several times and discussed common issues. Unfortunately, the CCICER and the Regional Chamber Forum did not continue after another change of Government in 2004 when the concept of the Central Region as a economic development territory was again abolished. The new Government went back to the Provincial System and abandoned the regional development concept.

Cooperation and networking does not just happen but it has to be organized. The case that one of the participating chambers will take over the leadership in order to manage the exchange of experiences concerning Nuclei, etc. does not presently appear very likely. None of the partner chambers is so strong and has the required standing. There only remain the above mentioned potential solutions (FCCISL, FCCISL / SIDA / CCISS project, Nucleus Foundation) to continue to carry out the role played by ESSP.

7.3.4 Conclusion

We admit to be presently with a very careful optimism concerning the institutional sustainability of the Nucleus work in the chambers: three months before the end of the German support there is not yet a clear solution but some loose ends that still have to be followed up.

To make it clear: the problem are not the chambers. It does not make sense to argue in the sense, we and the project approach are good and the target group is to blame because it did not fully react in the desired way. The organizational development of chambers is a slow process, not only in Sri Lanka. Two steps forward, one step back, sometimes three. Necessary is frequently a new generation of entrepreneurs and leaders in order to run and maintain the chambers as professional lobby and service enterprises. Based on the experiences in other countries it was clear right in 2002 that in 2006 / 2007 the chambers would not be “ready”.

The problem is that it was not possible to complete in the time framework of the ESSP the creation or identification of an institution, which assumes the ownership of the Nucleus Approach and is organizationally and financially capable to accompany continuously the development of the Sri Lankan chambers and the entrepreneurs. The conditions for this were not very favourable and a promotion period of five years is too short for such socioeconomic processes.

8 Promotion Strategies for SMEs

Based on the analysis of the entrepreneurs, their enterprises, the Nuclei and chambers in the previous chapters and considering especially the development of the more successful entrepreneurs some conclusions concerning the promotion of SMEs and the economy could be drawn up.

The list is a kind of brainstorming. In the framework of this impact study, we cannot arrive at a detailed analysis nor check chances for realization. Some interventions and promotion strategies are obvious. Others might appear odd and on the first glance far away from the Sri Lankan reality.

No.	Strategies and Recommendations	Addressed to
1	**Preparation of Entrepreneurs**	
1.1	**Education** ➢ Better educated startups have more chances to act successfully as entrepreneur on the market. See Chapters 3.4 and 4.6 • **Parents in general:** invest into the education of your children! • In times of globalization and the internet as an important source for learning what is going on in the world, English is a must. Students coming from university speaking hardly any English have poor chances for a career in the economy. • The understanding of the economy and the life of an entrepreneur starts in school. Some countries, including Sri Lanka, experiment with "CEFE in schools" and similar methodologies. In Germany, chambers give lessons and practical exercises in schools about the functioning of the economy. • Apprenticeships and practical trainings of students in enterprises in order to come early in touch early with the reality of the economy and to check one's capacities. • **Entrepreneurs and chambers:** bring your future requirements concerning the education of employees to the public in order to make parents and students aware of its importance for a professional career.[317]	• Parents • Schools • Government • Chambers • Entrepreneurs

317 In a town in Brazil the bigger enterprises announced in public that they would recruit only young people with a completed O-level or higher. They wanted to motivate students and parents to take care that the students do not leave school without a degree just to make some money. The entrepreneurs were aware that in future they would need employees who are able to think and act like an entrepreneur. They planned as next step to employ only those with an A-level.

<table>
<tr><th>No.</th><th>Strategies and Recommendations</th><th>Addressed to</th></tr>
<tr><td>1.2</td><td>Professional Training
➢ Persons better and longer trained have more chances to act successfully as entrepreneur on the market.
Chapter 3.5 and 4.6.
• Students and parents: invest in training! Do not see training as a cost factor but as an investment in a better future.
• Training institutes: do not just “produce” future employees but entrepreneurs and employees with an entrepreneurial thinking.
o Do not offer what you know to train but what the enterprises and the economy really need today and in future.
o In some countries, training institutes started to apply CEFE and similar methodologies.
o In Brazil training institutes started to understand themselves as enterprises (and not as public institutions) with “products” (= trained students) which the market – the enterprises – need and therefore accept.
o Contact chambers and Nuclei to discuss and identify the problems and the training demand of the entrepreneurs.
o Have representation of chambers, business associations and big companies in the committees of the training institutes that determine the courses.[318] Due to the fact that in Germany a big part of the professional training is managed by the entrepreneur’s chambers there automatically is a permanent exchange of information.
o Offer in coordination with chambers short term upgrade trainings for entrepreneurs and their employees according to their need and demands. This is a business, which should create income for the training institute. A workshop not used for a minimum of ten hours per day during seven days of the week is a waste of a costly public or private investment.[319]
• Entrepreneurs: do not see indoor and outdoor training of employees as well as your daughters and sons only under</td><td>• Students
• Parents
• Training institutes
• Government
• Chambers
• Entrepreneurs</td></tr>
</table>

[318] in Brazil, once we visited together with some directors of technical training institutes an enterprise. Half of them had never been in an enterprise before. How could they be able to organize the training of the students in a qualified way?

[319] None of the Light Engineering Nucleus members knew the well equipped light engineering workshop in the Technical College in Kandy. That indicates that something is wrong between the training institute and entrepreneurs.

No.	Strategies and Recommendations	Addressed to
	costs aspects but as an investment with a respective return. But take care that you get the return. • **Entrepreneurs:** do not see the training of the employee as a loss and the creation of a future competitor when s/he leaves your company afterwards, but as win for the development of the sector and the creation of a future colleague or potential successor of the enterprise. There is a chance for a win-win situation.	
2	**Enterprise Succession** ➢ The education and training level of enterprise successors seems to be lower than that of the start-ups. ➢ The inherited enterprises perform less successful than those run by the founders. ➢ Almost no entrepreneur bought his / her enterprise. Chapters 4.2 • **Entrepreneurs:** invest into the education of your children. Then they have more chances to continue successfully your enterprises as successors. • **Entrepreneurs:** send your children as future successors for outdoor training and practical work to other enterprises in order to get new external knowledge and experiences. A successor who only or not even knows what already the ancestors knew has few chances to survive in fast developing markets. • **Chambers:** check whether it is possible to create a specific Nucleus for junior “bosses” of enterprises. They have specific problems, interests and training needs. • **Chambers / Nuclei:** establish coaching of young entrepreneurs by experienced entrepreneurs. • Due to the fact that enterprises often close because of disputes between the entrepreneur and the successors, in some countries chamber and free lance counsellors function as intermediaries between them. • In some countries, chambers created an “enterprise brokerage” in order to bring interested sellers and buyers of enterprises together.	• Entrepreneurs • Chambers
3	**Startups** ➢ Close to the half of the interviewed Nucleus entrepreneurs founded their enterprise between 2000 and 2004; two thirds of the female entrepreneurs.	• Chambers • BDS providers

<table>
<tr><th>No.</th><th>Strategies and Recommendations</th><th>Addressed to</th></tr>
<tr><td></td><td>➢ The average age of the business founders increased since the beginning of the eighties from about 27 to 35 years. More late-comers are starting businesses.

Chapters 3.2.2 and 4.2.

• There are many instruments to promote startups; see the respective documents and websites.

• Older and more female start-ups mean a more heterogenic target group for counselling and training. Partly the didactics have to be adapted.

• Especially in the very beginning, startups need more information, support and counselling. The first source and the most important institutions for them could be chambers. This need can be utilized in gaining them as chamber members. Chambers can set up special information products and coaching offers for the start-ups. Nuclei only for startups are another option.</td><td></td></tr>
<tr><td>4</td><td>Unregistered Enterprises

➢ On average, the unregistered enterprises perform considerably poorer than the registered ones. But about 40% to 50% of these unregistered Nucleus members still work successfully judging from their turnover and productivity development. They presumably can do be even better as registered enterprises.

➢ “Social tax systems” hinder the development of enterprises and are sub-optimal for the development of the economy and the society.

Chapter 4

• Entrepreneurs: check thoroughly whether you do not have more advantages than disadvantages through a registration (appearance in the market, access to credits, better protection against social taxes, etc.)

• Chambers: stimulate, support and accompany these enterprises in registering.

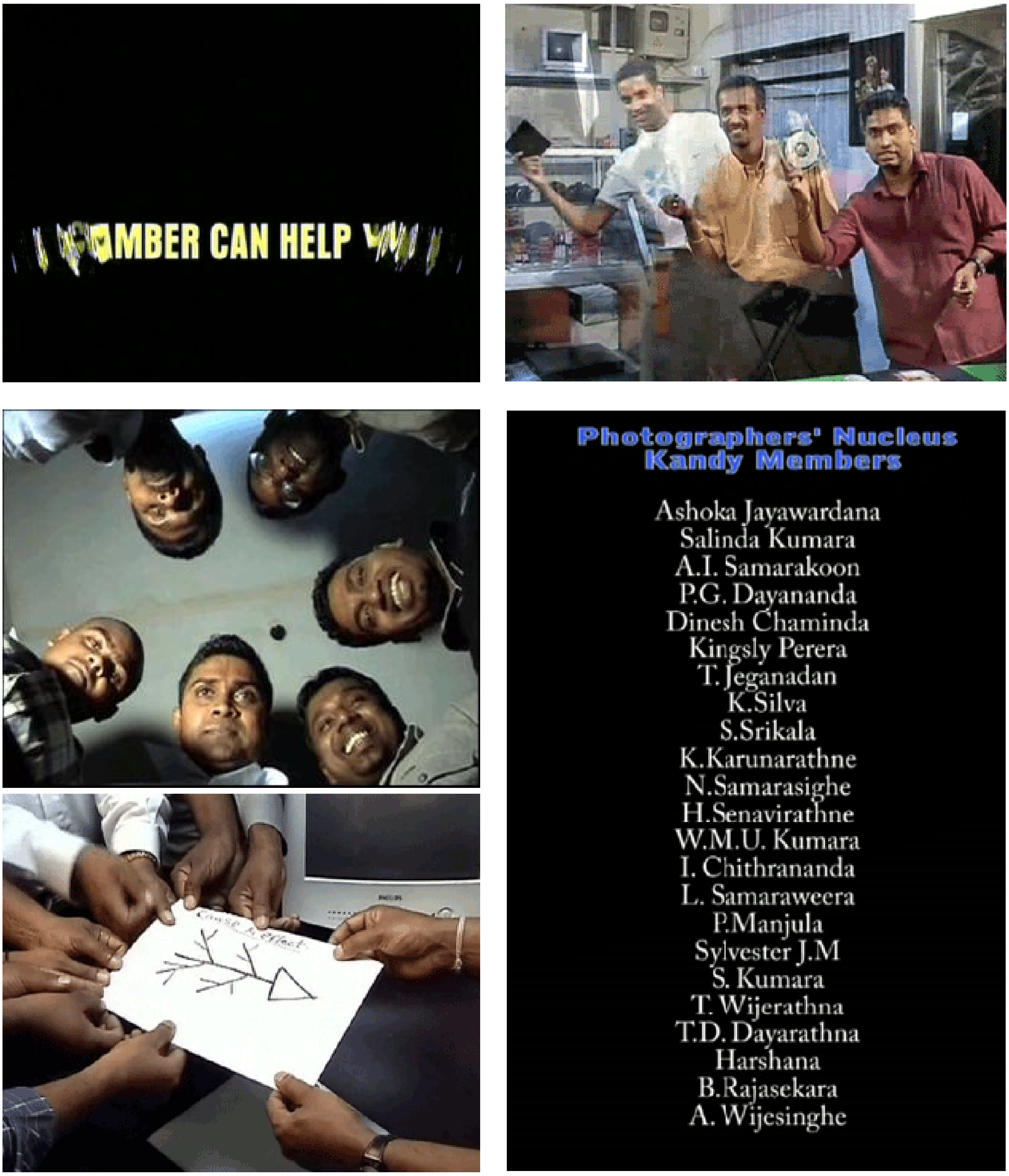
• A registration must be fast, easy and not costly (“One-stop-shop”). In some countries, governments delegated the registration of enterprises to chambers.

• The chambers of commerce and industries have to keep the doors open for unregistered enterprises (there are already unregistered members). There is no need to keep them out</td><td>• Entrepreneurs
• Chambers
• Local and national government / administration</td></tr>
</table>

No.	Strategies and Recommendations	Addressed to
	(respective paragraphs in the constitution can be changed[320]). In addition, chambers with voluntary members do not consider themselves to have control and police functions over their members. The chambers weaken themselves and the whole business sector when they exclude a big dynamic part of the economy.	
5	**Enterprises' premises and locations** ➢ Very often enterprises in family houses run in unsuitable circumstances with a suboptimal set up and inadequate locations. They perform less successful compared with enterprises in premises designed for economic activities and with regard to the access to clients and the market (the Nucleus members in rented premises performed best). Chapters 4.4 and 4.7 • **Entrepreneurs:** check thoroughly whether your enterprise would run more efficient and had more market chances in adequate premises at the right location. Check especially how much time and costs are wasted to move raw materials and products to and from the enterprise as well as inside the enterprise. • **Local governments:** provide adequate land with good access to clients for economic activities and / or support entrepreneurs to find suitable locations as part of the local economic and investment promotion. • **Chambers:** support and accompany entrepreneurs to find adequate premises as business location. Include this in your service package. Use the knowledge of members. Set up an exchange mechanism. • **Local governments and chambers:** Establishment of small (not necessarily big) manufacture centres. In some countries, they are managed by chambers. • **Real estate investors:** do not invest only in commercial buildings but consider also those for production and manufacture.	• Entrepreneurs • Chambers • Local and national governments • Banks • Donors • Real estate investors
6	**Credits** ➢ Few entrepreneurs with collateral in form of land and buildings have credits. These potential collaterals are dead capital instead of contributing to the development of the enterprises.	• Banks • Government • Chambers

320 Look at how CCICP recently changed its constitution in order to integrate unregistered enterprises.

No.	Strategies and Recommendations	Addressed to
	Chapter 4.9 • **Government and banks:** ease the use of these lands and buildings as collateral for credits. • **Banks:** ease access of entrepreneurs to credits. • **Banks:** inform entrepreneurs about your credit schemes and the respective requirements. • **Chambers:** be knowledgeable about interesting credit schemes. Offer advice and support. • **Chambers:** support entrepreneurs to come up with bankable business plans. Include this in your service package.	
7	**Chambers and Nuclei** ➢ Nucleus enterprises performed much better than non-Nucleus enterprises. It is not possible to attribute this better performance to the Nuclei work alone. But first, there are strong indications that the Nuclei contributed to this development, and second, gathering of more dynamic entrepreneurs in the Nuclei supports a more progressive development process and generates additional ideas for more improvements. See Chapter 4.7.2 and 4.7.4 • **Chambers:** contract and invest in qualified employees (CEOs, counsellors). The chamber, the quantity and quality of the lobby work and the services is as good as the staff. • **Chambers:** run Nuclei! It does not only make the chamber attractive so it can win more membership fee paying members but with Nuclei the chamber contributes also to the development of the local economy and society. • **BDS providers:** Nuclei are interesting client groups with better prepared and structured demand for services. Come forward with service packages that address concerns and issues of the Nuclei. • **BDS providers / Chambers:** establish close coordination and set up a win-win situation among yourselves to serve the demands of the enterprises. Chambers involve and subcontract BDS providers.	• Chambers • Entrepreneurs • BDS providers



Pictures from the video of the CCICP Photographer Nucleus, telling the story of the Nucleus, how the entrepreneurs suffered, found together in a chamber Nucleus, started common activities and improved their enterprises. The Photographer Nucleus won with the video the first award for the best Nucleus activity during the Nucleus Event 2005.
Since then, the video has been shown during presentations of the Nucleus Approach in different countries in Africa and Latin America.
The video comes along with the CD attached to this report as a mp4 file. For viewing it install the VCL Media Player (also on the CD)

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10 Annex

10.1 Sri Lankan – German Economic Strategy Support Programme (ESSP) April 2000 to June 2007

Greater Colombo, the area around the capital of Sri Lanka, is the fastest growing region on this small island, which has been ridden by civil war for over twenty years. In contrast, the rural, mountainous region in the centre of the country is an area characterized by modest economic dynamism with competitive advantages mainly related to agriculture. It is here that the Economic Strategy Support Programme (ESSP) is implemented with contributions from the national Ministry of Regional Development and the German Federal Ministry for Economic Cooperation and Development. The German involvement is handled by GTZ.

Compared with the conflict affected north and east of the country, the program region is better off, but like the rest of the country is lagging far behind the Sri Lankan powerhouse, Colombo. Still, there are pockets of poverty and marginalized areas. ESSP promotes local competitiveness in these areas as well as in more urbanized, accessible locations. ESSP helps the Central Province to catch up.

ESSP works closely with the provincial government, six business chambers and associations, and one national NGO. In 2003, the program started its second phase with an enlarged mandate, moving from the promotion of micro, small and medium enterprises in one district to regional economic development covering four districts (see map).

ESSP promotes enterprises and their associations through the group based, Nucleus approach linked to a BDS promotion intervention from a BDS demand perspective. The program also applies PACA[321], interventions along the value chain, and investment promotion tools. Competitive subsectors, including floriculture, tourism and handicrafts, were identified in eleven locations during PACA exercises. The selected subsectors are developed with the help of value chain interventions and regional initiatives. Over the past five years, the program has increased competitiveness, income and employment in more than 2500 enterprises, and increased linkages and local economic dynamism. Innovative businesses in solar technology, electronics, high value vegetables and floriculture were given special attention. Marketing networks to Colombo and for export have been established, and an investment promotion approach (First Stop Shop) has come underway. The programme has also contributed to the design of a regional development strategy.

ESSP performed an SME impact survey in 2005 and 2006 and in addition has introduced the Compass of Local Competitiveness in 2006 to track its outputs and results. National (Federation of Chambers) and international (ILO, Sida) organizations have started to adopt the successful approaches of ESSP, namely Nucleus and LOCA.

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321 PACA has been relabelled in Sri Lanka (and in Nepal) as LOCA (Local Competitive Advantage) because of the negative connotation of the word ‘paca’ in Sinhalese.

10.2 Nucleus Activities (Extract from the Manual for Nuclei)

A Internal Activities of a Nucleus

- A.1 A member of a Nucleus of the same or another sector explains how his Nucleus works and the experiences gained by its members
- A.2 Discussion of problems and objectives
- A.3 Meeting of the Nucleus in the workshop of an entrepreneur
- A.4 Distribution of a list with name, address and telephone numbers of the participants
- A.5 Survey of the Nucleus companies by questionnaire
- A.6 Dinner of fraternization
- A.7 Meeting of the entrepreneurs' wives who participate actively in the company business
- A.8 Three / six months evaluation of the Nucleus activities
- A.9 Planning of the Nucleus activities for the next months / for the following year
- A.10 Debate with the CEO, chairperson and other directors of the business association / chamber about the relationship, expectations and needs of the Nucleus
- A.11 Debate: What do the entrepreneurs expect from the Counsellor

B Activities of the Nucleus for the development of the companies

- B.1 Collective purchase of equipment, raw material and services by the Nucleus members
- B.2 Purchase of bigger equipment (investment of higher value) through a consortium of Nucleus members
- B.3 Discussion about price agreements
- B.4 Introduction of data processing

C Training

- C.1 Transfer of know-how about management, administration, technologies and techniques related to the sector through short, problem orientated training courses
- C.2 Practical training by a Nucleus member
- C.3 Subjects for training activities (all sectors)
- C.4 Calculation of costs and prices
- C.5 Selection and recruitment of staff
- C.6 Short debate / speech / presentation during a Nucleus meeting
- C.7 Technical training for employees of the Nucleus companies by Nucleus members
- C.8 Training by a supplier company
- C.9 Training through a customer company
- C.10 CEFE course for entrepreneur development

D Visits, apprenticeships and technical missions

- D.1 Visit to a Nucleus of the same type of Nucleus of another business association / chamber

D.2 Visit to a supplier of machines, equipment, raw materials, etc.

D.3 Visit to local, regional, national and international trade fairs and exhibitions

E Counselling and consulting

E.1 Definition of a sequence of visits by the Nucleus counsellor to the members

E.2 "Individual counselling" to Nucleus members by the counsellor

E.3 Evaluation of a Nucleus member enterprise through the other Nucleus members – entrepreneurs counsel entrepreneurs

F Lobby activities

F.1 Debate with a public institution, department

F.2 Marketing activities

F.3 Marketing / advertisement through TV, journal or flyer by some Nucleus companies

G For the Counsellor

G.1 Collection of technical publications about the sector

G.2 Internet sites

G.3 Acquisition of videos about business administration and technologies of the sector

10.3 Questionnaire Version 2006

<table>
<tr><td rowspan="2">Question-naire no
Leave empty</td><td colspan="4">**Chamber** ☐ **CCICP** ☐ **CCIUP** ☐ **CPWCIC** ☐ **MDCCI** ☐ **NCHSL** ☐ **PAEA**</td></tr>
<tr><td colspan="4">**Nucleus**</td></tr>
<tr><td colspan="3" rowspan="2">**1 Entrepreneur's name**</td><td>**2 DS Cd**</td><td></td></tr>
<tr><td>**3 GN D**</td><td></td></tr>
<tr><td>**4 Age**
☐ < = 25
☐ 26 – 35
☐ 36 – 45
☐ 46 – 55
☐ > 55</td><td>**5 Sex**
☐ Male
☐ Female
6 Ethnic
☐ Sinhalese
☐ Tamil
☐ Moor
☐ Burgher
☐ Other</td><td>**7 Level of education**
☐ Below O-Level
☐ O-Level
☐ A-Level
☐ Technical diploma
☐ University level</td><td colspan="2">**8 How much time of professional training did you have before starting the business?**
☐ none
☐ < 6 months
☐ > 6 and < 3 years
☐ > 3 years</td></tr>
<tr><td colspan="2">**9 Name and address of the company**</td><td>**10 Year of Foundation**</td><td colspan="2">**11 The company is registered?**
☐ No
☐ as sole proprietorship
☐ as partnership
☐ as private limited partnership</td></tr>
<tr><td colspan="2">**12 How did you enter into this business**
☐ I started it ☐ I bought it
☐ I inherited it ☐ I do not own but manage it</td><td>**13 Location of the company**
☐ In family house
☐ Separate building</td><td colspan="2">**14 The premises are**
☐ Owned
☐ Rented</td></tr>
<tr><td colspan="5">**15 Since when do you participate in the Nucleus** ☐ 2002 ☐ 2003 ☐ 2004 ☐ 2005 ☐ 2006</td></tr>
<tr><td colspan="2">**16 How did your hear about the Nucleus?**
(multiple answers are possible)
(note eventual other)
☐ Through the chamber / the counselor / ESSP
☐ Through another entrepreneur
☐ Through a supplier or customer
☐ Through the media (journal, radio, flyer, etc.)</td><td colspan="3">**17 What did motivate you most to participate in the Nucleus?** (one answer only)
☐ I felt isolated in my company and looked for contacts to other entrepreneurs
☐ I was dissatisfied with my business and looked for improvements
☐ I encountered problems in my day-to-day work and needed new solutions
☐ I was just curious to know what will happen there
☐ I hoped to get loans or subsidies
☐ I had other reasons</td></tr>
<tr><td colspan="2">**18 How did you see the other entrepreneurs <u>before</u> your participation in the Nucleus?**</td><td colspan="3">☐ Competitor and personal enemy
☐ Competitor
☐ Neutral, no relationship
☐ Colleague of the same sector with the same interests and problems
☐ Personal and professional friend</td></tr>
<tr><td colspan="2">**19 How do you perceive the other entrepreneurs <u>now</u>?**</td><td colspan="3">☐ Competitor and personal enemy
☐ Competitor
☐ Neutral, no relationship
☐ Colleague of the same sector with the same interests and problems
☐ Personal and professional friend</td></tr>
<tr><td colspan="5">**20 In how many Nucleus activities did you participate during the last 6 months?**
(Meeting, visits, training, counselling in your company, common purchase of equipment, discussions with the public sector etc.) **Number** ……..</td></tr>
<tr><td colspan="5">**21 In your opinion the Nucleus works at present**</td></tr>
<tr><td>☐
Great</td><td>☐
Good</td><td>☐
Fair</td><td>☐
Not very well</td><td>☐
Very poor</td></tr>
</table>

1 What was your opinion about the chamber / association before your participation in the Nucleus? (one answer only)

☐ Completely unknown
☐ Useless, closed for SMEs, a club of some business people
☐ Very useful, open for SMEs

2 What is your opinion about the chamber / association today?

☐ **Completely unknown**
☐ **Useless, closed for SMEs, a club of some business people**
☐ **Very useful, open for SMEs**

3 How do you evaluate the performance of the chamber at present?	☐ Do not know	☐ Very poor	☐ Not very well	☐ Fair	☐ Good	☐ Great

4 Which other chamber services do you use?

5 Since when are you membership fee paying chamber member?

☐ not member ☐ in or before 2002 ☐ 2003 ☐ 2004 ☐ 2005 ☐ 2006

6 Try to imagine a "perfect" chamber. To be "perfect" it needs membership fees from the members to finance the services. Comparing the services you receive from the chamber / association, how much would be a "fair" membership fee and up to how much Rs could you imagine to pay per month?

☐ up to 100 Rs
☐ up to 200 Rs
☐ up to 300 Rs
☐ up to 500 Rs
☐ up to 1,000 Rs
☐ more than 1,000 Rs

7 How many persons are working in your company at the end of

	2005	2004	2003	2002
Total inclusive the entrepreneur				
Family members				
Permanent employed, work contract				
Daily paid workers no work contract				
Others				

8 How much was your monthly turnover / total of sales (not profit) at the end of

Rs	2005	2004	2003	2002
< 5,000 Rs				
< 20,000 Rs				
< 80,000 Rs				
< 250,000 Rs				
< 500,000 Rs				
> 500,000 Rs				

9 How much did you invest in machinery & equipment during the last 12 months?

☐ 0 Rs
☐ < 100,000 Rs ☐ < 500,000 Rs ☐ > 500,000 Rs

10 In how many external training activities did participate during the last 12 months

You, the entrepreneur?	
Other persons of the company?	

11 Do you or does the company have borrowed money? If yes, from whom?

☐ No ☐ Relatives ☐ Bank
☐ Money lender ☐ Society ☐ other

12 Analyse the changes in your company: How do you estimate the situation before your participation in the Nucleus and how is it today? (mark with an X)

		Very poor	**Not very well**	**Fair**	**Good**	**Great**
121 Equipment, installations, lay-out	Before					
	Today					
122 Technological level and efficiency of production processes	Before					
	Today					
123 Product quality	Before					
	Today					
124 General situation of the company	Before					
	Today					

13 The future: In one year's time, the enterprise will be

☐ worse ☐ unchanged
☐ a little bit better ☐ much better

14 How do you see the present investment climate for your enterprise? Please allocate points: 10 (very strong) 1 (very weak) …………

15 Compared with a year ago, is it better or worse?

☐ better ☐ worse

10.4 Paper "Considerations about the Membership Fee Systems of Business Chambers and Associations in Sri Lanka" from November 2004

November 2004

Considerations about the Membership Fee Systems of Business Chambers and Associations in Sri Lanka

Version 2

by
– Amina Yoosuf, Enterprise Development Specialist
– Simone Lehmann, Senior Advisor SME Promotion
– Rainer Müller-Glodde, Counsellor

Content

1 Introduction

Prospering economies in a globalised world require an efficient network of business chambers and associations on regional, national and international levels.

ESSP – GTZ, FCCISL – Chamber of Commerce and Industry of Southern Sweden and other institutions / donors are presently engaged in promoting Sri Lankan Chambers of Commerce and Industry. The objectives of these projects are more or less similar to one another: Stimulation of organizational changes in the chambers in order to expand and intensify

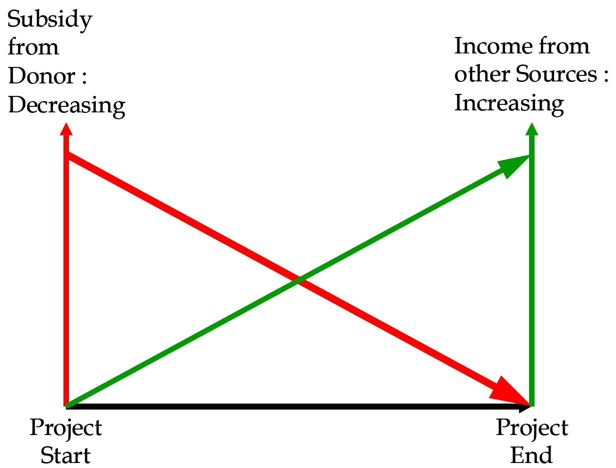
- their services so that they contribute more to the development of their member enterprises;
- their lobbying efforts so that they contribute more to the development of an entrepreneurial environment which is conducive to the promotion of more efficient economic activities.

The need of the organizational efficiency of the chambers is closely linked to this.

The main idea is that the chambers gradually undergo organizational development processes in the direction of becoming institutions, which are professionally managed like enterprises whose products are services and lobbying.

The donors may work with different instruments and in different ways. But the strategy of their interventions is usually identical:

- the support of the chambers through a project occurs for a limited time;
- the donor support (financial subsidies, equipment, training, etc.) is intensive in the beginning and gradually decreases;
- the donor expectation is, that during the promotion period the chambers increase their income from other sources so that they are able to self-finance their organization and its infrastructure and newly started activities after the end of the project. Otherwise the project does not reach sustainable impact and is evaluated as a failure.



Therefore the question is how can the chambers reach the required financial sustainability?

2 The Structure of Chamber Finances

In a simplified form the chamber income and expenditures is structured as follows:

Chamber Balance

Income	Expenditures
1. Membership fees 2. Fees for services 3. Others (interests, eventually rent from buildings, etc.) 4. Subsidies a) from national public institutions b) from international donors	1. Lobby activities including PR 2. Service activities 3. Self-organization and administration

During a workshop with chambers the participants were asked to analyse their 2003 / 2004 finances in reference to the above structure. The results [1]:

- the membership fee represents in most cases between 4 and 8% of the income, in one case 39% due to almost no income from services;
- the income through services including business schools and marketing of member products represents ca. 65% of the income;
- the subsidies from national public institutions and international donors represent between 24% and 33% of the income;
- the income from other sources is in the majority of cases 0%.

The subsidies received from donors and national public institutions are in reality still much higher, because the calculations include only the financial subsidies and not the non-financial support (training and consulting of honourable and professional staff, equipment, trips to other countries, etc.).

This means that

- the chambers at present depend highly on external subsidies;
- the income through membership fees is comparatively extremely low.

During the above mentioned workshop the chamber representatives intensively discussed this situation. They were well aware of the advantages and disadvantages of the subsidies, observing during one group assignment that:

- subsidies from the GoSL are normally only relatively small amounts and create political dependencies;
- subsidies from international donors are larger amounts, do not create dependencies and are perceived somehow as more “comfortable”. Faced with the argument that the subsidies will permanently decrease and end one day the reaction is the – unspoken – hope that the project will be prolonged or that another donor will enter with a new project.

The membership fees of chambers in other continents range normally between 10 and 50% of the income.[2] But this figure easily leads to misinterpretations:

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1 For the details see ESSP: Report on the Workshop on Financing Chambers, On 18 & 19 June 2004, At Culture Club Resort, Kandalama, Dambulla, document “Chamber WS June 2004.doc“. Participating chambers and associations: CCICP, CCIUP, CPWCIC, MDCCIA, NCHSL, PAEA

- The higher the income from services the lower automatically the income from membership fees as a percentage of the total income. This means, a chamber with a low income share from membership fees is not automatically “weak” and a chamber with a high income share from membership fees is not automatically “strong”.
- The income from services is linked with corresponding expenditures. Therefore, the question is, whether the chambers are able to reach a financial surplus through the services or whether they are using also the membership fees to finance them.

The authors do not know one chamber on local or regional level considering also other continents, which are able to produce regularly a considerable financial surplus through services. Some such chambers might exist but they should be seen more as an exception rather than the rule. The reasons are as follows:

- Certain services are not charged separately. The member has the right to these services through the payment of the membership fee. This refers to certain information services, in many chambers to counselling and consulting services (sometimes limited to a fixed number of hours / days per year) and others. The idea is, to motivate and stimulate the member to use these services. Experiences show that as soon as the chamber charges for these services individually the members think twice about whether it is worth to use them or not. And due to the fact that entrepreneurs are prudent and sceptical people they tend not to invest money into a service if they are not 100 percent sure about a positive return. Therefore, chambers charging for these services are risking loosing contacts to their members.[3]
- Big companies are normally more interested in the lobbying activities of a chamber. They are able to buy the required services on the market. SMEs have less interest in the lobby and much more interest in the services provided. They expect a direct financial return from their membership fee. Consequently a chamber without services is not attractive for SMEs.
- Chambers especially offer services, which the members need and request but which are not sufficiently profitable and too risky to be provided by profit orientated BDS providers.[4] On the other hand if a chamber offers more profitable services it is probable that it enters into competition with its own member enterprises, which automatically causes serious conflicts. Most chambers follow an unwritten rule: Never compete with your own member enterprises.
- The members expect to get the services for a “reduced” price. They might accept that the chamber has to recover the full costs for a service from them. But when they observe that

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2 The Chamber of Commerce and Industry of Southern Sweden confirmed 40%.

3 Exactly due to this reason, German Chambers for Crafts and Small Industries decided not to charge for counselling services despite existing financial problems.

4 Examples from many countries: a) If chambers start to organize trade fairs for their SME-members they do so normally not in order to make profit but because the market does not offer an attractive and adequate product to these SMEs. The BDS providers like to offer profitable services to an organizer of a SME trade-fair but not to assume the risk of organising a trade-fair. b) Trainers / instructors like to be contracted by a chamber to conduct a training course but they do not like to assume the entrepreneurial risk and to run the course on their own.

their chamber as so-called non-profit-organization makes a real profit through a service paid for by them they automatically question why they should pay the membership fee.

Consequently many chambers finance their lobby and PR work, the self-organization, the administration and x% of the services through membership fees plus other income.

How much of their membership fees and other income chambers invest into the service area and how much into lobby / PR is a pure political decision in reference to the preferences of the members and their organization.[5]

Chamber Balance	
Income	Expenditures
Membership fees	Lobby activities inclusive PR
	Self-organization and administration
Others (interests, eventually rent from buildings, etc.)	Service activities
Fees for services	Service activities

Under these aspects it becomes obvious that the Sri Lankan chambers have to urgently increase their income from membership fees. Otherwise they will run into serious problems related to maintaining their physical infrastructure and human resources as well as their performance in the service and lobby area, which they develop at present with donor support.

The question is, how in general, can chambers increase their income from membership fee through an increase

- of the membership;
- of the membership fee.

3 Increase of the Membership

In general, when more members pay membership fee the fixed costs (mainly administration costs like rent, equipment, staff, etc.) per member decrease. (Example: The costs of the CEO remain the same when the chamber has 10 or 100 members).

The activities promoted by different donors made the chambers more attractive for entrepreneurs. As the graph shows chambers / associations supported by ESSP and the FCCISL / SIDA started to increase their membership since 06/2002 by 42% (red / middle areas of the column). Through the Nuclei they got the access to another 600 enterprises, which are not

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5 Some examples: German Chambers for Crafts and Small Industries – the members have in average 8 employees – and many sector associations invest up to 80% of their membership fees into their services, German Chambers of Commerce and Industries much less (here the big national and international companies participate), Latin American chambers between 20 and 50%.

yet membership fee paying members (yellow / top areas of the column). This means that on one hand the chambers have increased their membership and their income from membership fees but on the other hand there still is a huge untapped potential for more members.

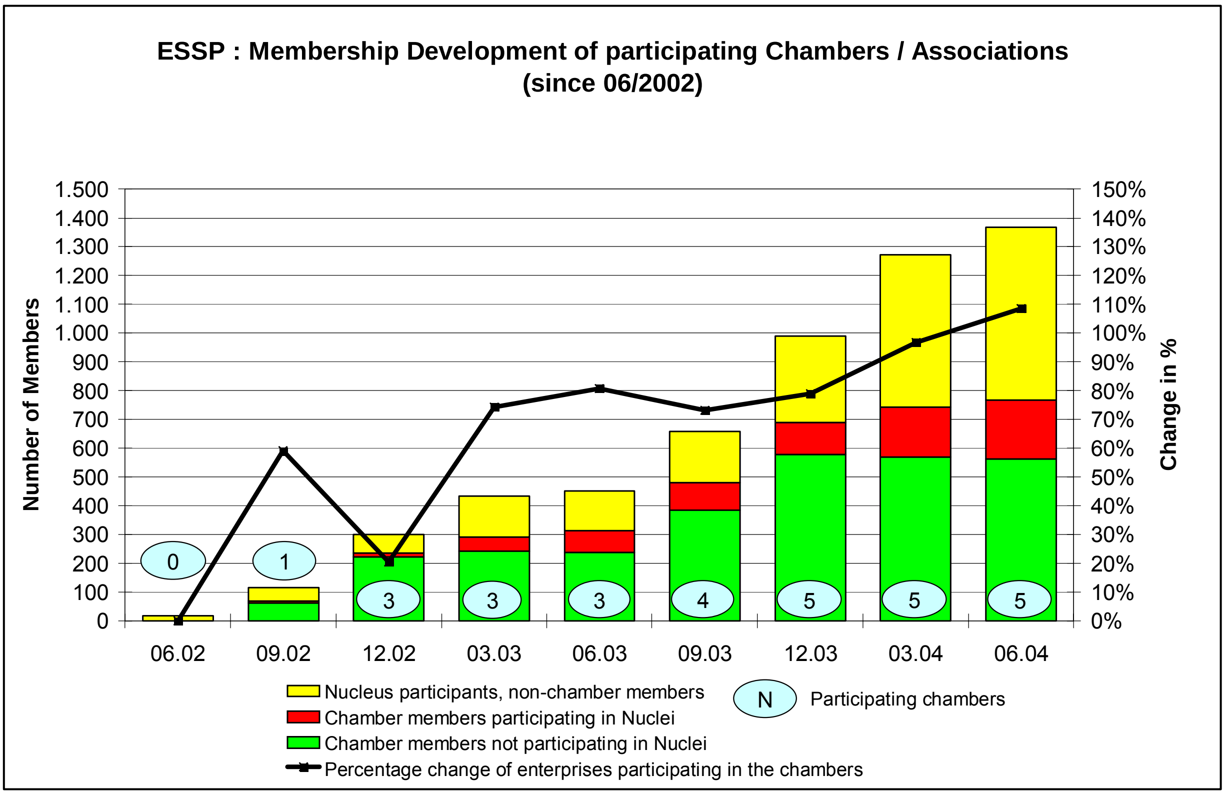
This result has to be considered in addition to the fact that the “Chamber Overhead Subsidy System” of ESSP refers partially to the number of Nucleus members who become membership fee paying chamber members: The higher this number the higher is the subsidy amount. Thus the chambers have a direct incentive each time a Nucleus member becomes a chamber member (for more details please refer Nuc Subsidy Guide)

Therefore, the question is, why do the chambers not take more advantage of the opportunity to gain more members and subsidies?

The simple answer blames the entrepreneurs: They are reluctant to spend money for the chamber membership – they are the problem, not the chamber.

It is not as simple as this. The more complex answer can be analysed as follows:

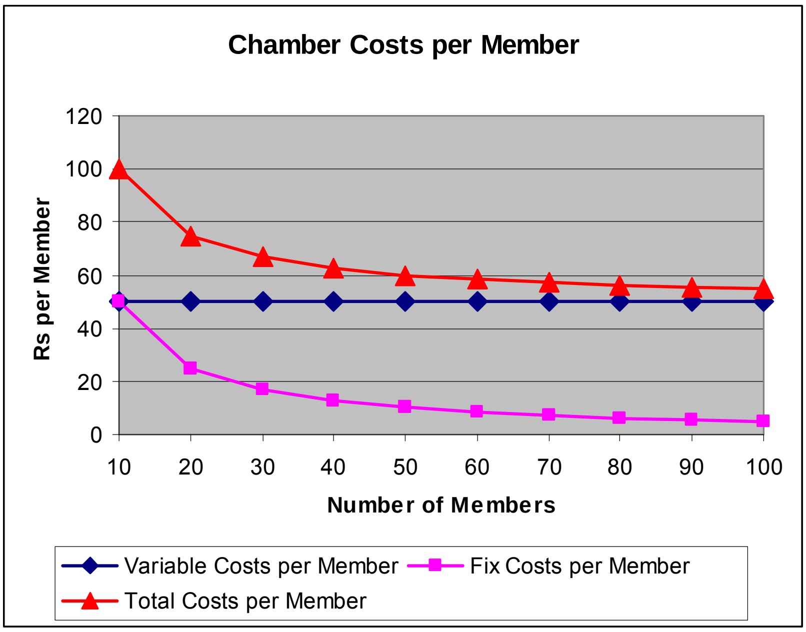
- The entrepreneurs are not sure whether they are really welcome in the chamber. In order to avoid the risk of a most unpleasant rejection, which may be felt as a personal defeat, they do not apply for membership.
- Consequently the chamber has to approach them and to invite them pro-actively: “We, the chamber, we need you entrepreneur a member – you are most welcome. And you, as an entrepreneur, you need our services!”
- Frequently, the problem is, that nobody in the chamber feels responsible to do this: the chairperson and the other board members are too “noble” to talk to entrepreneurs about their membership, the CEO too often may feel like this. The counsellors and other staff members either do not have the courage or they say: ”Why should I do it? There is no ad-



vantage for me, only presumably more work. In some chambers there is an officer responsible for "membership drive", the other staff members of the chamber often feel that the increase of the members is the sole task of this officer.

In this context has also to be mentioned that some chambers have a hidden agenda of keeping out other entrepreneurs what indicates a high degree of confusion concerning the tasks and objectives of a business chamber.

The actual membership should be seen also in relation to the potential "member-market" concerning the degree of representativity of the chambers: How many percent of the total number of the entrepreneurs in a defined region do the chambers represent? The higher the rate of representativity – this means, the more entrepreneurs a chamber represents – the higher is the chance for successful lobbying – the public administration has to listen and respect it and the politicians have to consider the chamber members as potential voters who will vote in favour of them in the next elections.



In the CP, for example, CCICP, CPWCIC and NCHSL together represent actually circa 400 of 26,000 enterprises; this means 1.5%. This extremely low rate limits the chamber's chances to lobby successfully to almost zero.[6]

Another question is which type of enterprises should chambers try to attract as members. Here again financial aspects enter: ESSP always recommends taking care first and especially of medium and small enterprises because more than micro enterprises they are able to pay reasonable amounts as membership fee.

During the above mentioned workshop the participating chambers / associations announced their intention to concentrate and pay more attention to increasing members and consequently the membership fee derived from them.

6 A short story from Germany: In 1863 some representatives of the newly founded Chamber of Crafts and Small Industries went to the German chancellor Bismarck to present the chamber and to ask for his support. Bismarck asked: "How many entrepreneurs do you represent?" The entrepreneurs answered: "50." Bismarck: "Well, my dear men, do a good job, and when you have 50,000, then you come back!"

4 Increase of Membership Fees

Worldwide the increase of membership fees is never popular in chambers. On the one hand the deciding entrepreneurs take the matter affecting their pockets into their own hands concerning an increased payment of membership fee, on the other hand the chairperson and the board of directors never gain popularity among their members with this subject.

Nevertheless, due to the reasons presented above the chambers will have to increase their membership fees. They at present are extremely low at between 100 and 200 Rs per month. Members have to be confronted with a very simple question: Which services and performance can you expect from a chamber to which you pay the value of two or three softdrinks per month? The ESSP Team asked this questions a couple of times and the entrepreneurs admitted: Nothing!

4.1 Relevant Criteria for Chamber Membership Fee Systems

A chamber membership fee system must refer to some selected criteria in order to function efficiently:

- The members should perceive it as ”fair“.
- It should generate the necessary income for the chamber.
- It should have a limited complexity and be easy to manage and administer.

4.1.1 Criterion “Fair”

A “fair” membership fee means, that the member feels subjectively treated in the right way in reference

- to her / his financial capacities;
- to the “return” he / she can expect from the membership;
- to the other members.

In sports, social and business clubs (Lions Club etc.) things are relatively easy: An individual person is a member. All members are “equal” and they can use the services in the same way. The rule is: One member, one vote, one membership fee amount.

These clubs have only to adjust the membership fee amount. This is sometimes used as instrument to keep certain social groups out of the club in order to maintain an exclusiveness desired by the existing members.

Business chambers have another character: Members are companies. These may have different juridical forms, but even in the case of a one-person-enterprise, the owner is not a member as an individual person but as a representative of her / his company. The question is, whether a chamber system, which has the same membership fee amount for all members, is “fair” and provides the institution with the necessary financial means. Or whether a more differentiated system that reflects the different economic strengths of the members expressed through the number of employees and / or turnover or profit is better.

Case 1: All chamber members are more or less similar concerning their economic strength reflected by turnover, profit and number of employees.

In this case the same membership fee amount for all members represents a "fair" system. The economic burden through the membership fee is somewhat similar for all members. In addition, the system is simple, easy to manage and administrate and consequently efficient.

This case refers in Sri Lanka at present to the situation of e.g. CPWCIC. Almost 100% of the members have less than five employees and the range of turnover and profit between the strongest and weakest companies is small.

Case 2: The members differ strongly concerning their economic strength. The number of employees ranges from 0 to hundreds and consequently their turnover and – often – the profit also differs accordingly.

In this case the same membership fee amount for all members represents an "unfair" system. The economic burden placed upon the members is totally different as a simple calculation shows: The membership is TRs per member.

- An enterprise with one employee pays consequently 1,000 Rs per employee;
- One with 10 employees pays 100 Rs per employee and
- One with 100 employees pays 10 Rs per employee.

A similar calculation done per turnover or per profit leads to the same result. If nevertheless such a chamber charges the same membership fee from all members, then there are two possibilities:

- The membership fee is so low that even the smallest member does not feel it in her / his pocket and therefore does not bother, that an enterprise with 200 employees pays the same amount.
  But this leads automatically to the problem, that the chamber generates only a very low income with the membership fees. Such a chamber will never be able to finance itself.
  This refers presumably in Sri Lanka to all chambers with a monthly membership fee of 100 Rs per month and less.
- The membership fee is so high, that it can be paid only by enterprises with a certain economic capacity. This chamber may generate sufficient income. But the effect of this membership fee is, that – intended or not – micro, eventually also small and medium companies are excluded as members. The chamber expresses in a certain way that it is interested only in elite companies as members.
  A so-called "Regional Chamber" confirmed this intention openly when it once defined a membership fee of 30,000 Rs / month.[7]

The authors encountered chambers with such a membership fee system for the first time in Sri Lanka. The reasons are not fully clear. Is it, because

- the membership fee system is simply copied from social and business clubs without reflecting whether this is suitable for a business chamber?

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[7] In the meantime, this chamber has reduced this amount.

- during the foundation phase all founding members had more or less the same economic strength and when the membership changed the chamber did not adapt its fee system?

In most countries chambers define their membership fee according to the economic strength of the member companies through a tier system.

The question is what best reflects the different economic strength of the members:

- **Profit**: The profit of the member companies certainly best reflects the economic strength of an enterprise. It changes in relation to the economic success of the enterprise.
  But entrepreneurs are very reluctant to publish data about their profit due to competition on the market and an institutionalised conflict with the government about their income tax. Therefore, the enterprise profit is not a recommendable criterion for defining the membership fee.[8]
- **Turnover**: The turnover reflects also the economic strength of a company. One problem is that the turnover differs between industry, service, trade, agriculture and finance: The turnover of 1,000,000 Rs requires many more economic activities from an industry, service or agriculture enterprise than from a trade company or a bank. The solution can be to define different values per sector. The disadvantage of this is that the membership fee system rapidly becomes very complex.
  In addition, the entrepreneurs are also very reluctant to publish information about their turnover. Therefore, the enterprise turnover is also not a recommendable criterion for the definition of membership fee.
- **Number of employees**: The number of employees is normally not a business secret. The employees know more or less the number and therefore also the general public. In addition, entrepreneurs may gain reputation through a higher number of employees.
  An advantage is that the calculation of the number of employees is normally relatively easy to do and does not cause additional work to the entrepreneur.
  For the chamber the fact that the number of employees of a company does not change very much from one year to the other is important. On the one hand this eases the administration; on the other hand this stabilizes the income through membership fees.
  Worldwide, the number of employees is presumably the criterion most used by chambers. It is recommendable also for Sri Lankan chambers.
  A problem might be how especially micro and small, sometimes informal enterprises answer the question about their employees. If only those who have a formal work contract are counted then daily paid workers, apprentices and family members are not considered. Therefore it could be better to ask for the number of persons who participate in the enterprise including the entrepreneur her- / himself .

4.1.2 Criterion Necessary Income

The chamber income required from membership fees depends on its costs. In reference to some chambers in the Central and neighbouring provinces one can calculate a chamber

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8 German chambers have the access to information about certain taxes, which the entrepreneur pays in reference to her / his surplus. The membership fee refers to this surplus. But this is a very special solution and refers to the special status of German chambers, which have also some public functions. Therefore, this system does not represent a model for other countries.

model with staff, rent, communication, transport and general administrations costs (excluding the costs of special activities and services as well as the depreciations of equipment or investments in equipment) per month roughly as follows:

	Cost category	Monthly range between (in TRs)	
1	Qualified staff – CEO – Counsellor – Information Officer – Secretaries and other support persons (1 – 4) Total	 > 20 TRs > 6 TRs > 6 TRs > 3 TRs > 35 TRs	 < 50 TRs < 20 TRs < 20 TRs < 10 TRs < 100 TRs
2	Rent	> 10 TRs	< 50 TRs
3	Communication, transport and other administrative costs	> 15 TRs	< 50 TRs
	Total	> 60 TRs	< 200 TRs

If this model chamber has between 100 and 200 member which are paying membership fees of 100 Rs or 200 Rs / month the calculations are as follows:

	Members	Monthly fee per member Rs	Total monthly fees Rs	Total costs minimum – see above RS	Financial gap in Rs / in % of costs	Total costs maximum – see above RS	Financial gap in Rs / in % of costs
a)	100	100	10’	60’	- 50’ / 83%	200’	- 190’ / 95%
b)	100	200	20’	60’	- 40’ / 67%	200’	- 180’ / 90%
c)	200	100	20’	60’	- 40’ / 67%	200’	- 180’ / 90%
d)	200	200	40’	60’	- 20’ / 33%	200’	- 160’ / 90%

The table shows, that the financial gap in % of the chamber’s cost is not only big: It is huge. To close this gap, especially through a surplus from services, does not seem very realistic.

In other words: Such a chamber maintains at present a staff and physical infrastructure far above its financial capacities.

To close this financial gap with membership fees only, an average monthly membership fee of

- between 600 Rs and 2,000 Rs in the case of 100 members;
- between 300 Rs and 1,000 Rs in the case of 200 members.

would be necessary.

Referring to the above paragraph it is obvious that such fees for all members would exclude all micro enterprises as well as the majority of the small ones. But even if this chamber follows a policy to concentrate on medium and large enterprises as target group it runs into financial difficulties:

a) There do not exist so many of such enterprises;

b) These relatively small numbers of medium and larger enterprises of each province belong to different, partially competing chambers and business associations, making this target group per chamber even smaller.

The only way out is a membership fee system which charges more from the economically stronger members and less from the economically weaker ones, as shown by the above mentioned tier system.

The question remains how much should and can be charged. There exists a basic rule:

- the membership fee should be so low, that it does not function as a barrier for an entrepreneur to apply for membership;
- the membership fee should be so high, that the entrepreneur feels it as a certain financial burden. In other words: The membership in the chamber is not a personal “hobby” of the entrepreneur but an investment from which he / she can expect a return.

4.1.3 Criterion Complexity and Management / Administration Efforts

A fixed amount per member certainly presents a membership fee system with the lowest complexity. A tier system is automatically more complex. On the other hand the membership fee system must be easy to understand for the members: Who pays how much and why? Otherwise they will always be reluctant to pay the fees.

In general there exists a certain conflict between “fairness” and “simplicity” of a membership fee system.[9]

Many chambers in other countries work with between 6 and 10 categories of members. In this case the administration is comparatively easy, because only a minority of members will move from one category to another during one year.

5 Membership Fee for Sri Lankan Chambers

The presented models refer to the number of employees / people working in the enterprise.

Model A1

Working Persons			Fee / Person	
Minimum	Maximum	Fee / Year	Minimum	Maximum
1	5	200	200	40
5	9	500	100	56
10	19	1.000	100	53
20	39	2.000	100	51
40	79	4.000	100	51
80	159	8.000	100	50
160	319	16.000	100	50
320	640	32.000	100	50

Model A1 and A2 with eight categories emphasize the membership fee per working person in the company. The differences between the minimum fee per person per category (column 4) as well as the maximum fee per person per category (column 5) vary as less as possible.

9 The members of a Latin American association pay a certain amount per employee: This is “fair“ but causes a lot of administration work due to permanent changes of the individual membership fee.

The disadvantage of Model A1 is that enterprises with less than 10 working persons pay a very low amount, which will never finance the costs of the chamber. Considering that in many chambers they represent the majority of the members a chamber might not reach the necessary income level.

Model A2

Working Persons			Fee / Person	
Minimum	**Maximum**	**Fee / Year**	**Minimum**	**Maximum**
1	4	1.000	1000	250
5	9	2.500	500	278
10	19	5.000	500	263
20	39	10.000	500	256
40	79	20.000	500	253
80	159	40.000	500	252
160	319	80.000	500	251
320	640	160.000	500	250

When – as in Model A2 – the fee is increased to approximately the amount SMEs pay actually then the membership fee for bigger enterprises reaches levels, which they presumably will refuse to pay.

Model B increases the difference between the membership fee per working person: The biggest enterprises pay between 10% and 20% per person compared with the smallest ones (see the first and last values of the last two columns).

Model B

Working Persons			Fee / Person	
Minimum	**Maximum**	**Fee / Year**	**Minimum**	**Maximum**
1	4	1.200	1200	300
5	9	2.400	480	267
10	19	4.200	420	221
20	29	7.800	390	269
30	49	10.800	360	220
50	99	15.000	300	152
100	199	19.800	198	99
200	399	24.000	120	60
400	799	30.000	75	38

On the other hand, the difference between the membership fees per year is reduced. SMEs pay a reasonable amount in reference to their costs; bigger enterprises contribute more but still amounts, which they can afford without difficulties.

Of course, other calculations are possible. They always follow a tier system and the same formula: The smaller the difference between the lowest and the highest membership fee amount the bigger is the difference between the membership fee per working person and the financial burden for the enterprise.

6 Conclusions and Recommendations

The discussions in the previous chapters clearly indicate that the chambers without increasing their income from membership fees will run into financial difficulties – especially as soon as the international donors decrease and finish their support which is presently given through various subsidies.

In order to increase the income especially from the financially stronger members and to maintain simultaneously the chambers' attraction for SMEs and MSMEs a tier system for the membership fee is presented.

If these chambers are to become self-financing sooner or later they will have to change their membership fee system. In the present context of economic globalization the international tendency is decentralization of tasks and responsibilities. This decentralization in society could be from central governments to regional / provincial governments as well as to private institutions including business chambers. This calls for institutionally and financially stronger chambers. The question is: when is the right moment to try to convince the chambers to adapt their membership fee system more to the international procedures?

One could argue against a change as follows: If the chambers start to increase their membership fee now from the few members they have many will leave contributing to making the fragile situation of the chamber worse.

The counter argument: If the chambers do not start to increase their membership fees now they will run very fast into a precarious financial situation. In addition, the more members the chambers have, the more entrepreneurs will be used to a low membership fee, which will make a change even more difficult.

Concerning an implementation strategy for a tier system it is obvious that it would not make sense to try to convince all chambers to change their system in one step. Therefore, a successful strategy could be in the form of a step-by-step process:

- To select one or two smaller chambers with a relatively homogenous membership where a tier system would not have a big financial impact on most members. In such a case the introduction of a tier system encounters less resistance of members. These chambers could serve as examples for other chambers.
  Examples for this type of chambers: CPWCIC, NCHSL.
- Parallel to this it can be considered to recommend to chambers just starting out to introduce a tier system right from the beginning.
- In addition to this it can be considered to start negotiations with a chamber with a more heterogeneous membership. Based on information about the member enterprises different models for a tier system would have to be calculated in order to see the effects for the members and the chamber. This could be a chamber where the leaders are open to changes, have an entrepreneurial vision for their institution and are conscious concerning the chamber finances.
- In case a tier system works successfully in such a chamber others can be stimulated to copy the system.

This strategy has more chance of succeeding if the FCCISL / Chamber of Commerce and Industry for Southern Sweden and ESSP agree on a common concept related to the development and changes to be made to the membership fee systems being implemented.