

Sustaining local level development: What worked and what did not

Lessons from the phasing-out of
Norwegian aid to the Hambantota
Integrated Rural Development
Programme (HIRDEP), Sri Lanka
1992 to 1999

Alf Morten Jerve
Sylvi Endresen
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Marcus M Karunanayake

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P.O. Box 6033 Postterminalen,
N-5892 Bergen, Norway
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Preface

This evaluation was commissioned by the Norwegian Agency for Development Cooperation (NORAD) and the Ministry of Southern Area Development, Government of Sri Lanka, to summarise the main experiences and lessons from twenty years of cooperation in the Hambantota District. The study focuses primarily on the third and last phase of the Hambantota Integrated Rural Development Programme ending in 1999.

The team consisted of:

- ? Mr. Alf Morten Jerve, Chr. Michelsen Institute, Norway, team leader
- ? Prof. Marcus M. Karunanayake, Department of Geography, University of Sri Jayewardenepura, Sri Lanka
- ? Dr. Sylvi Endresen, Department of Sociology and Human Geography, University of Oslo, Norway
- ? Dr. Dhanawardana Gamage, Hector Kobbekaduwa Agrarian Research and Training Institute, Sri Lanka

This report is the collective effort of the whole team in which the outline, drafts of chapters and the main conclusions have been developed in a series of team meetings and subsequent e-mail communication. Karunanayake and Gamage are the main authors of the contextual analysis (chapters 2.1 and 3.1 respectively), while Jerve and Endresen drafted the programme specific chapters (2.2/2.3 and 3.2/3.3 respectively) with inputs from Karunanayake and Gamage. Jerve drafted the introductory and concluding chapters.

This study would not have been possible without the professional and managerial assistance from the Development Studies Institute, University of Colombo. A major part of its assignment was the commissioning of three background studies (see list of references) conducted by:

- ? Prof. D. Atapattu, Department of Economics, University of Ruhuna
- ? Prof. W.D. Lakshman, Department of Economics, University of Colombo
- ? Prof. B. Hewavitharana

In particular, the team wishes to acknowledge the support provided by W. Gooneratne and G. Wickremasinghe of the Development Studies Institute, P.S. Gajanayke (District Director, REAP, Hambantota), P.P.G. Sirepala (Social Mobiliser Foundation) and A. Thassim (Hambantota District Chamber of Commerce) for facilitating the fieldwork programme. Last but not least we thank the many people who shared important information and insights with the team. While we hope that their views are reflected in the way we have formulated lessons from HIRDEP, some will no doubt take issue with some of the conclusions, for which the team alone is responsible.

Alf Morten Jerve, Bergen, Norway, January 2003

Acronyms

AGA	Assistant Government Agent
AIT	Asian Institute of Technology
BOI	Board of Investment
CBO	Community-based organisation
DCB	Decentralized Capital Budget
DDC	District Development Council
DPU	District Planning Unit
EDA	Entrepreneur District Agency
ESC	Enterprise Service Centre
GA	Government Agent
GM	Gramodaya Mandalaya
GOSL	Government of Sri Lanka
GTZ	German Agency for Development Cooperation
HDCC	Hambantota District Chamber of Commerce
HDI	Human Development Index
HIES	Household Income and Expenditure Survey
HIRDEP	Hambantota Integrated Rural Development Programme
ICD	Integrated Community Development
IRDP	Integrated rural development project
JVP	Janatha Vimukthi Peramuna
MPPI	Ministry of Policy, Planning and Implementation
NDB	National Development Bank
NGO	Non-government organisation
PA	People's Alliance
PC	Provincial Council
PRA	Participatory rural appraisal
PS	Pradeshiya Sabha
PU	Planning Unit
RARP	Recurrent and Annually Revolving Planning System
RDD	Regional Development Division
REAP	Rural Economic Advancement Programme
SMF	Social Mobilisation Foundation
TTA	Tissahamarama Trade Association
UNP	United National Party
VTI	Vocational Training Institute
WDF	Women's Development Foundation
WUSC	World University Service
YNP	Yala National Park

1 HIRDEP in the 1990s: how to phase out aid in a changing environment

Development aid is intended to be a temporary measure. It should function as a booster to a society, an economy, an organisation or a household, not as a permanent feature. Aid has been successful when it is no longer needed. This is our common perception, but we all too often see how aid breeds dependency, and how both donors and recipients have difficulties preparing for termination of the relationship. There is no easy formula for phasing out aid, and this is inherently more difficult to do well than the opposite – phasing in aid. This study looks at a case of planned phasing-out. From 1992 to 1999 the Hambantota Integrated Rural Development Programme (HIRDEP) prepared for the termination of Norwegian funding.

We look at the lessons from the phasing-out of HIRDEP under two broad headings. The *first* theme relates to the core agenda during HIRDEP's first ten years, namely to build a more responsive public sector. How could the achievements of HIRDEP in this respect be sustained within a changing government structure? The *second* theme relates to the agenda of liberalising economic policies and changing the role of the state, which had become firmly entrenched in Sri Lankan politics by the time HIRDEP entered its last phase. How could HIRDEP more effectively contribute to the new policy of strengthening the economic growth of the district? In particular, how could HIRDEP promote sustainable institutions able to create new economic opportunities for the poor?

Chapters 2 and 3 present these two themes. Both chapters start with an analysis of the context within which HIRDEP operated. It is not possible to understand the successes and failures of the programme without referring to the broader picture which, most importantly, includes the effects of the escalating civil war, the effects of liberalisation, a faltering devolution process, and environmental stress and drought. But first a few words are warranted about the HIRDEP legacy leading up to the phasing-out.

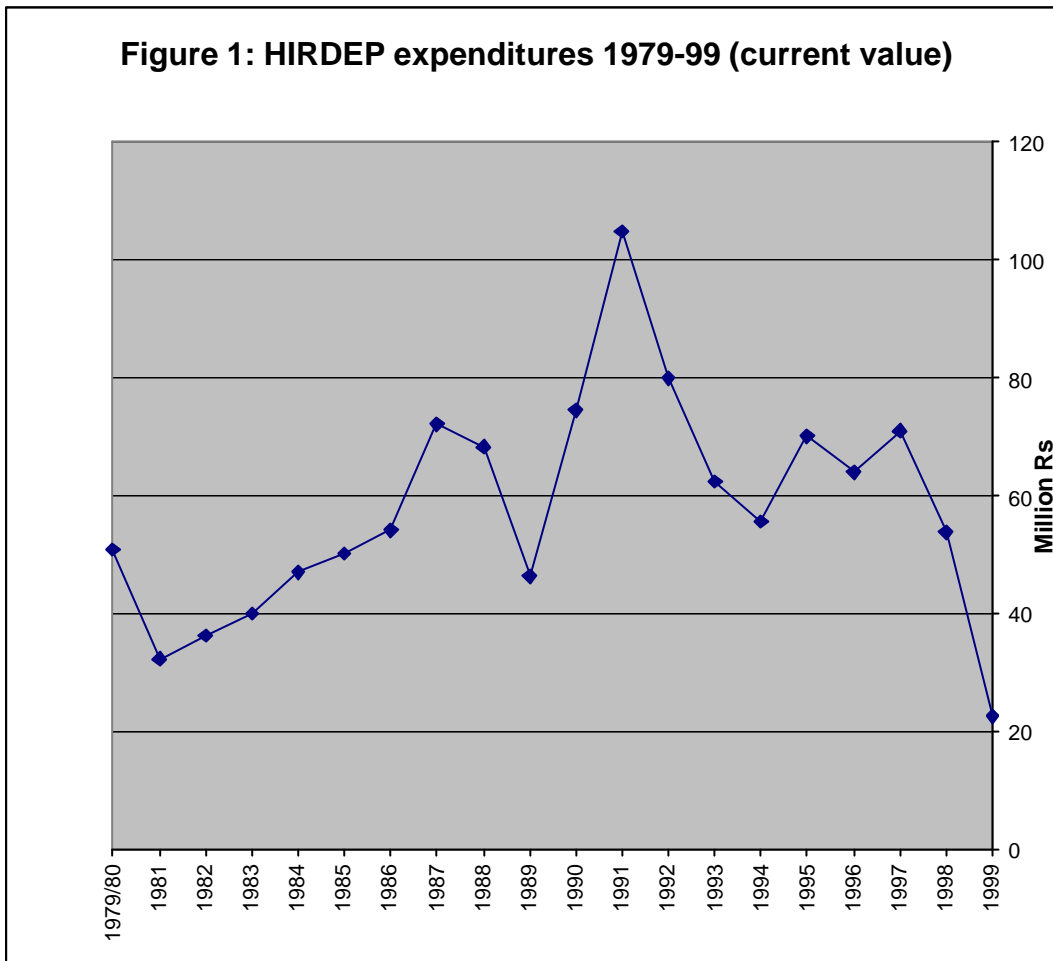
When the governments of Sri Lanka and Norway started consultations in 1977 about promoting rural development in the south of the country, they shared the vision of “achieving an increase in income, employment and production as well as improvement of social conditions and living standards with special emphasis on the poorest and disadvantaged groups”, as it was formulated when the Agreement for HIRDEP was signed in 1979. However, the two parties had no clear and common strategy for achieving this broad objective. Some advocated targeting key sectors, others a multi-sectoral programme, and there were diverging opinions on the need for comprehensive long-term planning as opposed to a more iterative process planning approach. This led to a compromise, not so much by design as a response to the weak institutional capacity of the district. It was accepted that ‘learning by doing’ had to be the way forward, guided by the following operational principles:

- ? Building a self-reliant planning capability of the district that,
- ? by using a recurrent, revolving planning process within an annual cycle, would facilitate
- ? integration of efforts in different fields and sectors, and
- ? ensure the involvement of beneficiaries in planning and implementation.

A “trademark” of HIRDEP, which gained substantial recognition within Sri Lanka as well as with the donor itself, was the capacity for innovation which gradually evolved. This had been greatly facilitated by the flexible system of planning and a dedicated team of programme staff wielding considerable influence over district-based public and private institutions.

Norway’s funding of HIRDEP came to a close in 1999, and this effectively terminated the programme, ending a twenty-year period during which HIRDEP reached its financial peak in 1991 (Figure 1). According to HIRDEP sources, the programme had contributed as much as 70 percent of public sector investments in this period, and it had experimented with a broad range of development approaches. NORAD announced its decision to phase out its support seven years earlier, at the Annual Meeting in 1992. It was motivated by a general trend in aid to limit donors’ engagement at project level, a growing scepticism towards the effectiveness of integrated projects – integrated rural development projects (IRDPs) – which had been brewing for some time internationally, and a view that phasing-out aid in itself is healthy and can be a means to promote sustainable development. Contrary to what has been the case with many similar projects, like other IRDPs in Sri Lanka as well as NORAD-funded IRDPs in Tanzania, HIRDEP was given ample time to prepare and implement a phasing-out strategy.

A team appointed by the Regional Development Division of the Ministry of Policy, Planning and Implementation (MPPI) formulated, in 1992, principles for the phasing-out (Amarasinghe et al nd). Subsequently, the objectives of HIRDEP were reformulated based partly on recommendations from an evaluation of the programme in 1991 (Jerve et al 1992). Besides offering guidelines on how to adapt to a gradual reduction in NORAD-funding, the *main concern* of the team was to ensure that the qualities of HIRDEP in development planning and management could be sustained. “HIRDEP should be able to develop a model and practice for HIRDEP to be integrated with the new institutions and the gradual disappearance of its prominence as a separate project” (Amarasinghe et al nd:65). The vision was to institutionalise the HIRDEP way of working within the new structure of provincial governance and devolution of authority to divisions that had been introduced in 1987.



It is a commonly held view that HIRDEP, or “NORAD” as the project came to be known locally, contributed significantly to the development of the Hambantota District, now part of the Southern Province. Its population has experienced major developmental improvements over the years, but also some dramatic setbacks with the JVP uprising in 1987-88 and the current drought (2000-02). We argue that it is not possible to determine in any exact way the role and contribution of HIRDEP to this development, but that there is substantial evidence of positive impacts from HIRDEP, as several studies have documented.

Most significantly, HIRDEP has been the main financier and supervisor of successful efforts to improve the quality and accessibility of *public sector infrastructure*, such as in education, health and sanitation, drinking water supply, irrigation, roads, and postal services. It is of major significance that HIRDEP facilitated the expansion of services to less developed parts of the district. It boosted the *institutional capacity* of a broad range of public sector agencies, including, quite importantly, technical extension services in agriculture, livestock, fisheries, forestry and small-scale industry, and production statistics bear witness to a positive impact. The broader institutional effects on development planning and management are less tangible, but not less significant. There is evidence that HIRDEP improved public agencies’ responsiveness through individual training, a commitment to

participatory approaches, and improved work ethics. Needless to say, this capacity is vulnerable and much has withered with the decline in foreign aid and the financial crisis of government. At an individual level, however, it continues to influence the career and work of many civil servants, although many are no longer in Hambantota.

Where HIRDEP probably has had a more lasting impact is in the mobilisation of people's organisations. This is now often referred to as increased *social capital*. The growth of local NGOs and community-based organisations (CBOs) in the district has been formidable and HIRDEP was a major player in stimulating this process. The savings and credit programme for poor people started by HIRDEP (today the Social Mobilisation Foundation) now organises 17,000 members.

Finally, there has also been an impact on *private sector* development. Again, one should emphasise institutional factors more than conventional measures of economic growth. The local private sector is still in a formative stage and no big enterprises have emerged, but in terms of networking and organisation there have been fundamental changes since the late 1970s. The role of HIRDEP has been most visible in the support to the establishment of the Hambantota District Chamber of Commerce and several local trade associations. Not only is the Chamber regarded Sri Lanka's best functioning district chamber, but in more general terms the old image of Hambantota as an isolated, underdeveloped and unattractive location for investment is about to change. In today's open economy this is a major asset, which HIRDEP can take some credit for building up.

Of equal significance, and probably more articulated, has been the interest that has been created around the ways in which the programme operated. The term *integrated* rural development has no authoritative definition. Projects and programmes bearing this label have in common a framework for multi-sectoral interventions, but differ considerably in terms of approaches to planning, financing mechanisms, territorial delimitations, and decision-making procedures. With HIRDEP, the Government of Sri Lanka (GOSL) and NORAD tried out a concept based on a flexible annual revolving planning process, extensive use of participatory methods, and mobilising existing public sector agencies.

The evaluation of 1991 concluded "that the innovative capacity of HIRDEP stands out as its main organisational achievement". "The Planning Unit became a local "centre of excellence", think tank, catalyst and efficient planning machinery" (Jerve et al 1992:xv). By the early 1990s HIRDEP's innovations had been most remarkable within the area of community or village level development, through experiments with integrated planning, peoples' participation and social mobilisation.

In what ways did the Planning Unit carry forward and benefit from these faculties? Was it equally innovative in the phasing-out period? The authors of the phasing-out strategy asked in 1992 the rhetorical question: "What should

the phasing out mean? Is it simply continuation of the same activities as before, but scaling them down?” Clearly not.

HIRDEP should become more outward and future orientated, divert an increasing proportion of its resources towards experimentation in problem solving and playing a more active role in supporting and shaping the future of the rural development, in the years after NORAD assistance has been withdrawn. (Amarasinghe et al nd:1)

Although it is not possible to distil from the phasing-out strategy document clear operational guidelines, it is worth noting that a distinction between HIRDEP’s institutional and developmental role is made. The former refers to approaches to planning, and institutional development or strengthening, while the latter refers to HIRDEP’s investments in social and economic infrastructure. The balance of investments, according to Amarasinghe et al, should gradually move in favour of the former. This would imply the following:

- ? A scaling down of projects involving major new asset creation.
- ? Handing over of HIRDEP functions in implementation, monitoring and financial management to other institutions.
- ? Improving the systems for operations and maintenance in recipient institutions, including funding of recurrent expenditures.
- ? Transferring of HIRDEP’s planning process to other agencies – i.e. the Provincial Council, divisional secretaries, Pradeshiya Sabha and line agencies.
- ? Increasing efforts in innovation and experimentation with a focus on
 - o creating self-sustaining people’s organisations with a capacity to take greater financial and organisational responsibility for public infrastructure; and
 - o introducing new entry points for income generation and employment creation.

The main objective of this study is to identify *lessons learned* in pursuing these various strategies that might be relevant for future efforts in stimulating rural and regional development in Sri Lanka. Lessons from HIRDEP ought to be considered carefully by those who design rehabilitation and reconstruction programmes for war-torn districts in the north and east of the country.

We have identified four main challenges facing HIRDEP when it started its move towards the closure of the programme, and we have organised our analysis accordingly:

1. How to build up the capacity of the divisional level in development planning and management?
2. How to ensure that investments in social and economic infrastructure will be effectively utilised and maintained?

3. How to promote employment creation more effectively through private sector development?
4. How to sustain people's organisations that strengthen poor people's capabilities for income generation?

2 Building a more responsive public sector

At the core of HIRDEP's mission to enhance the quality of life of the common woman and man in Hambantota District has been an effort to make public institutions more effective and more responsive. Following the local government reform of 1987 HIRDEP envisioned the new divisions as the lynchpin in this effort. In chapter 2.2 we explore the lessons learned. Following the decision to phase out, HIRDEP's attention was drawn to the problem of the sustainability of its investments. In chapter 2.3 we assess the achievements made. It needs to be underlined, however, that the success or failure of HIRDEP in these regards has been strongly influenced by national and more importantly regional and local political processes, and we start this section at that end.

2.1 Situating HIRDEP in the political context of Hambantota District

We shall situate HIRDEP in the context of three dominant political processes: the ethnic conflict and the formation of new provinces; the JVP revolt and the quest for devolution; and the economic crisis and liberalisation. While the emphasis is on the 1990s the analysis will go back in time when necessary for a clearer understanding of the processes involved, as well as to place the recent developments in context.

The starting point: a good fit for HIRDEP

The time period of HIRDEP, from 1979 to 1999, coincides with a series of public administration reforms responding to various social and political pressures, none of them given time and resources to mature properly, and leaving behind an increasingly complex and inefficient system of sub-national governance. In its initial years, however, HIRDEP was comfortably situated within the realm of the district authority.

When HIRDEP was set up Sri Lanka was still under a system of administration dominated from the centre. The district was at the hub of the country's structure of regional administration. Many (but not all) line ministries were represented at this level, but in a vertical structure with lines of command directly from Colombo. The District administration, headed by the Government Agent (GA), was mainly a coordinating body. In 1981 a District Development Council (DDC) was instituted to assist the GA in this function. Independent sources of revenue under the GA's purview were limited, but since 1974 he had been administering the so-called decentralized capital budget (DCB) on behalf of the District's four Members of Parliament.

At the outset, the new IRDPs of Sri Lanka were viewed as a resource transfer to underserved districts, mainly in the form of centrally planned sector programmes (Gunatilaka and Williams 1999). Confronted with a generally very weak implementation capacity and facing burgeoning coordination

problems, the strategy adopted by HIRDEP was to reinforce the district administration via the District Planning Unit (DPU). HIRDEP made the DPU the lead agency for the implementation of its activities, and as a special provision for Hambantota, the Ministry of Policy, Planning and Implementation combined the position of Director DPU and Project Director HIRDEP in one and the same individual. In this way, HIRDEP contributed substantially to district level decentralisation. It represented a *de facto deconcentration* of administrative powers to the district by virtue of the financial clout of the programme and the flexible project approval process adopted by NORAD (i.e. annual revolving planning); but, importantly, this had no corresponding relationship with a process of political devolution. The DDC was highly ineffective and lost its momentum not long after its establishment (Gunatilaka and Williams 1999).

In 1982 Government attempted to achieve some further degree of decentralisation and reach the grassroots through the creation of the *Pradeshiya Mandalaya* (divisional committee) and the *Gramodaya Mandalaya* (covering a cluster of villages) (Karunanayake and Herath 2002).¹ The Gramodaya Mandalayas (GMs) comprised chairmen of community and voluntary organisations at the village level such as Rural Development Societies, Cooperative Societies, and Death Donation Societies. In addition, frontline government officials were represented in an *ex-officio* capacity. The government officers were debarred from holding office or voting at meetings of the GM. The Chairman of the GM was made an *ex-officio* member of the *Pradeshiya Mandalaya*.

In its first local-level development projects HIRDEP successfully managed to mobilise the GM, and even went as far as making it an implementing body for small village-level infrastructure projects, such as wells. The HIRDEP Project Director was later reprimanded by the Auditor General for advancing money to the GMs, as they were not authorised to manage imprest accounts. From a financial and efficiency point of view, however, this was a remarkable success. GMs were able to get work done both faster and much cheaper than the relevant line agency. But in terms of improving the lives of the poorest it was not a success.

The institution of the GM offered HIRDEP a mechanism that would enable it to plan closer to the people. However, it did not take long for HIRDEP to realize that working through the GMs was counterproductive mainly owing to two reasons. First, almost all persons who were selected as chairmen of GMs were from the ruling party. Hence, the GMs were sympathetic to the ruling party. This in turn meant that the GMs were easily converted to the position of institutions dispensing political patronage. Secondly, by the very manner in which they were constituted GMs assumed the position of an elite organisation that was not inclined to serve the interests of the poor. It was soon evident that this approach belied the expectations of HIRDEP in that the poor were very much marginalized from the development process.

¹ The Gramodaya Mandalaya Act, No. 28 of 1982.

HIRDEP had at the time only a very tenuous relationship with the divisional level and the new Pradeshiya Mandalayas. In the first local-level projects, such as in Katuwana, the Planning Unit directly managed the work. There was little political commitment to see that the Pradeshiya Mandalayas prospered. And they became short-lived.

The new provincial set-up: HIRDEP's platform withers

With the enactment of the 13th Amendment to the Constitution in 1987, primarily as a response to the demand for political autonomy by the Tamil community spearheaded by the LTTE, the stage was set for the transition from decentralisation to *devolution*. This led to the creation of Provincial Councils (PCs).² The provinces were given the vestiges of self-governance, but in financial as well as political terms the central government has been reluctant to make a serious stride towards a federal state. A future peace agreement with LTTE may as well lead to a complete redrafting of the 1987 map.

Members of PCs are elected at a general election for a five-year term, but the Governor of the Province, who is also the chief executive of the PC, is appointed by the President. The Governor in turn appoints the Chief Minister of the provincial cabinet, together with four other ministers. The President also appoints the Chief Secretary heading the administrative machinery of the PC on the advice of the Chief Minister.

The Act stipulates subjects over which the PC has exclusive control, and integrated rural development is on that list of devolved subjects. There is also a list of concurrent subjects over which there is shared responsibility between the centre and the provincial administration. There is, however, much ambiguity in regard to the items listed in the Concurrent List, and the PCs have not been able to exercise the powers of devolved governance in adequate measure. In this regard the Southern Provincial Council is no exception.

The high degree of dependence on the central government for funds limits the exercise of political autonomy at provincial level. Furthermore, the powers vested in the President impose restrictions on the exercise of power by the PC. The position of the PC is particularly constrained when the head of government and the PC have different political affiliations. The Southern Provincial Council finds itself in this position at present.

As a result of HIRDEP coming under the PC it found itself in the anomalous situation of no longer being a district-based organisation. As a result HIRDEP had to sit uncomfortably in the middle of the Province-Division line of authority (Amarasinghe et al. nd). The lines of authority that HIRDEP had to follow were found to be overlapping and confusing. It continued to be part of the national Integrated Rural Development Programme. This meant that disbursements continued to be made by the Ministry of Policy, Planning and Implementation (MPPI) through the Southern Provincial Council. The Regional Development Division (RDD) of the Ministry was placed in an

² The Provincial Councils Act, No. 42 of 1987.

advisory and a technical backstopping capacity. The negotiations with donors and monitoring of projects were deemed to be the responsibility of the MPPI. The general situation that the IRDPs had to contend with in the provincial administration set-up (which is equally valid in the case of HIRDEP) is expressed by Gunatilaka and Williams (1998) in the following terms:

While the Provincial Council now maintained formal control over the IRDP Project Office, the latter had to report back to the District Planning Secretariat, which however was powerless to influence the activities of the Project Office. At the same time, there was no link whatsoever between the District Planning Secretariat and the Planning Office of the Provincial Council. The confused lines of authority meant that the Rural Development Division at the Centre ... remained in de facto control and continued to manage the programme.

The changed circumstances had important policy and operational implications for HIRDEP. Regional planning within a provincial spatial framework never got off the ground despite the setting up of a Provincial Planning Unit. Indeed provincial planning meant no more than the bringing together of various work programmes prepared by the provincial sectoral ministries for implementation. This did not provide much space for HIRDEP to be part of the provincial planning process.

The elimination of the district as the unit of planning meant that the integration which HIRDEP had achieved with the district administration, which was still responsible for coordinating the activities of the line ministries of the central government, was no longer possible. The separation of the position of the Project Director HIRDEP from that of Director DPU meant that the type of authority that the Project Director exercised through the GA over line departments was greatly diluted although some influence was still possible because, in a resource-scarce environment, the line departments were dependent on HIRDEP as a supplementary source of funding for the implementation of their projects.

The civil war in the North and the East broke out in 1983 and by the time the HIRDEP phasing out commenced Sri Lanka was deeply into this war. A consequence was that the line departments were operating under severe financial stress. This meant that HIRDEP came to be regarded as a general development agency for the district. This not only placed a strain on HIRDEP on the organisational front, but also made it spread its resources thinly across the district. A positive development was that in the case of projects initiated by the line departments implementation was through them, enabling a degree of institutional integration. But when this was not possible HIRDEP itself had to take on the responsibility of project implementation, which was quite contrary to its policy of institutional strengthening. This also meant that the line departments came to be over-dependent on HIRDEP for funds and project implementation, a situation that has had implications for sustainability.

The new local government: a weak partner for HIRDEP

A lacuna in the decentralised system of governance was the failure to accommodate the political aspirations and energy of a new generation of young people from non-elite families. Experiencing the limitations of the GMs, already by 1984 HIRDEP was seen to be basing its activities on target groups involving the poor through a process of social mobilisation. This was a process that was greatly facilitated by the formation of a cadre of social mobilisers.

When the radical Janatha Vimukthi Peramuna (JVP) took up arms against the state in 1987 the members of GMs who represented the ruling party were identified as prime targets mainly because of the discriminatory politics that they had practised for the benefit of their supporters, as well as for their own benefit. The GMs ceased to function after 1987. The uprising was a result of the radicalising of the youth constituency in Sri Lanka (in areas other than in the North and the East where the LTTE was waging the secessionist war). Hambantota was a hotbed of the revolt against the establishment. The JVP movement targeted public buildings and physical infrastructure facilities for attack to disrupt government activity.

The JVP was hostile to the type of social mobilisation and the resulting forms of grassroots development programmes implemented by HIRDEP and NGOs such as Sarvodaya. In its view, HIRDEP as much as the NGOs was only helping to sustain the status quo to prevent a radical structural transformation of rural society. The JVP uprising had an impact on HIRDEP activities. There was little direct damage inflicted on HIRDEP-financed buildings and infrastructure (except for the Bedigama sericulture project, which was destroyed by fire), but activities in the interior parts of the district were held in abeyance for about three years. The JVP's activities did not cause HIRDEP to change its social mobilisation strategy, but HIRDEP was alerted to its limitations in inducing economic transformation. This realisation found expression in the emphasis given to economic mobilisation of the poor in the phasing-out strategy.

A significant concurrent development was the announcement in 1987 of a genuinely devolved local government at the divisional level – the Pradeshiya Sabha (PS). This was clearly a response to growing popular discontent with elitist politics, which had its most radical expression in the JVP movement. The model adopted was linked to and greatly facilitated by the provincial reform. The PS replaced the Pradeshiya Mandalaya with the objective, as stated in the Act, to “provide greater opportunities for the people to participate effectively in *decision making process* relating to administration and development activities at the local level” (our emphasis).³ The chief executive of the Pradeshiya Sabha is the Chairman elected by the membership. It has the power to make by-laws and levy taxes.

³ The Pradeshiya Sabha Act, No. 15 of 1987.

The PS has been given wide-ranging powers to take development to the people. In addition to the more conventional local government functions the PS is also responsible for a host of other functions that allows it to:

Spend any part of the Pradeshiya Sabha Fund in promoting rural women's development activities, integrated development of selected villages, community development projects, and in making grants to rural development projects, Gramodaya Mandalayas and rural development organizations qualified to be represented on Gramodaya Mandalayas.

Although the new local government was empowered to undertake planning at the divisional level, in practice most development planning activities were undertaken by the Divisional Secretariat. This had implications for HIRDEP as a development agency. There was no real attempt made by the centre or the Province to empower the PS, and the responsibility for local-level planning and implementation of development programmes in the rural areas fell on the better resourced Divisional Secretariats, while administration of urban and town affairs was considered the responsibility of the PS. Hence, at the divisional level a dual structure emerged, with the Divisional Secretariat remaining outside the control of the Pradeshiya Sabha. The Divisional Secretariat was the only institution capable of responding to HIRDEP's ambitious local development strategy, and this explains why HIRDEP by and large had to bypass the PS in the planning and implementation of local-level development activities.

Other drawbacks are also testimony to the lack of a unified local government structure. There is little capacity for internal mobilisation of funds by the PS. It is dependent on a small block allocation from the Provincial Council, but there is no proper mechanism to coordinate the activities of the Provincial Council and the Pradeshiya Sabha at the local level. Some activities may be funded through the Decentralised Capital Budget but is at the discretion of individual Members of Parliament representing the District. Members of Parliament therefore exert much influence over the decisions of PS, thus undermining their autonomy. Finally, development administration at the divisional level is made no easier by the fact that the Divisional Secretariat as well is pulled between different masters, reporting both to central government, represented by the Government Agent, and the provincial administration.⁴

At the same time, despite devolution, the District has continued to retain some identity, given the fact the operational base of many of the line agencies dealing with non-devolved subjects has been retained within it (Amarasinghe et al. nd). All this in effect meant that HIRDEP had to operate within an extremely nebulous institutional environment spread across several levels – national, provincial, district and divisional.

The process of political devolution, combined with the concerns raised by the JVP uprising, has led to a highly visible political presence in the development

⁴ The Transfer of Powers (Divisional Secretaries) Act, No. 58 of 1992.

scene in the Hambantota district. A host of people's representatives started to make their presence felt in the district, comprising Members of Parliament representing the district, Provincial Ministers and Councillors, and Pradeshiya Sabha members. Hambantota remains a stronghold for leftist politics. In the 1999 presidential elections 13 percent voted in favour of the JVP candidate, which was almost double the national result.

In this political environment HIRDEP, representing the bulk of financial resources available to the divisions, was under pressure from local political actors. However, the evidence is that more often than not it was able to 'play by the rules' because of the professional touch with which HIRDEP staff handled its responsibilities. The fact that HIRDEP was not a conventional government agency gave it added leverage to withstand undue political pressures. HIRDEP's involvement with participatory planning also acted as a means to limit the influence of partisan politics on its priorities. However, it must also be pointed out that there are also very many instances of close and constructive collaboration between HIRDEP and the political establishment.

Economic liberalisation: HIRDEP's creativity put to the test

HIRDEP was committed to a policy of rural-cum-regional development and poverty alleviation, and there is no doubt that HIRDEP made a significant contribution to improving living conditions in Hambantota District. This has been an outcome of its commitment to both improve and install physical and social infrastructure in the rural and especially the less accessible parts of the district. What has been achieved in alleviating income poverty has been much less impressive. It is important to note that at the time of the inception of HIRDEP a new government (the United National Party) had been voted into power and a policy of economic liberalisation and private sector-led growth was declared government policy. The structural reforms that this change entailed contributed to deepening poverty and marginalising the poor. These changes in macro-economic development and policy have had a deep impact on HIRDEP activities.

Both the United National Party (UNP) and later People's Alliance (PA) governments have attempted to resolve this macro-micro policy divergence by targeting the poor through poverty alleviation programmes that have income transfer and micro-enterprise development components. However, these programmes suffer from structural deficiencies. In regard to HIRDEP, the activation of first the Janasaviya and later the Samurdhi programme also meant that a part of its rural development agenda was pre-empted by the above programmes. As such a degree of inter-agency coordination was necessary to avoid competition and duplication in regard to the micro-enterprise sector.

In retrospect, we see that HIRDEP during the first fifteen years was rather inward looking, and lacked the capacity to relate to the wider national or the regional context. The relative neglect of economic mobilisation reflects HIRDEP's initial concentration on public service provision and social mobilisation. However, the phasing-out strategy proposed in the Perspective

Plan 1994-1999 (HIRDEP 1994a) did attempt to come to terms with the problem of employment and income generation by promoting a set of strategic activities that include entrepreneurship development. However, it was not until the quest for higher economic growth was put at the top of the political agenda of NORAD that a major shift in HIRDEP's approach was enforced. Ironically, this came as late as in 1997 when the days of the programme were numbered, causing things to be done rather hurriedly.

About the same time, in 1996, MPPI issued new directives for all IRDPs that clearly marked a fundamental turn-around in development focus from poverty alleviation to economic growth, and from public goods to the private sector. The IRDPs were to:

- ? reduce their portfolios to concentrate on fewer components and activities;
- ? have a sharp focus on employment creation, especially for educated youth, and on income growth;
- ? secure the active and positive participation of the private sector in development planning;
- ? facilitate and service investment promotion and enterprise development;
- ? encourage market-driven economic activity; and
- ? design and develop institutional systems and procedures to achieve these ends. (HIRDEP 1998)

Soon thereafter the demise of the IRDP concept became evident when GOSL announced a new national strategy for regional development based on 'rural economic advancement' proposed by the RDD in 1997. The Rural Economic Advancement Programme (REAP) is "basically concerned with a shift away from the welfare and infrastructure based development programmes of the IRDPs to programmes supportive of economic growth and employment generation. This is to be achieved by mobilizing local potentials through enhanced private sector participation" (Karunanayake and Abhayaratna 2002).

REAP has now supplanted HIRDEP as the strategy to promote regional development in Hambantota District.⁵ The fact that HIRDEP was able to support the setting-up of several institutions that will help REAP embark on its programme of activities – i.e. Social Mobilisation Foundation (SMF), Enterprise Service Centre (ESC), Vocational Training Institute (VTI), and the Women's Development Foundation (WDF) – is not only a testimony to HIRDEP's capacity for institution building. It begs the question of how REAP will be able to fill the vacuum after HIRDEP's catalytic force.

But what has REAP meant in practical terms to the HIRDEP legacy of integrated rural development? What is immediately evident is that the ideology which guided the formulation of REAP has been considerably modified in its

⁵ The head office of the Southern Province Regional Economic Advancement Programme is located in Galle with a branch project office in Hambantota. Preparatory activities are underway pending the finalisation of a loan agreement with the Asian Development Bank.

application. In the original policy document outlining the concept of rural economic advancement, integrated village development and formulation of regional development plans (setting area-based development priorities) had a place (RDD 1997). But the concept as enunciated today is firmly guided by a concern to promote enterprise development. It is not moulded in the form of a conventional regional development programme. Furthermore, REAP is to target small and medium investors and not micro-entrepreneurs, although there is a small component to assist enterprise development among women and youth. The primary aim will be to promote agriculture and agriculture-related activities through commercialisation and value addition. Unlike HIRDEP, REAP is to involve Pradeshiya Sabhas in enterprise activities and rightly so. But what will happen to the micro-entrepreneurs and how will organisations like the SMF fit into the picture?

While the attempt to catalyse economic development in rural areas in the above manner is laudable there is a need to support micro-enterprises based on the household to supplement the above strategy so as to help reduce the vulnerability of the poor (Gunatilaka and Williams 1998). At the same time the opportunity has to be provided for the more dynamic entrepreneurs among the poor to cross the threshold of stagnation and lift themselves up to become small and medium entrepreneurs.

It was noted above that REAP has no role to play in regional development in the conventional sense. Hence there is the likelihood that REAP will result in a widening of regional disparities given the fact that there is a propensity for the private sector to be drawn to areas with growth potential and also to dynamic individuals. In commenting on the initial REAP formulations Karunanayake and Abhayaratna (2002) observed that:

...while rural economic advancement is pursued with vigour through the REAPs, it is important that the RDD keep the broader context of regional development in view. Even if the task of (providing) social and physical infrastructure is left to specialist agencies, it is of crucial importance that the RDD provides the overall framework for such development activities from a regional development perspective.

But presently RDD is placed within the Ministry of Western Area Development and is in no position to become an effective regional development agency. This should be the task for the Southern Province Planning Council or the Ministry of Southern Area Development. If it is not done, it would mean leaving all that HIRDEP had tried to achieve in rural-regional development by the wayside.

2.2 First Challenge: How to build the capacity of the divisional level in development planning and management

A legacy of bottom-up planning

This section is devoted to a discussion of HIRDEP's approaches and processes relating to local-level planning and institutional strengthening as specific components of the phasing-out strategy. It is important to note that the phasing-out strategy had been developed on the assumption that HIRDEP was to continue beyond the phasing-out stage, though in a modified form. The intention according to the architects of the new strategy was that:

The IRD principles and practices embodied in, and developed by, HIRDEP are integrated into rural development planning, implementation and monitoring routines of existing agencies and institutions, to the extent that, effectively, HIRDEP continues as an integral part of the local and regional development planning system under local and other sources of funding. (Amarasinghe et al nd)

HIRDEP's approach to planning was based on the process approach from the very beginning. It had allowed the planning process to be flexible, thus enabling it to modify and adapt itself to changing needs and requirements (Hewavitharana 2002). It is this flexibility that enabled HIRDEP to evolve the Recurrent and Annually Revolving Planning (RARP) System. Moreover, RARP was undertaken as a two-stage process, with Stage 1 involving the preparation of project sketches for possible approval in principle by the RDD and NORAD at the annual meeting, and Stage 2 involving the preparation of detailed proposals that were reviewed and approved by the two agencies directly.

By 1982 HIRDEP had developed a planning system for Integrated Community Development. This was based on household surveys for the identification of the poor followed by multi-disciplinary planning teams preparing proposals for implementation by line departments. The preparation of plans involved a consultative process with the beneficiaries to (a) identify the problems involved and (b) finalise proposals. From 1984 social mobilisers were used for the identification of the poor. The implementation of projects was undertaken through the Gramodaya Mandalayas, but did not meet with much success for reasons noted in chapter 2.1.

The main architects behind HIRDEP constantly sought development approaches that effectively addressed rural poverty. In a span of about ten years they travelled all the way from a technocratic top-down blueprint approach, characterising the first sector projects, to social mobilisation in poor communities using so-called village 'change agents', focusing on income generation at the household level. It is between these two extremes that HIRDEP developed what initially was labelled '*settlement and community*

development' and later given the term '*local level planning*'. This segment of HIRDEP has since 1982 consistently been the largest. In the period from 1979 to 1990 it constituted almost 20 percent (Jerve et al 1992:63), and rose to as much as 65 percent in the latter phase (1994-99). This approach represented a mix of technocratic planning, popular participation and social mobilisation, implemented within sub-district geographical areas.

It was first of all in local-level planning that HIRDEP attempted to put into practice the concept of 'integration'. It started with the rehabilitation of abandoned irrigation tanks (e.g. in Mattala and Weligama and later Maha Alutgamara) and the addition of a package of mutually supportive and multi-sectoral investments, such as in primary education and health, drinking water supply, housing and roads to the communities involved.⁶ Initially, this type of area development project was managed directly by the Planning Unit, but this turned out to be a model that could not be replicated on a wider scale. It led to the search for an approach that more directly made use of and mobilised the existing government structure at local level.

This paved the way, for the first time in 1984 in Katuwana Division, for a more systematic approach to local-level planning with people's participation, by bringing in the local-level administration. After Katuwana, similar projects were initiated in Hambantota Division in 1985 and Weeraketyia Division in 1987. In these projects HIRDEP focused on the lowest level of public administration, namely the Grama Sevaka Division, which is made up of a cluster of villages (now called Grama Niladhari Division), as the area of planning and implementation. At this level the Gramodaya Mandalaya (GM) institution became the main development partner. Besides the fact that GMs only functioned a few years, HIRDEP's experience was that the GMs mainly served the interests of the village elite, and it soon started to look for an alternative model of area development.

Prolonging the legacy

New opportunities were created with the local government reform of 1987. HIRDEP had already for some time been involving the Assistant Government Agents (AGA) at the Divisional level, through the authority of the District Government Agent and the Deputy Director Planning at the District. It was only after the 1987 reform, however, and the return to normalcy after the insurgency period, that the concept of *divisional level planning* emerged. In 1991 HIRDEP floated a new project proposal for divisional level planning and development (project no. 386: Local Level Planning), anchored in the former AGA's office, now labelled a Divisional Secretariat. The intention was to have a development plan for each Division prepared by a planning unit of its own, and to implement the activities with funds from different sources. HIRDEP, in this way, wanted to support the nascent local government structure.

⁶ The term 'tanks' refers to reservoirs excavated to retain rainwater for irrigation, watering of livestock and bathing. They also contribute to raising the groundwater table, facilitating the digging of drinking water wells at the circumference of the water body. This is an ancient practice and there are many traces of tanks being built before the advent of modern irrigation.

The objectives of the local-level planning project, however, were articulated in planning terms rather than governance terms. There was little in the way of support for the new governance structure. The role of the new councils of elected representatives – Pradeshiya Sabhas – was not properly articulated in the project document. HIRDEP's revised mission was basically to transfer the IRD experience, first and foremost its planning approach, to the new divisions. The idea was that HIRDEP should become a catalyst for “mini-IRDPs” at the divisional level under the leadership of Divisional Secretaries.

When NORAD announced at the annual meeting in 1992 its decision to phase out its support, HIRDEP was called upon to set its priorities for a phasing-out period of about five years. The message from the team formulating the phasing-out strategy was crystal clear. In the report “From Project to Process” (Amarasinghe et al nd) the team concluded: “(I)t's present approach in local-level planning we recommend to be the main focus of investment in the future” (p.1), and furthermore that “(T)he implementation responsibilities with which HIRDEP is presently burdened would have to be urgently transferred to the relevant bodies and to the Divisional Secretariats” (p.2). The vision was that the approaches developed by HIRDEP would be transferred “to the extent that, effectively, HIRDEP continues as an integral part of the local and regional rural development planning system under local and other sources of funding” (p.2).

Hence, when HIRDEP subsequently reformulated its overall objectives the most explicit of them all related to divisional level planning, namely (a) to “improve the capabilities of Divisional Secretary's Offices to undertake new planning and implementation responsibilities”, and (b) to “integrate IRDP planning methods and procedures into the system” (Amarasinghe et al nd:54).

The strategy of integration

The strategy for how to “integrate IRDP planning methods and procedures into the system” was based on three concepts: funding integration, planning integration and institutional integration.

Funding integration is another term for co-financing, or more generally a process where the IRD concept is applied to all public financial resources managed at the divisional level, and no longer exclusively associated with NORAD. Ideally, all sources of funds – i.e. HIRDEP funds, DCB funds, Pradeshiya Sabha funds, line agency funds etc. – should contribute to realising activities guided by a Divisional Development Plan. In addition, co-funding of individual activities should be encouraged. In other words, IRDP should transform itself from a NORAD-programme to an overarching development planning and management approach of the new local government.

Planning integration is one element of this, and involved measures to counteract the mono-sectoral perspectives of line agencies. The only realistic approach was to develop a strong planning unit within the Divisional Secretariat trained in spatial and multi-sectoral planning. HIRDEP would have a special role in promoting this capacity building.

The concept of *institutional integration* relates to the need for bringing non-state and non-formal institutions into the development process. It is another term for participation and the need to promote a sense of ownership among community-based organisations and encourage greater responsibility for operation and maintenance.

These were the stated visions, but when the HIRDEP Project Director in 1999 reflected on the experiences of divisional level planning he concluded: “The intention was to have a development plan for each Division prepared by a planning unit of its own, and to implement the activities with funds from different sources. This proved a long shot in the prevailing institutional set up” (HIRDEP 1998:5). What happened? Why was the initial vision untenable?

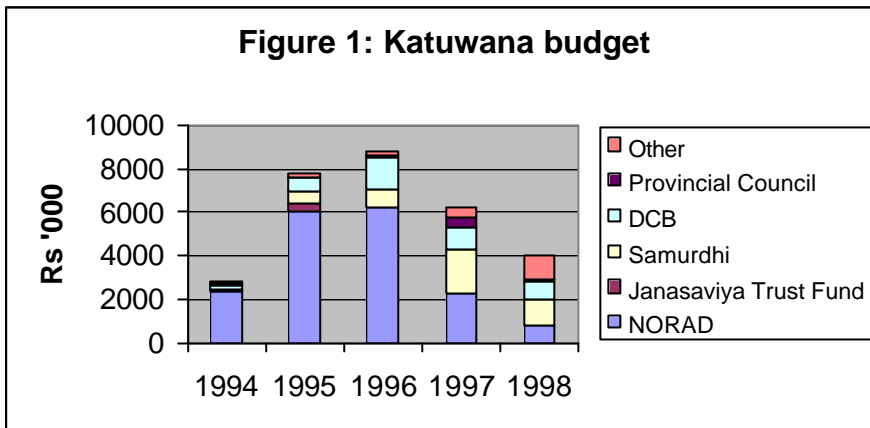
What happened to financial integration?

We can distinguish between two indicators of successful financial integration. The first concerns the extent to which it has been possible to substitute funding from NORAD with other sources of development funds within the aggregate divisional level budget. A second indicator is the ability of the divisional authorities to pool financial resources from different sources for a specific project – so-called co-funding.

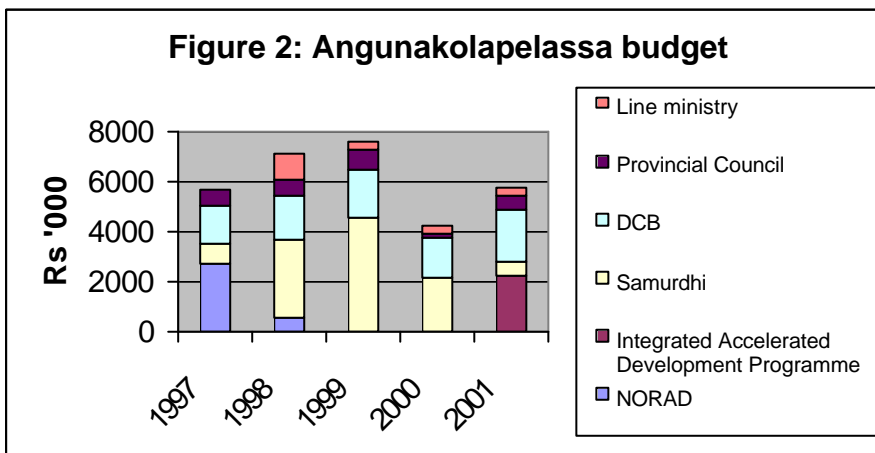
It was not possible in this study to collect statistical information based on a representative sample of divisions and projects, but through interviews and project visits in three divisions (Angunakolapellassa, Katuwana and Tangalle) we were able to make observations that may have general validity.

It has not been possible to substitute for the loss of HIRDEP funding

In Figure 1 and 2 below we present budgets for two divisions – Angunakolapellassa (1997-2002) and Katuwana (1994 to 1998). In Katuwana we see that at its peak in 1995/96 HIRDEP provided 74 percent of the budget. When HIRDEP’s funding tapered off in 1997 and 1998 the shortfall was initially partly compensated by the Samurdhi programme, but in 1998 Katuwana’s total development budget was only half of what it was two years earlier. In Angunakolapellassa the trend is similar but not as dramatic. In 2002 the Samurdhi funds have virtually dried up for all divisions, and their financial position is more precarious than for many years. The financial situation has worsened, due mainly to the general economic crisis of the government, but there is also a lack of political will to give priority to local governments. Even the Samurdhi programme has suffered from a considerable cutback in funds, despite the high-level political support behind this initiative.



We note that in HIRDEP's Perspective Plan for 1994-99 an assessment was made of the availability of other public resources for development in the district, probably prompted by the concerns of the donor. Evidently, it was impossible for the Planning Unit to get reliable estimates from any sources – MPPI, line agencies or Provincial Council. The 1994-99 Plan distinguished between NORAD and GOSL contributions, and it is worth noting that no government contribution at all was anticipated for the Local Level Planning project. In several of the sector projects only minor GOSL contributions are indicated, and, with few exceptions, these refer to the financing of operation, maintenance and personnel costs (HIRDEP 1994b).



Fragmentation of financial resources place increasing constraints on development

When HIRDEP was functioning with full vigour it provided the bulk of the divisions' budgetary resources, and moreover, in a transparent and predictable manner. However, the situation has drastically changed with the phasing out. Not only has the flow of funds been reduced, but the divisional secretariats now depend on a number of sources of funding, all being highly unpredictable and not synchronised. Delayed receipt of funds by the line departments is a big constraint. DCB is often subject to narrow political considerations, and the Provincial Council has hardly anything to offer. The Southern Provincial Council generates as little as 10-15 percent of its budget from its own

resources and has to depend on the centre. This is a situation that is conducive to delays and development lapses.

There is little evidence that local authorities have improved their abilities to pool financial resources from different sources. There appears to be virtually no co-funding of investment costs. Even when HIRDEP funding acted as the locomotive, it turned out to be difficult to arrange co-funding, although there have been some exceptional cases. These problems were clearly envisaged by HIRDEP, and it considered making willingness for and evidence of co-funding arrangements a condition for supporting a division:

Given the significant role which co-financing is expected to play in Local Level Planning and the need for its political acceptability, one of the criteria for the selection of DS Divisions for incorporation into the programme is the level of collaboration and cooperation which may be expected from political representatives from those divisions. This will require initial dialogue to inform representatives of the aims and purpose of Local Level Planning and to assess their willingness to accept the principle involved. (HIRDEP 1994a:36)

However, with few exceptions, Local Level Planning projects ended up being financed by HIRDEP only.

What happened to planning integration?

HIRDEP's strategy for local-level planning had three main components: priority village development, spot improvements and capacity building for divisional planning (HIRDEP 1993).

Difficulties in implementing priority village development

The idea was to identify the Grama Niladhari divisions most in need, the poorest villages, and within them the poorest households. The initial identification of villages was a bureaucratic (top-down) process. However, the identification of the most deserving beneficiaries was carried out using the social mobilisers for the purpose. Project identification was

Box 1: The 14 steps for priority area development: a case of over-ambitious planning

Step 1: Workshops in each AGA division to identify (top-down) the needy GN divisions. *Output:* Updating AGA division profiles.

Step 2: Selection of priority villages. *Output:* Report on village selection.

Step 3: Initial consultation at village level with broad representation. At least three days per village is needed. *Output:* Records of discussions.

Step 4: Selection of village volunteers. *Output:* Report on selection.

Step 5: Training of volunteers and village leaders in rural planning. To take place locally.

Step 6: Survey among village households. To be carried out by volunteers. *Output:* Survey reports.

Step 7: Selection of needy households on the basis of poverty indices.

Step 8: Identifying needs in meetings with beneficiaries.

Step 9: Project formulation and revision. Project sketches to be drafted by volunteers and completed by divisional planning cell. *Output:* List of projects submitted to HIRDEP for funding.

Step 10: Project appraisal and approval by HIRDEP.

Step 11: Group meetings to organise people for implementation. To be done by volunteers backed by division-level government staff.

Step 12: Implementation by the selected community/voluntary organisations. To be organised by volunteers, and to be monitored by divisional staff.

Step 13: Implementation by the selected line agencies. Joint monitoring by volunteers, divisional staff and HIRDEP.

Step 14: Regular progress reporting. Frequent community level meetings. Division-level meetings every three months with all key stakeholders. *Output:* Summary reports to Colombo every six months.

done with the help of various participatory rural appraisal (PRA) techniques. This was followed by the preparation of a Village Development Plan that included prioritised proposals to be implemented by the relevant agencies. Hence, this was an extension of the procedures tried out in the Integrated Community Development (ICD) approach (Hewavitharana 2002).

An elaborate 14-step planning cycle was developed (see Box 1) that was indeed very demanding of manpower both for the Planning Unit (PU) and the divisional secretariats. In fact, it turned out to be unrealistic. This does not mean that bottom-up planning was not attempted, but it took place on a limited scale through village meetings, focus group discussions and limited surveys. The use of these methods continued up to 1999 on an ad hoc basis.

It is evident that participatory planning never pervaded the planning scene in the division. Project activities under the Decentralized Budget (DCB) continued to be impositions from the top with planning decisions being subsumed by political dictates. Similarly, projects initiated by line departments too were carried out without recourse to participatory planning except where projects were funded through HIRDEP. The HIRDEP-type local-level planning process, financial resources permitting, is today only applied to Divisional Secretariat or Samurdhi initiated projects. For other projects, initiated by the DCB or the line departments, top-down planning is the normal practice.

Spot improvements took the bulk of investments

The idea of “spot improvement” was to fill in the gaps in investment in areas that did not qualify as priority areas. In spot improvement projects there was little bottom-up or participatory planning. Development proposals emanated primarily from line agencies, the Provincial Council, local politicians and NGOs. Hewavitharana (2002) observes:

... the filling of gaps will eliminate development vacuum remaining from micro-level planning efforts; it will provide opportunity for the relevant agencies to prepare their development plans with a focus on a particular division and not the district; divisional officers will get involved in the entire project cycle, identification, implementation and monitoring and evaluation.

This turned out to be the main approach to local-level planning, for the obvious reason that the planning requirements were fewer and allowed for more flexible project identification. Divisional Secretariats were very active in forwarding spot improvement proposals. HIRDEP had announced in 1995 that the most effective Divisions in terms of following the Local Level Planning approach would receive most funding, which installed a spirit of competition.

The spot improvement concept mirrored in many ways how HIRDEP had been used to operate at the district level: open to responding to initiatives from various proponents combined with leverage to pursue its own initiatives. The

point is that this is a rather different way of working compared to ICD above. There is no explicit requirement for backing decisions by reference to an overall plan or a comprehensive social analysis of where the strongest needs and greatest deficiencies are. Whilst this will raise eyebrows amongst most professional planners, it is probably the most effective way of using funds given the weak institutional capacity at the local level. The primary concern is not whether you do the right thing according to some abstract planning criteria, but whether you do the thing you do right.

In other words, when you realistically cannot have both, we would argue that the quality of project *implementation* matters more than the quality of project selection, noting that quality of implementation has many facets: technical quality, cost-efficiency, institutional capacity building and sustainability. HIRDEP did not make much headway in its ambitions to establish mini-IRDPs, but definitely set new standards for quality of implementation in local-level projects.

Capacity in divisional planning was built, but not sustained

HIRDEP invested heavily in the divisional secretariats. This included the financing of training, vehicles, office buildings, staff quarters, office equipment etc. A main output was intended to be the formulation of comprehensive plans for the divisions. Planning guidelines were prepared and the Assistant Directors of Planning attached to the Divisional Secretariats received advanced training both locally and abroad.

Today, all Divisional Secretariats have planning units with 'operations cells'. In each Planning Unit the operations cell act as a repository of data and display information bearing on the socio-economic situation of the division. HIRDEP has supplied each Planning Unit with a computer to facilitate data storage and planning activities. However, the computers are now old, the facilities are rather rudimentary and many of the trained planning staff have moved to other jobs. Although the capacity of the Planning Units and the quality of the operations cells vary, there is still evidence of sustained improvements. For instance, the planning capability created at the local level has enabled the compilation of Resource Profiles for the various divisions of the Hambantota District. The Resource Profiles provide useful inputs to the planning process. For example the relevance and feasibility of a project may be evaluated in the light of information provided in the Resource Profile. In fact the Resource Profiles have been useful in identifying development projects under the newly established '577 Programme'.⁷

When HIRDEP's local-level planning started, divisional plans were only based on making summaries of annual allocations from various public sources. Although databases have improved there is little evidence that the situation

⁷ This is a programme established by the Ministry of Southern Development to promote private sector involvement in rural development. The idea is to link private sponsors to specific villages. The sponsor selects from a list of priority projects and provides funding directly through a village committee.

today is much improved, the main reason, of course, being the unpredictable financial situation.

The position today is that the divisions have no authoritative overall development strategy, and that the planning process is sharply divided between two processes, the one participatory (applicable to Divisional Secretariat or Samurdhi initiated projects) and the other top-down (applicable to DCB or line department initiated projects).

What happened to institutional integration?

The main strategy adopted by HIRDEP had been to contribute to local-level planning by integrating with the Divisional Secretariat. Toward this end HIRDEP carried out a systematic and effective policy of strengthening the planning capacity in each of the 11 Divisional Secretariats. Through this process HIRDEP had been in a position to transform itself quite successfully in the 1990s from a district to a division-based regional rural development agency. However, there was a mismatch between the two processes of administrative and political devolution.

The district-based electoral system of proportional representation, which abolished one-person constituencies and resulted in the invisibility of the electoral division, has constrained integrated area-based development. The same invisibility of electoral divisions is characterised at the PC and PS levels as well. The situation is further complicated by differences of opinion between national and provincial level representatives. The reluctance of different agencies operating at the divisional level to pool funds has also been a constraint. The line departments are not geared to supporting programmes to improve target groups or promote people's participation. Their primary concern is to execute programmes that have been decided centrally (Gamage 1987).

Local-level planning has been constrained by two system faults. The first is the marginalisation of the PS. The Perspective Plan 1994-1999 anticipated this problem:

A further aspect of integration, yet to be explored, is integration of the planning process with the political decision making processes. Without such integration the Integrated Rural Development process practiced by HIRDEP over the past fourteen years will not be sustained in the future. (HIRDEP 1994a:6)

As we have argued, such political integration was impossible to achieve in practice. There was no attempt on the part of HIRDEP to integrate with the Pradeshiya Sabha in project planning and implementation. The PS came into the picture only in so far as it took over the maintenance of community and infrastructure projects built by HIRDEP. Understandably this is a responsibility that the PS undertook without much enthusiasm, as it had been bypassed at the implementation stage.

Secondly, the District and Divisional Coordinating Committees have failed to become development oriented. There is no doubt that these two institutions enabled HIRDEP to achieve a degree of inter-agency coordination of its activities, but they have failed to recognize their broader developmental goals. Hence they have functioned, and continue to function, as problem-solving institutions that aim primarily at short-term political ends rather than long-term developmental goals. As a result there is at times a clear divergence between the developmental and the political agenda. The divisional committees have failed to meet on a regular basis. A hidden reason is the reluctance on the part of some politicians and also the Divisional Secretaries, now with the rank of grade 1 officer of the Sri Lanka Administrative Service, to attend these meetings.

HIRDEP made a conscious effort to bring civil society organisations into development planning at local level. It took the initiative to establish NGO forums within several divisions and opened the way for NGO participation in Divisional Coordination Committees. The main concern was to get private and NGO investments incorporated into divisional plans. Adding to this, HIRDEP also supported the establishment of trade associations in several divisions, and assisted with office equipment, printed stationery etc. in the initial phase. It was considered important to get business people to work with the Pradeshiya Sabha.

In the Perspective Plan 1994-1999 the intention was formulated to initiate a dialogue on the principles embodied in HIRDEP's local-level planning strategy with politicians at all levels. It would have been an innovative form of institutional strengthening. The idea was to use awareness and briefing workshops, seminars and field days for the purpose. However it was not possible to achieve this in practice as HIRDEP itself would have been overstretching its capacity in the process, and not much interest was shown by most politicians in such a learning process.

In concluding this section it would be worthwhile mentioning that with devolved governance HIRDEP was placed in the unenviable position of having to adjust to a system that was itself in a state of evolution. It speaks much for the inbuilt resilience of HIRDEP that it was able to cope with the situation by transforming itself from a district to a divisional level development agency.

2.3 Second Challenge: How to ensure that investments in social and economic infrastructure will be effectively utilised and maintained

Background

Over time, through the Project Office, HIRDEP had become increasingly involved in implementation, in part due to its innovations related to area development and social mobilisation. Answers to many of the developmental challenges of the district had been sought in models that deliberately bypassed

regular structures. This is part of what innovation means. When a decision was made to phase out NORAD's support, this legacy prompted two fundamental questions:

- ? Would it be possible, or at all desirable, for GOSL to continue HIRDEP after the purse-strings to NORAD were cut?
- ? If not, or in any event if HIRDEP was meant to be a temporary organisation, how could sustainable use of its investments be ensured?

As late as in the 1998 Annual Meeting GOSL requested NORAD to extend the support to HIRDEP beyond 1999, but the Norwegian delegation responded that the decision was final.⁸ Evidently, GOSL had no ambition to prolong the IRDP programme at its own expense. The official view was that times had changed and new instruments were needed. Apparently, the new REAP approach was the answer, which, supposedly, would replace the old IRDP approach. While there are obvious differences between the two approaches, it is difficult to see why the one makes the other redundant. In fact, several observers argue that REAP would have benefited substantially from being assisted by a HIRDEP-style Planning Unit. The main reason, obviously, for the discontinuation of HIRDEP is that NORAD turned the tap off, and other donors were promoting REAP.

To all who had followed the programme closely, the closure HIRDEP involved two rather different challenges. There was a need to distinguish between (a) investments made in building capacity for innovation, and (b) investments in regular social and economic infrastructure. The issue of continuation and effective use beyond HIRDEP would be fundamentally different in the two cases.

The phasing-out strategy, therefore, rested on two pillars. The first pillar addressed the challenge of transferring a catalytic role – the planning approach of HIRDEP in particular – to other institutions. The idea was to institutionalise this to the extent possible within the Divisional Secretariats, and hopefully also partly the Provincial Council. In chapter 2.2 we looked at the experiences in this regard. In chapters 3.2 and 3.3 below we shall discuss how HIRDEP got engaged in creating new institutions partly also to use them as vehicles for transferring some of its catalytic functions. The formation of both the Hambantota District Chamber of Commerce and the Social Mobiliser Foundation was influenced by this agenda.

The second pillar, which is the focus of this chapter, addresses the issue of transfer and sustainable use of assets. The term 'asset' is frequently used in HIRDEP documents, and often in a general way almost synonymous with 'project output'. It includes, for instance, training courses, tree seedlings, loans, tools and fuel-efficient stoves, besides the more straightforward categories such as irrigation schemes, roads and buildings (HIRDEP 1997). There is a need to distinguish between assets in the form of a functioning public service, which includes organisational aspects as well as financing of

⁸ Agreed Minutes of Annual Meeting, Colombo, 16 June 1998.

operations and maintenance (O&M) on a regular basis, and assets in the form of a physical thing or temporary output. It is not an objective in itself that the latter kinds of asset should always be used for their original purposes. Besides, physical assets have a limited lifespan. It makes little sense, therefore, to talk about sustainability of assets when using such a narrow definition of asset. The concern here is with the sustainability of systems for the provision of critical public services for HIRDEP's primary target group – the rural poor. In Hambantota District the most important services relate to the supply of water for irrigation and domestic use, road transport, education facilities, health services and marketing outlets. HIRDEP has invested in all these forms of services.

To ensure sustainability of service provision HIRDEP faced the following challenges:

- ? Institutional responsibilities had to be clearly defined. This also included the role and responsibilities of users/beneficiaries.
- ? If necessary, the responsible institutions had to be trained and equipped.
- ? Responsibilities held by HIRDEP needed to be properly transferred, including that of bringing the quality of physical assets to an acceptable level before handing over - e.g. physical condition of a water supply scheme.
- ? Better systems for financing of O&M had to be developed.

There is little quantitative information available from where we can measure changes in the quality of public service provision, and the sustainability of the delivery systems. And we were not able to find readily available data on how HIRDEP investments fit into this broader picture. Below we present some indicative evidence informing our conclusions.

Mobilising the users

HIRDEP has financed the installation of about 750 tube wells for community drinking water supply (HIRDEP 1997). Initially these were to be maintained by the National Water Supply and Drainage Board in a very centralised way, but the organisation lacked both the required manpower capacity and financial resources. With the support of HIRDEP a new approach was tried out, starting in 1992, with the Pradeshiya Sabha (PS) as the lynchpin of the O&M system. The PS would be handed the ownership of the water supply and would form two contracts, one with a water users' association, and one with the Water Board. The users' association would perform regular maintenance and collect a maintenance fee from the consumers, and the PS in turn would be responsible for organising repairs. The Water Board would be responsible for spare parts supplies and major repairs upon request from the PS.

This *decentralised* system has improved the situation, but several problems remain. There are often not more than twenty households using a well and they tend to collect too little money to offset the cost of major repairs. In several sites there have been scarcity of water or problems with water quality due mainly to salinity, which make people reluctant to pay fees. In

Angunakolapellasa Division they have developed, with HIRDEP support, about ten water supply schemes with piped connections to the houses. In Debokkawa, 215 houses are connected to a pumping scheme using a dug well as the source. It has been functioning for 10 years and the maintenance is entirely left to the water users' association. The technology is fairly simple, and with 215 members the association is likely to be able to mobilise funds also for major repairs, like replacement of a pump engine. Similarly, in Wagegoda, Tangalle Division, they had operated a dug well scheme since 1986 under the management of a users' association. There are 55 houses connected and all have water meters. This was necessary, according to the chairman, to stop misuse of water.

The situation is different when the water supply schemes become more complex, like the one for supplying Katuwana town. This borehole scheme was opened in 1994 and the PS is the owner and operator. Currently the back-up pump and the chlorinating machine are out of order and the electric switchboard poses problems. The caretaker reported that they had requested the Water Board to do the repairs, which in turn complained that the private supplier of critical spare parts did not respond. The PS had no authority to buy services from a private company directly, but on the other hand, as the caretaker commented, such companies are generally found only in the metropolitan area and it would be very expensive to get them to Katuwana.

Evidently, HIRDEP contributed in a major way to developing and testing models for users' associations in water management. This is also the case with irrigation schemes. The lesson is that these organisations can work quite effectively and independently provided the members receive a tangible benefit. Where the water supply is marginal, land is highly fragmented and cultivation only a seasonal occupation it has been difficult to establish effective farmers' associations.

The Ranna-Wadigala project is an example of a successful irrigation project. It has been in operation for about five years. The water for irrigation is pumped from the nearby Urubokka River into a central tank and distributed by gravity through pipes to individual farmers. It took 15 years to finish the project from the first initiative taken by two local farmers. The scheme is entirely managed by the farmers' association (with about 150 members), and although this is a fairly complex project, good returns from vegetable production makes it economically feasible.

HIRDEP demonstrates the lesson that maintenance by users' associations is no panacea. Factors that matter include level of technology, number of people involved, and O&M costs relative to actual or perceived benefits. With the present drought, for instance, many irrigation tanks are not being looked after. But HIRDEP has helped by demonstrating that user involvement is, nevertheless, the way forward. Importantly, the sheer number of the projects where HIRDEP promoted users' involvement has brought these ideas beyond the immediate circle of development planners and activists to the population more widely. To use a recent concept in vogue, HIRDEP's investment in 'social capital' in this way is probably the one that will yield the highest

returns over time, provided economic and political conditions remain favourable.

Capacity of line agencies withers

Institutional strengthening of the line and other agencies has been a primary phasing-out consideration for HIRDEP. This was attempted in several ways. Provision of new buildings and renovation of existing buildings have contributed to the stock of physical infrastructure. And agencies were also allocated projects with the intention that the project was a means of strengthening their institutional capacity.

HIRDEP's expenditures on social development activities, such as education, health and community development services, have been considerable. In order to expand free education facilities for poor people, around 320 buildings were constructed and 9 playgrounds developed in various schools. Furthermore 180,000 new furniture and equipment items were provided for government schools. In addition to providing infrastructural facilities, a programme was initiated to train schoolteachers for Advanced Level classes. This seems to have had a noticeable effect on the educational standard of the District. Prior to commencement of these training programmes, Hambantota occupied 22nd place among the 25 districts in Sri Lanka in terms of Advanced Level results. By the late 1990s the District had jumped to 2nd place. With the termination of NORAD funding, the teacher training programme was discontinued, and the most recent figures show that Hambantota is now more or less back in its pre-HIRDEP position. It is part of the picture that many trained teachers have requested and obtained transfers to other Districts.

Investment in health accounts for 5 percent (Rs.54 million) of total expenditure during the entire period of HIRDEP – mostly in the form of buildings and equipment. 98 hospital buildings were constructed, 47 operating theatres established or developed and 2 health centres set up. There is evidence that health conditions in Hambantota are relatively better than what its economic conditions would have indicated. In terms of GDP per capita Hambantota District ranks 13th among districts in Sri Lanka while in terms of life expectancy at birth it occupies a higher rank. The latest figures on infant mortality shows Hambantota far ahead of the more economically developed neighbouring districts, Matara and Galle.⁹ There is no statistical evidence yet that health conditions are worsening as a result of reduced health sector budgets, but this is to be expected.

Successful civil society capacity building

There has been a remarkable proliferation of civil society organisation in the district over the last two decades. This, of course, has been a national and even global trend, but there is no doubt that HIRDEP has been a major catalytic factor. In Table 1 we have listed all organisations that have been formed largely as a result of HIRDEP projects and are registered as formal recipients

⁹ In 1997 the rate for Hambantota was 5.9 per 1000 live births, while for Galle and Matara the figures were 16.4 and 17.8 respectively (Southern Provincial Council 2002:36-39).

of assets financed by HIRDEP. Many of them are cooperative-type ventures, and some are professional associations.

HIRDEP has also promoted the development of NGOs. This goes back to the early 1980s, when Mr. Leelasena, the first HIRDEP Project Director, invited people from local NGOs to receive training in social mobilisation. In total 16 NGOs responded – all small and embryonic organisations. From this group the first social mobilisers were identified. Today, the Social Mobiliser Foundation reports a membership of 17,000 involving almost a quarter of families in the district. The Women Development Foundation in the same period has grown to a membership of 30,000, all women. Although never a direct beneficiary of HIRDEP, it was greatly helped by the activities of HIRDEP and later, in 1994, it received support directly from NORAD. These are the two biggest NGOs in the district, but there are numerous smaller ones, and HIRDEP took the initiative to create a NGO Forum. Interestingly, and rather unconventionally, this is coordinated by the Hambantota Chamber of Commerce – another of HIRDEP's institutional offsprings.

Most observers would agree that HIRDEP's impact on civil society development probably is its most sustainable and greatest contribution to the district. This holds not only for the formal organisations, but also, even to a greater extent, for the emancipating effect of HIRDEP's social mobilisation. HIRDEP has amply demonstrated the potential for mobilising the poor for development purposes. This is evident in the mobilisation of small groups for production and savings purposes. The environmental groups, or the Thurulatha associations, are another example. Similarly, water users' associations and farmer organisations play important developmental roles today.

It is a significant development that female members of these NGOs by far outnumber male members. In discussions with women's groups it was evident that group dynamics have contributed to their uplift both socially and economically, and the experience of SMF in small group organisation and micro-credit has been actively used by other organisations, such as the state-sponsored Samurdhi movement as well as the many other NGOs that have visited SMF and HIRDEP over the years.

Table 1: “New” institutions in Hambantota directly supported by HIRDEP

Civil society organisations “nurtured” by HIRDEP	Comments
Handicraft centre	A collective enterprise
District Fisheries Federation	58 Fisheries Societies are registered of which 45 are functioning
Ruhunu Ridiyagama Agriculture Association	Membership organisation selling agricultural produce and inputs
Highland farmers’ organisations	Formed under the Highland Farming Project - about 8 organisations are active
Tissahamarama Export Village	Formed under Readware Project. About 2500 women are members.
Ambalantota Trade Association	
Social Mobiliser Foundation	
Milk Cooperative Society	
Sericulture Cooperative Society (Bedigama)	Now defunct
Sanasa	Hambantota Thrift and Credit Cooperation Society Union Ltd.
Amarawewa livestock cooperative society	Operating in the buffer zone to Yale national park

Public agencies “brought to” Hambantota by HIRDEP	Comments
Vocational Training Authority	
Coconut Development Board	
Post and Telecommunication	HIRDEP supported the establishing of a main post office

3 Creating new economic opportunities for the poor

The *relevance* of HIRDEP interventions in the wider picture of developmental change can be assessed, but measuring the exact impact is not possible. In this section we shall identify the main features of the bigger picture, where information is available, which will enable us to evaluate how HIRDEP responded to emerging needs and trends, how HIRDEP investments may have contributed to the trends observed, and where HIRDEP initiatives were not successful due to unfavourable circumstances. This perspective of relevance will be used when we study main challenges during the phasing-out period, namely how to sustain the investments made in building up the Social Mobilisation Programme (chapter 3.2), and how to support private sector development and employment creation more effectively (chapter 3.3).

3.1 Situating HIRDEP in the big picture: patterns of economic, environmental and social change in Hambantota District

During the period of over two decades of its operation, HIRDEP has made a significant contribution to raise the quality of life of the people and to improve the conditions of many remote parts of the Hambantota district. Its interventions aimed at increasing productivity, income and employment focused on both farm and non-farm sectors had a favourable impact on the beneficiaries. However, it is difficult to determine to what extent the positive results can be attributed to the HIRDEP alone. Other factors, notably exogenous factors such as weather conditions are likely to have played a significant part in the predominantly agriculture-based economy. Moreover, HIRDEP interventions in these sectors were undertaken alongside parallel interventions carried out by other government and non-government agencies. (Atapattu 2002)

Introduction

Looking at development trends in the district from about 1980 until today, six features stand out:

- ? Significant improvements in standards of living, but the poverty level remains high;
- ? Primary sectors remain the main employer and source of income;
- ? Growth in agricultural productivity but stagnation in output;
- ? Slow growth in industrial development and formal employment;
- ? Substantial improvement in social development indicators;
- ? Water scarcity and drought cloud future development prospects.

Poverty on the decline but the pace is slow

Living conditions in Hambantota have improved over the last 20 years, and people readily give testimony to this. They emphasise that the relative isolation of the district has lessened and local markets have expanded, factors which have increased economic opportunities. Social service provision has also gradually improved.

Studies show, however, that still as much as one-third of the population can be classified as poor in terms of *income or consumption*. Considerable progress was made in reducing poverty in the country as a whole between 1985 and 1990, with poverty levels declining by 18 percent. There are no reliable statistics for Hambantota for the same period, but baseline studies conducted for HIRDEP in 1980 and 1990 show major improvements in housing standards. In Bedigama, a typical farming village, the proportion of traditional wattle and daub houses declined from 65 to 47 per cent. In Katuwana, similarly, the number of brick-walled houses increased from 23 to 61 per cent. In Kudawella, an important fishing village, the proportion of houses without toilets dropped from 67 to 21 per cent (Jerve et al 1992).

Using data from the Household Income and Expenditure Surveys (HIES) of 1990/91 and 1995/96, the percentage of households in poverty in Hambantota was estimated at 37 and 30 respectively. This indicates a positive trend, but at a level of poverty higher than the national average, estimated at 30 per cent in 1990/91 and 27 per cent in 1995/96. It should be noted that the national average for rural areas is close to the figures for Hambantota, namely 35 and 29 per cent respectively. Although the district records average monthly household income and expenditure levels below the national average, its income level is substantially higher than those of the neighbouring districts Moneragala or Badulla. Yet, the percentage of Janasaviya and Samurdhi recipients in Hambantota has been substantially higher than the national average. For instance, in the early 1980s about 60 per cent of the people were receiving food stamps, though this is not a good indicator of poverty as non-targeted groups also get access to them. In 2000, the percentage of households receiving food and economic support was 60 per cent compared to the national average of 39 per cent.

If we use a more comprehensive definition of poverty it appears that Hambantota has performed relatively better, but remains below the national average. Based on the Human Poverty Index developed by UNDP in the 1998 National Human Development Report, 23 per cent of households were classified as poor, compared to the average of 18 per cent for the whole country (1994 figures). The regional pattern of development in Sri Lanka shows substantial variation in life expectancy, education and GDP. In the same report, the Human Development Index (HDI) ranked the Southern Province 5th of the 7 provinces for which the index has been calculated. Only the Central and Uva Provinces were less developed. Among the 17 districts for which data are available, Hambantota ranked 9th while other dry zone districts

like Kurunegala, Polonnaruwa and Anuradhapura ranked 2nd, 3rd and 4th respectively.¹⁰

In terms of human development, Hambantota District scores much better than neighbouring Matara, which ranked 15th, and Moneragala, which ranked 16th. This good performance is in spite of sluggish economic growth, in particular very slow rates of industrial development. It can probably be attributed to improvements in social, economic and community infrastructure facilities over a long period, starting from the early 1980s, for which HIRDEP was the main source of funding.

Expansion in transport services is a precondition of economic growth, and although the road network of the district is still poor in comparison to many other districts, during the past two decades many isolated settlements like Gonagolla and Suriyawewa have been provided with motorable access roads and also connected to better A and B grade roads. Before the 1980s, many of the village settlements, especially those located in the east and central parts, were isolated, mainly due to a lack of motorable roads. In 1980 there were 3000 registered motor vehicles (including motorbikes) in the district and by 1998 this number had grown six times. The number of households connected to electricity increased about four times in the same period. In 1981 only about 6 per cent of the total households in the district had electricity and by 1996, 23 per cent of the households had been connected.

Employment is still largely dependent on the primary sector

Hambantota District depends heavily on rural economic activities. Especially in semi-arid areas in the district, the economy is dominated by agricultural and fisheries production. In addition, inhabitants in these areas also practise highland farming in sedentary forms as well as in traditional shifting forms, though the latter types of farming practice are largely declining. Paddy farming under irrigated conditions is the mainstay of the economy in most rural areas. The most important source of income for the coastal population is fishing and related activities. The population distribution reflects the importance of primary production, with nearly 96 per cent of the population living in rural areas. The corresponding proportions in Galle and Matara districts are 87 per cent and 89 per cent respectively. Although employment in agriculture and related activities declined in all three districts between 1981 and 1997 (Table 2), agriculture, fisheries and related activities in Hambantota still account for over 57 per cent of the employed population (Atapattu 2002).

The formal wage sector of the district, both in public sector agencies and private sector enterprises, is small. Hambantota has not attracted much private sector investment in the past, and waged employment in the private sector has therefore been limited. The small enterprise sector has been given a helping hand by a number of people's organisations assisted by public sector

¹⁰ The indexes have been calculated for 17 out of 25 districts, as data are not available for districts in the north and east due to the war. Areas that come under Anuradhapura and Polonnaruwa districts have benefited from investments under the country's largest irrigation cum land settlement project, namely the Mahaweli Accelerated Development Program.

organisations. The employment opportunities created are mostly in the form of self-employment.

The growth of employment in manufacturing has been slow, from 5.5 per cent in 1981 to 9.2 per cent in 1997. Only a few large enterprises are found in the district; small factories and very small cottage industries dominate. There has also been a slow growth in services like “trade and hotels”. In 1997, public sector employment amounted to 23 000 and about 50 000 were employed in the private sector. Of a total labour force estimated at 207 000 this shows a low share of salaried employment.

Table 2: Percentage of employed population by major industry group by district in the Southern Province, 1981 – 1997

INDUSTRY DIVISION	1981			1997		
	GALLE	MATARA	HAM'TOTA	GALLE	MATARA	HAM'TOTA
Agriculture, Fishing, etc.	39.2	50.6	60.7	36.1	44.0	57.4
Mining and Quarrying	0.5	0.2	1.2	0.5	0.4	0.9
Manufacturing	11.7	7.0	5.5	18.5	10.7	9.2
Electricity, Gas and Water	0.3	0.1	0.1	0.4	0.8	0.3
Construction	4.1	3.6	4.4	7.8	6.1	4.5
Trade and Hotel etc.	12.2	9.4	7.2	12.4	10.7	9.3
Transport, Storage and Communication	5.1	4.1	1.8	5.0	5.0	4.1
Finance, Insurance etc.	0.8	0.9	0.6	0.9	1.5	1.1
Personal Services	16.5	15.0	11.3	17.5	14.7	13.0
Other	9.3	8.9	7.2	0.9	6.1	0.2

Source: Atapattu 2002

Since the early 1980s some structural changes in the labour market have become visible, but they signify only a gradual and slow process of economic modernisation:

- ? The labour force participation rate has increased somewhat – from 42 per cent in 1981 to 46 per cent in 1997.
- ? The labour force participation rate of women is relatively low as compared to the other two districts in the province. Female participation rate in Hambantota was 27 per cent in 1997 while Galle and Matara districts registered 32 and 35 per cent respectively. It is worth noting that this is for Hambantota an increase from 17 per cent in 1981.
- ? The share of agriculture in employment has declined only marginally from 61 to 57 per cent over the period, which means that the number of persons engaged in agriculture today is much larger than it was in 1981.
- ? The rate of unemployment in the district in 1981 was 20 per cent, and had declined to 15 per cent by 1997.
- ? The 15 per cent rate of unemployment in 1997 was high compared with the national average of 7.6 per cent. A high rate of unemployment

among educated youth is considered one of Hambantota's main development, as well as political, challenges.

Water shortage limits development

Compared with an average annual rainfall of 1850 mm in the island, annual average rainfall in Hambantota is 1016 mm. Rainfall occurs between October and January and April to May while February to March and June to September are usually dry. As the rainfall is distributed unevenly, semi-arid climatic conditions can be observed in the eastern and southernmost parts of the district. Prolonged drought was observed during the last four years and the situation was most acute in 2001.

Hambantota has 10 rivers or streams; however, except for the four perennial rivers, the entire river basin system undergoes periods of water stress almost every year. Since the 1970s until about the end of the 1980s there were intensified efforts at expanding irrigated paddy cultivation by diverting river water from water surplus areas to water deficit areas. Over the last ten years, however, the acreage of paddy sown annually has remained more or less constant (Atapattu 2002, Table 4). Today, there are 20 major irrigation schemes in the district with an irrigable area estimated at 21 207 ha. There are also 723 minor tanks with a total irrigable area of 4 066 ha. Kirindi-Oya basin is the most water-stressed river basin system of the district, and many farmers that depend on it face serious water shortages.

Drinking water has been a high priority area of investment in Hambantota, but little over half the population has access to piped water or wells. The Demographic Survey of 1994 conducted by the Department of Census and Statistics revealed that 28 per cent of the housing units in the district obtained drinking water from unprotected wells, river/tank systems or other similar sources, exposing them to water-borne diseases. Still, this was better than for the Southern Province as a whole (37 per cent), and for Sri Lanka as a whole (32 per cent). It is a growing problem in many locations, however, that tube wells are not in operation due to lack of maintenance or increased salt or iron content in the water.

Diversification of agriculture but stagnation in paddy

There have been some significant gains in agricultural development over the last two decades that partly explain the continued dominance of agriculture in the economy of the district. Between 1979-1999 the irrigated land area was extended by an additional 10 000 ha, and major advances have been made in crop diversification. For instance, banana (plantain) cultivation has been transformed from a rain-fed backyard crop to a lucrative, irrigated cash crop. Some irrigated paddy lands have been turned into more profitable banana cultivation, contributing to, for instance, the economic growth in areas surrounding Suriyawewa town. Not only has there been an increase in the area under banana cultivation, but also significant gains in productivity. The bunches of plantain per hectare increased from 590 in 1994 to 808 in 2000, resulting in a 50 per cent increase in the total banana production in the period. Significant increase in production of various vegetables, such as bitter gourd,

cucumber, green gram, brinjals and okra, are also recorded. Not only has the area under these crops increased but productivity as well. Production of green chillies, for instance, increased by 125 per cent from 1980 to 1999. The spread of cashew, green gram and cassava production is also noteworthy. Furthermore, before 1980 Hambantota was not known for goat farming, while at present there are between 400-500 households engaged in goat farming with a stock estimated at 25,000 goats.

These advancements can probably be attributed to improvements in agricultural extension and infrastructure facilities during the past two decades – e.g. extension of the irrigated area under major tanks, rehabilitation or construction of minor irrigation schemes, and development of rural roads and transport and storage facilities. However, the growth of the sector seems to be stagnating. The overall performance of the agricultural sector would have been weak but for the introduction of new crops such as cashew, groundnuts and banana. Paddy production did not record any improvement during the period 1994-2000 (see Figure 4). The average yield of paddy displayed a marginal improvement from 4048 kg per hectare in the 1993/94 Maha season to 4354 kg per hectare in 1999/00 Maha.

The factors associated with this situation are probably many: water shortages, prolonged droughts, population pressure on land and fluctuations of prices of agricultural produce. At the outset, as much as 35 per cent of the land is classified as unsuited for agriculture. The wet and intermediate areas, which are intensively used for settlements, homesteads, irrigated and rainfed paddy and upland farming, make up about 22 per cent, and on the rest of the land (43 per cent) agriculture is constrained by agro-climatic factors (Dayaratne and Kulatunga 1991). For this reason, Hambantota has land available for industrial purposes, while the prospects for agricultural growth are at best uncertain.

Over 30 per cent of the asweddumized area of paddy¹¹ under both major and minor irrigation schemes in Hambantota remains uncultivated, due mainly to a shortage of irrigation water made worse by the recent drought. Under minor irrigation schemes and rainfed conditions paddy is produced mainly during the Maha (rainy) season, as water availability is uncertain in the Yala (dry) season. Over two-thirds of the district is affected by the vagaries of weather and prolonged droughts. For instance, agricultural production under Lunugamwehera and Muruthawela tanks (parts of the Kirindi Oya scheme) has virtually ceased.

The district has a large population to support. Hambantota has a large proportion of the total population inhabiting the entire dry zone.¹² The district covers only 6 per cent of the total area of dry zone, but in 1981 it accounted for 10 per cent of its total population, 11 per cent of the agricultural land, and 14 per cent of the smallholdings (Silva 1991). The population pressure on land

¹¹ Land levelled and bunded for regulation of water supply for paddy cultivation.

¹² The districts defined as dry zone include Hambantota, Mullaitivu, Vavuniya, Mannar, Jaffna and Puttalam.

increases especially as industrial and service sectors have not developed to a satisfactory level to absorb surplus population from the agricultural sector. Thus the farmers have adopted complex tenure systems and have tended to subdivide the existing agricultural holdings. In this manner tenure problems have resulted in an impasse affecting not only the adoption of new technology but also proper land management to increase land productivity. The majority of existing land holdings are under 0.5 ha. In particular, paddy is produced by thousands of smallholder land operators, and many of them operate holdings that are not economically viable.¹³

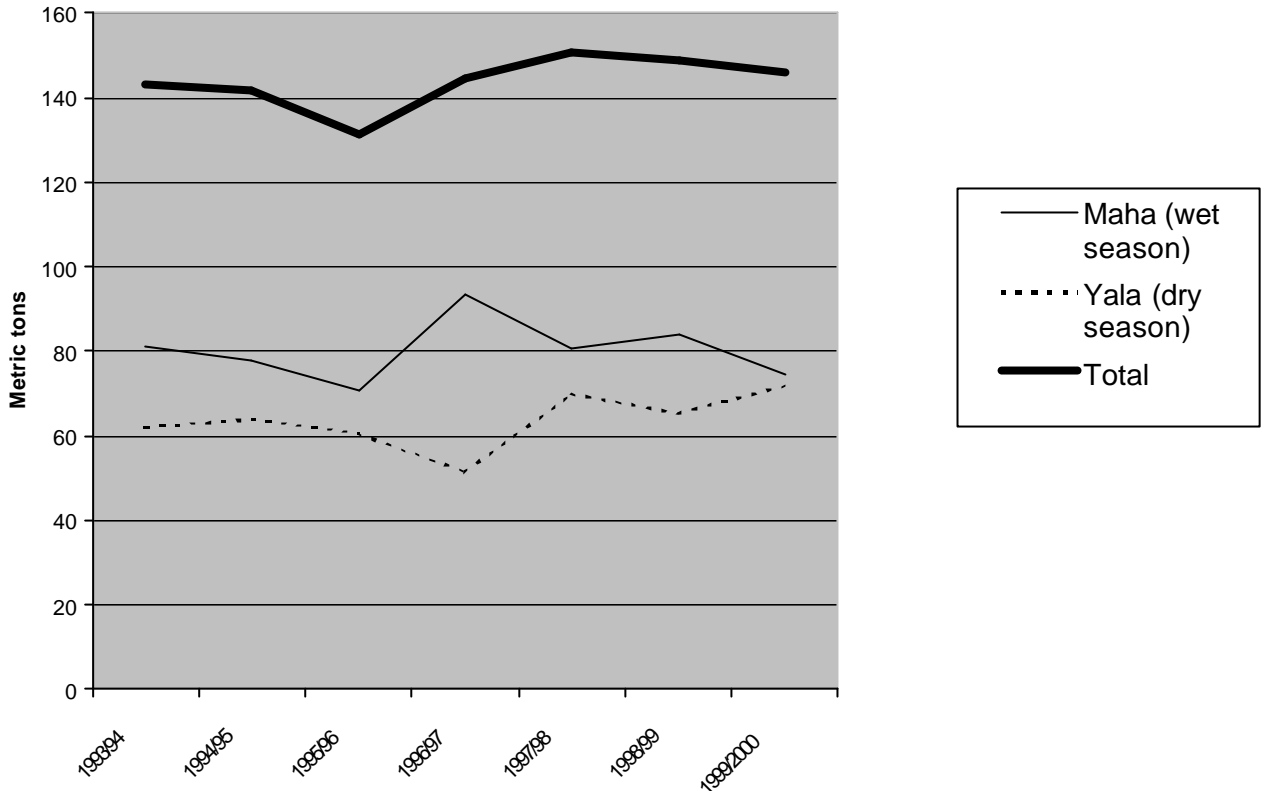
In addition to suffering from the vagaries of weather, crops cultivated under rain-fed conditions also are affected by market price fluctuations and other macro-economic policy changes. These crops, often referred to as poor man's crops, suffered severally under the policies of trade liberalisation and de-subsidisation, and also under the impact of the floating Rupee, which escalated the cost of inputs (Hewavitharana 2002).

Paddy cultivation has fluctuated significantly over the last two decades. Figure 4 clearly illustrates this, covering the period 1993 to 1999 with data from both seasons. There is even a decline that can be attributed mainly to drought, though the continual spread of salinity on irrigated land and filling up paddy lands for housing and other construction purposes also play a role in reducing the area under paddy cultivation.

There has been a considerable growth in *animal husbandry* over the last twenty years, which is a clear indication of diversification in agriculture prompted by the vagaries of paddy cultivation. The stock of buffalo has doubled during this period. Buffalo curd has been a traditional cottage industry that the district has had a reputation for, and the curd industry has thrived over the years by extending curd supplies to major cities like Galle and Colombo. Whereas the number of cattle grew by only 40 per cent, there has been a quadrupling of the goat stock and a doubling of poultry. Goat farming has captured the attention of the people in the district, due mainly to the initiatives of HIRDEP. As goats have a greater tolerance for the arid environmental conditions, this is a venture that has much potential for expansion, though many Buddhists for religious reasons avoid this production. The Hijra Company that supplies a significant proportion of poultry products in the country has started its investment in response to a request by Hambantota District Chamber of Commerce (HDCC). This benefits the small farmers as the company has introduced outgrower schemes.

¹³ Paddy farming on about two acres under assured irrigation (under perennial tanks or reservoirs) can result in a small surplus over subsistence needs. However, a great majority of farmers in the district operate less than 0.5 ha, and acute land scarcity prevalent in many parts of the country has manifested itself in a rapidly expanding rural proletariat, the widespread occurrence of share tenancy, fragmentation of farm units and general poverty in the countryside.

Figure 4: Paddy cultivation Hambantota District 1993/94 - 1999/2000



Source: Statistical data presented in Atapattu 2002

Land scarcity and threatening environmental degradation

Of the 260,930 ha of land in Hambantota District, half consists of national parks, forests and forest reserves, and only a quarter of the land is under paddy, coconuts, export crops, other perennial crops and homesteads. The district population grew by 54 per cent from 340 300 persons in 1971 to 525 370 persons in 2001, which represents an average annual growth rate of only about 1 per cent.¹⁴

The population density today is 204 persons per square km and the population density is much higher in the wetter western part of the district. As a consequence, even the modest population growth has resulted in a dwindling land-person ratio, and people from the western parts of the district have continued to migrate to eastern parts in search of cultivable land, and to encroach on land to build homes. Thus the eastern part is shifting rapidly from being a frontier area to a more densely populated area with increasing pressure on cultivable land. The eastern part of the district has also been attracting landless people from nearby wet zone districts like Galle, Matara and Rathnapura.

¹⁴ A population census in 1991 was not carried out due to unsettled conditions in the East. Even the population census in 2001 was completed only in a few districts.

The total land area under forests in Hambantota is about 51 per cent, if forest reserves and national parks are included. The forested area in the country as a whole had dwindled to 22 per cent by mid 1980s. Hambantota is thus in a relatively favourable position, but the pressure to clear forests for agriculture and human settlement, for timber extraction and for cutting fuel-wood has been increasing over the years. As a result, the area under dense forest has decreased while the area under scrubland has increased.¹⁵ However, it is a positive sign that the area under forest plantations has increased, showing the effects of various reforestation programmes, many supported by HIRDEP.

Substantial growth in fisheries

Though estimates of fishing population, fishing crafts and fish catch vary between different sources, these clearly indicate a growth in the fishing industry in terms of fishing craft used, size of the annual fish catch and population engaged in fishing. In 1981, there were 1466 vessels, of which 73 per cent were of the traditional *oru* type. Four years later statistics (if reliable) show that the number of vessels had increased by about 300 but now *oru* boats made up only 38 per cent of the fleet (this is a reduction of 400 boats in four years from about 1000). In 1999 the fishing fleet had been further modernised and included 239 multi-day vessels and 707 outboard vessels used for deep sea fishing. It is worth noting that 420 *orus* were registered. Hence, the rate of decline in the number of traditional vessels had fallen, indicating a possible process of economic differentiation among fishermen.

Conditions in the coastal zone, the 2 km wide area along the coastal belt from Kudawella to Kirinde, have improved significantly during the last two decades. The improvements include provisioning of community infrastructure facilities like rural roads, water supply, housing schemes and electricity supply. In addition, production facilities like fish landing centres, marketing facilities and cold storage have been introduced during the past two decades. There are 30 fish landing centres in the district now. Similarly, the strengthening of fisheries cooperatives under the HIRDEP assistance has benefited over 5000 fisher families, according to HIRDEP documents.

The total fish catch increased from 8117 Mt in 1981 to 23 260 Mt in 1995 and then to 32 990 Mt in 1999, indicating productivity growth. It also appears that the number of families that depend on fishing for a livelihood increased in the same period. It can be expected that a similar growth in related sectors, such as boat building, engine repairs, and services in the transport and sale of fish, has taken place, increasing the number employed in the fisheries sector. Still, it appears that the fisheries sector has not yet realized its full potential. For instance, lagoon fishing remains undeveloped and though the number of prawn farms along the coastal line is increasing, the potential for prawn farming goes untapped.

¹⁵ Information compiled by Land Use Policy Planning Division (LUPPD) in 2001 and statistics issued by the Department of Census and Statistics in 1988.

Manufacturing grows slowly

In all three districts of the Southern Province, manufacturing is in its embryonic stage of development. Growth of manufacturing in Hambantota is slow for a number of reasons. In general, the district is relatively poor in terms of buying power, and it is far from the centres of economic activity, and from seaport and airport. Hambantota may also have been affected by a poor natural resource base to support a major industrial drive, and it has had a reputation for radical politics by educated unemployed youth since the early 1970s. Possibly, the latter may have scared away investors. The experience of the garment industry provides an illustrative example. In spite of the fact that the garment industry has locational flexibility, and the Government has provided incentives to locate them in “difficult areas”, Hambantota attracted only a few factories.¹⁶

Salt production using seawater and solar energy is, besides agriculture processing, the only major manufacturing based on natural resources. It is a major source of employment for the poor, especially during the lean agricultural seasons and at times of prolonged drought. Rice milling is the second most important manufacturing activity. In 1980 there were about 570 rice mills. This is now reduced to about 200, and only about one third are in operation. In the early 1980s, other non-farm activities such as light engineering were concentrated mainly in towns (Ambalantota, Beliatta, Katuwana and Tissamaharama), but rice mills as well as light industries are more widely spread now.

There are no industrial statistics for the district providing reliable time series, partly because differing classifications are used. A Census of Industries taken in 1977 listed 225 ‘main enterprises’ and 1443 ‘small industries’, which included processing of rice, salt, ice and manufacturing of clothes. There were 5662 ‘small business or industrial establishments’ in 1995, while a survey from 1998 recorded only 10 industries employing more than 100 people.

Stagnation in tourism

Hambantota is endowed with a range of natural resources pointing to a significant potential for tourism. These include aquatic resources, sunny beaches, forests and wildlife sanctuaries. Sri Lanka’s biggest National Park, Yala (YNP), is situated in the district and there are two bird sanctuaries, in Bundala and Weerawila, providing opportunities for eco-tourism. In the district or in its vicinity are also found a large number of other attractions for tourists, including ancient archaeological monuments, caves used by ancient people, hot springs at Madunagala, waterfalls in the north, and a blowhole (Hummanaya) along the coastal road to Tangalle.

¹⁶ The Two Hundred-Garment Factory Project was launched in 1992 by the Government to encourage private sector involvement in setting up garment factories in the more backward rural areas in the country. The Government used its authority to distribute as quotas the total annual allocation granted to Sri Lanka by the main importing countries under the Multi-Fibre Arrangement to locate garment factories in such areas. By 1993, the project had established 131 garment factories out of which only a few have been located in Hambantota.

Still, there are few tourist hotels in the district, and the number of tourists has declined in the recent past, according to hotel managers. One major factor that they attribute this problem to is the armed conflict in the North and East, scaring foreigners away from the country. The Yala National Park has been closed for tourists for a long time due to security problems.

But the development of tourism in Hambantota is also affected by a host of factors. Some of the beaches are not suitable for swimming due to rapid currents, others are polluted, or the beauty of the coastal landscape has been affected by various constructions. Beaches in the southwest of the district are affected by heavy erosion. Moreover, access to the district from other parts of the country is difficult.¹⁷ Furthermore, there is a weak organisational set-up for tourist promotion and a lack of modern tourist facilities like golf courses, organised fishing and boat trips and the like. Finally, unreliable power supply has also been a deterrent to major tourism development.

A leap forward in social development

Education services improved between 1986 and 1996. In 1994, Hambantota scored 0.730 points on an education index, compared to the average of 0.670 points for the 17 districts in the country. The literacy rate in the district is high; the percentage of adult population with literacy skills in 1981 was 82 per cent (88 for males and 76 for females), increasing to 87 per cent in 1994.

As regards *health* services there have been similar improvements, but most significantly in primary and preventive care. According to district medical sources, mortality and morbidity patterns have changed during the last two decades. In the early 1970s, malnutrition and communicable diseases such as malaria, respiratory tract infections (including tuberculosis), diarrhoeal diseases, venereal diseases, and “children’s diseases” (whooping cough, measles and diphtheria) were the most prevalent health problems. Similarly, specific conditions such as complications during pregnancy and birth delivery were not satisfactorily addressed by the existing health services during the 1980s. In terms of the above conditions much improvement has been made during the 1990s.

Improvement in health care facilities, increasing literacy rates and improvement in nutrition may have contributed significantly to reducing the mortality rates. For instance, mortality measured in terms of crude deaths per 1000 population fell from 4.6 in 1989 to 3.9 in 1998. The maternal mortality rate showed a similar trend, dropping from 0.4 per thousand live births in 1982 to 0.3 in 1992. Maternal deaths fell from 0.4 per 1000 live births in 1982 to 0.29 in 1989. The district experienced a remarkable drop in the infant mortality rate from 29.5 per 1000 live births 1981 to 6.5 in 1991. The rate dropped further to 3.3 in 1996.

¹⁷ The planned investments in an international airport, a highway from Matara to Colombo, together with extension of the railway to Hambantota, will dramatically improve the accessibility of the region.

Improvements in curative care are less pronounced. In 1983 Hambantota had 20 hospitals and by 1994 this number has increased to 22. Hospital beds per 1000 population increased only from 2.06 in 1981 to 2.11 in 1994, and then again to 2.3 in 2000. In 1994 the availability of medical officers per 1000 population was 0.054, and this rate was much lower than the national average.

3.2 Third Challenge: How to promote employment creation more effectively through private sector development

Economic development in Hambantota – a private sector view

Slow growth and cautious optimism

Businessmen attending a group discussion convened by the Hambantota District Chamber of Commerce (HDCC) confirmed the picture drawn in the previous chapter of a low level of economic growth, slow growth in employment and in number of business establishments, and little differentiation of manufacturing industries during the last decade.¹⁸ It was a general opinion that growth in Hambantota has been lower than in many other districts. One problem is that Hambantota has been a net exporter of manpower, and there was a concern among businesspeople and others that Hambantota loses its entrepreneurs to other districts, especially to the capital. Educated business people start careers in Colombo and settled there, and as one businessman commented, “sometimes local businessmen don’t want to invest in their region because of responsibilities for relatives”. It is a well-known problem in small business development that social obligations may affect capital accumulation and reinvestment negatively.

There has been a continuation of the agro-based economy that fluctuates with weather conditions, and several businessmen reported stagnation in trade due to the current drought. Still, there seemed to be a faint optimism as they saw signs of a recovery, not least due to the improved political situation. An indicator mentioned was that the flow of migrating youth from Hambantota seemed to have stalled. Some businessmen found it encouraging that there was a keen interest in small enterprises among the youth, which might have to do with the problems in the agricultural sector. It may also be possible to persuade those with businesses in Colombo to look back home, “because they feel a little guilty”, as one commented. The “577 Programme” of the Ministry of Southern Development plays on the local patriotism of migrated businessmen when encouraging them to “adopt a village” in their home district and invest there.

Earlier Hambantota was considered a difficult area, but “not any longer”, as one businessman argued. To this effect HIRDEP has made a major contribution, according to the businessmen, by improving the transport system

¹⁸ The businessmen that attended the meeting were in the following businesses: printing press, furniture, retail, bakery, rice milling, motorcycles and spares, jewellery, insurance, restaurant.

(the new network of rural roads), developing business organisations, vast improvements for women through credit organisations, introducing new technology and an opening to the world, introducing practical training systems that improve skills, and contributing to a reduction in malaria epidemics and general improvements in the health sector. That HIRDEP was able to achieve this the businessmen attributed to “good officers coming from Colombo to serve here”.

Constraints to enterprise development

The private sector of Hambantota consists of micro-, small- and medium-sized enterprises, mainly catering for the local market. Most enterprises are vulnerable to outside competition (goods flowing into the district), as well as local competition. Local businessmen identified the main constraints to business development in Hambantota as insufficient service facilities, lack of skilled people and also a lack of entrepreneurs. Local competition was seen as characterised by a “copycat syndrome”: when one business succeeds, new businesses pop up selling or producing the same product.

Capital shortage was not mentioned as an important constraint by the businessmen, nor by a banker interviewed; but *access to credit* is quite another matter. Especially micro and small enterprises may find doors closed in banks. This is due to a lack of collateral and the fact that their systems of accountancy do not meet the requirements of the banks. There is thus a need for training in business management and accountancy. Several training institutes offer such training, but a businessman claimed that there are “no good schools as compared to Colombo”. Especially, he complained about the computer skills of those trained locally; the courses were too short, only 3 to 6 months, and there is a lack of proper training equipment. The demand for high quality services is a good sign; it indicates a modernising economy.

As regards business development, a banker claimed that there are investment opportunities in many sectors.¹⁹ The days of big tourist projects are probably over in Hambantota, but fisheries can still be lucrative for careful investors. Capital is abundant, and remittances from migrants to the Middle East are still important to the local economy. Expensive transport and the limited local market were considered important constraints, but serious for business development is the fact that many small businessmen lack knowledge on *proper financial planning*. To be able to judge how much of what you earn you can spend, he found more important than technological skills. Often businesspeople start leasing expensive equipment as soon as they earn something, and that never works: “The problem is a lack of financial discipline. We advise them to go by phases and plan loan repayment. But then they just go to another bank”, the banker complained. This problem would improve if women were involved: “Women handle business better. Customers who go bad, we advise to restructure with the wife as partner. It works!”

The banker warned against optimism; market constraints are there, the small local market is easily saturated. An analysis of the market segments of

¹⁹ Interview, Jeffrey, Seylan Bank

Hambantota would probably reveal a large number of poor people in rural villages and towns, a smaller, slowly growing middle class, and a tiny wealthy elite, whose demand for some products is local but more domestic for luxury goods. Some potential investors, local as well as non-local, have no doubt anticipated a continued low buying power, and avoided investments in the district. The *low level of aggregate demand* may thus to some extent have protected the local producers from competition.

The micro and small businessmen that target poor consumers experience special market constraints to upgrading of their businesses, which may be termed “*poverty market constraints*”. This has a particular relevance to the rural crafts of the Social Mobilisation Programme, and is therefore treated in the next chapter. The argument, however, may also be valid for some small- and medium-sized enterprises: If a product is too costly, the large poverty market segment cannot afford it; if the product is cheap, capital accumulation and technological upgrading of the enterprise is affected negatively (Hesselberg 1981). Neither statistics nor case studies exist that would enable a further analysis of the importance of market constraints to growth in the district.

Towards private sector-led development

A shift in development ideology

The shift towards neo-liberal thinking during the 1990s strongly influenced the last phase of HIRDEP. As stated in chapter 2.1, the Ministry of Policy, Planning and Implementation instructed HIRDEP to encourage market-driven economic activities, promote investment and facilitate enterprise development (HIRDEP 1998). In the pursuit of private sector-led development, emphasis is put on the key role of the entrepreneur.

Mobilising entrepreneurship means promoting businesspeople that see economic opportunities where others see none, and are willing to take risks. A belief in *trickle down* is evident: Socio-economic development will follow from the economic growth that results from promoting private enterprise. Increased demand for inputs and growth in employment lead to increased aggregate demand, essential for sustained economic growth. What are thought to trickle-down are primarily jobs and incomes, multiplier effects from investments in production. In the context of regional development, it is of importance that multiplier effects manifest themselves locally, and that positive effects should not be “exported” from the region to other parts of the country or abroad. In the latter case, one could rather speak of a *trickle out* instead of down.

In addition to trickle-down, neo-liberalism also has a strong belief in economic growth resulting from competition in a free market. If local industries are exposed to non-local competition, they will improve and grow stronger (if they survive). Protectionism should therefore be avoided, although welfare economists among the neo-liberals are positive towards some forms of government incentive to promote industrial development. Private business is generally sceptical towards state involvement, and wants less rather than more

regulation. But it would be wrong to see the private sector as hostile towards government involvement; *government regulation should be facilitating* rather than introducing more constraints to business development. Government facilitation of the private sector has in the context of HIRDEP meant creating and strengthening supportive institutions.

The HIRDEP approach: creating a “facilitating network”

According to the Project Director during the phasing-out period, the emphasis on the private sector came in 1995, after the phasing out had started, and this spurred within HIRDEP “a struggling with our thinking. There was a mix of new and traditional thinking similar to what happened in the 1960s. Some still complain to me of these changes.”²⁰ The role of the planners had to be redefined, and project implementation was no longer to be undertaken: “We should only facilitate”. In the early 1990s, organisation of the business community was a new development, and the HIRDEP Director found it “difficult to get the message through”. The different undertakings during this period indicate some transitional confusion. On the one hand, attempts were made to strengthen institutions aiming at supporting the private sector, in line with the role of the state as facilitator; on the other, direct investments in manufacturing were made (for the latter, see chapter 3.3).

What was genuinely *new* during the last period was the strong emphasis on employment and income generation over the *short* term and the role of the *private sector* for development. However, throughout the HIRDEP period there was indeed an understanding of the importance of improving conditions for production, manifest in both direct measures targeting producers, as well as in upgrading infrastructure. Although it is hard to measure to what extent, these general improvements no doubt have affected the private sector positively.

The *foundation* for a facilitation role regarding private sector development was already there. The leadership of HIRDEP had from the inception of the programme developed a flexible approach, which may be termed a “facilitating network” approach. At the core of this approach is linking together economic actors of the same and different fields in the local community and improving information flows between business and government institutions. Hence, what happened later, the expansion and consolidation of Hambantota District Chamber of Commerce (HDCC), should, in terms of development strategy, rather be seen as a continuation than as a break.

The genesis of a chamber of commerce

The interest in promoting private sector institutions came early into HIRDEP: “The seeds were planted in 1986, but we did not know how to do it.”²¹ The national Entrepreneur Development Programme of the late 1980s supported the formation of Entrepreneur District Agencies (EDA) in all districts, but only in Hambantota did this initiative prevail, mainly due to HIRDEP’s

²⁰ Interview, Hemachandra.

²¹ Interview, Leelasena, REAP

involvement. It provided both office space and a manager, and subsequently launched the idea of an Enterprise Service Centre (ESC), which was opened in 1993. In the same year a district level Chamber of Commerce was registered by a group of prominent local businessmen, and became the first district chamber in the country; only the old Colombo chamber existed at that time.

The ESC was started with the Industrial Development Board as the implementing agency, but was privatised in 1996, because, as one observed commented, “it did not really make sense to have such an institution in a government set-up”.²² It was recognised that the bureaucracy of a state sector organisation like the Industrial Development Board severely limited its ability to respond to the needs and demands of entrepreneurial services (Atapattu 2002:16). It was agreed to merge ESC with HDCC. ESC became responsible for attracting new financial institutions and for training and organising businessmen. NORAD’s support to ESC continued after it became part of HDCC. The continued support after its privatisation was aimed at securing the sustainability of the entrepreneur development efforts of HIRDEP.

HIRDEP as a “role model”

According to the Chairman of HDCC “we are here because of HIRDEP”. HIRDEP was instrumental in setting up ESC, but more profoundly HIRDEP influenced the development climate of the district. He claimed that even from the start, HIRDEP “was running like the private sector office, with no bribes to get something done, and there was a high professional standard. If not for HIRDEP Hambantota would have been one of the worst districts. Of course, HIRDEP could have done better, but that is always possible. But it did what it was supposed to do: Employment was distributed among those who needed it most.”²³

Another representative of the HDCC also stressed the similarity between the institutions of the private sector and the “old Planning Unit” of HIRDEP. He claims that “they were very efficient, like us, always working, always open. The NORAD funding made Colombo select good staff to satisfy the project. That is how the model came into being. This was not an imported model; it was a HIRDEP corporate culture of efficiency. Whilst the public sector was burdened with bureaucracy and bribes, and everything took time, all that changed with Leelasena. He changed the working culture completely. Saturdays and Sundays even, he was working. REAP will not develop these qualities.” Moreover, he claimed that HIRDEP had made people aware of the importance of the private sector, the public as well as the authorities. This has paved the way for HDCC, which now can work closely with local authorities and get things done fast.²⁴

HDCC in action

Generally, the main functions of a chamber of commerce are to support the private sector, promote investments and improved financing of business, and

²² Interview, Leelasena, REAP

²³ Interview, Thassim, HDCC

²⁴ Interview, Ramanayake, HDCC

advocate the interests of the private sector with governments and state bureaucracies. The lobbying function consists of influencing regulations and state investment policies, decisions on infrastructure and channelling of investments towards their district. Private sector-friendly regulations are advocated. In some parts of the world, the chambers of commerce have developed into or merged with employers' associations, encompassing widening functions such as labour-capital relations (wages and codes of conduct for work, for instance).

The number of members of HDCC has grown steadily during the last decade; there are now around 250 members. They aim for a "high profile"; small enterprises are not direct members, but organised through the collective membership of their Trade Association. It is possible for non-local investors to become members even if the head office is elsewhere; 20 businessmen with head offices in Colombo and business in the district are members. Many business associations in other towns have looked to HDCC, and use its organisation as a model for own activities. There are close contacts between the chambers of commerce in the country.

The crucial role of HDCC, according to the Chairman, is to give professional support services to the business community, and to sensitise the public of the advantages of investing in Hambantota in investors meetings, constantly keeping a local viewpoint. A monthly bulletin is produced, there are workshops and meetings, and the district is marketed in booklets. During its decade of operation, the HDCC has got results: Investments have been attracted as a result of their efforts, such as private banks opening branch offices. The HDCC sees these banks as important for the business development of the district, since they seem less rigid, more efficient and flexible than the public ones. Aided by the HDCC, which was present in the negotiations, several enterprises have been salvaged from bankruptcy by these banks.

The competitive advantages of Hambantota highlighted by HDCC are the characteristics of the labour force, the availability of land, and the climate and natural beauty that can attract investment in tourism. HDCC has discussed the option of securing export processing zone status for investors. Although the cost of production in Hambantota might be a problem as compared to other Asian locations, there may be other important advantages, such as the quality of labour. The general level of education of the workers is suitable for unskilled work, and the workers' behaviour is mainly favourable: "Labour quality is good, they are polite to their leaders, not like many other places. Behaviour of the workers is good. They treat their boss with respect, stand from their seats when he comes, they are punctual, careful not to disturb a line. Labour unrest is not seen at all, (such as) sabotage causing closedowns."²⁵ There has been little trade union activity in the district, not even at the garment factories, and the trade unions do not have enough members to make an impact. However, a new seaport will employ a lot of workers, and then the

²⁵ Interview, Thassim, HDCC.

situation may change. Hambantota has a reputation of political radicalism, but this radicalism does not seem to extend to the working life.

The Chairman expressed the need for HDCC to encourage greater social responsibility among businessmen, and voiced a concern that attitudes are not labour conducive. Businessmen are focused on “not to give too many benefits”, and frequently do not respect the labour law which sets standards regarding working days.

HDCC has also continued the efforts of HIRDEP to improve the construction industry by inviting outside investors. Partnership with local companies is encouraged, and although not widespread, there are examples of subcontracting arrangements. Local construction companies have gradually been upgraded and are now capable of handling more advanced technology – a process that started with HIRDEP. However, it takes time to deal with the attitude of managers and civil servants that to go to Hambantota, you have to be *transferred*: “We tried to get outsiders to stay, shouting ‘please come here’. Workers come, but managers from Colombo won’t go”.²⁶ However, there are signs that this attitude is now changing: the businessmen we interviewed seemed to share the view that “earlier doctors and teachers were reluctant to go to Hambantota, now that has changed. During the last 6 years there is a vast difference.”²⁷

Trade associations coming up

As mentioned, small enterprises cannot become direct members in HDCC, only through membership in trade associations. There are 10 trade associations in the district organising a large number of businesspeople. Most trade associations are organised geographically, serving all trades within a town, but there are also 5 sector associations organising pharmacists, rice millers, three-wheeler owners and bus owners. Amongst the advantages that the members in sector associations have experienced are that they get raw material and technology cheaper when they buy as a group, and that they learn about new ways to market and of new training and financial opportunities. They gain by co-operating: “There is competition here, yes, but not much.”²⁸

The oldest trade association in Hambantota is 15 years old, Tissahamarama Trade Association (TTA), which covers all types of enterprises in the division. There are 169 members, and a steering committee of 21. They have two sector associations, for three-wheeler owners and drivers of safari cars serving tourists to Yala National Park. TTA has encouraged the safari drivers to become professional guides, and has arranged seminars. They hope for a follow-up: TTA has asked HDCC to arrange more training, covering general business skills (marketing, management, banking, taxation, law, accounting). “We should also have seminars on tax problems and labour problems; they

²⁶ Interview, Thassim, HDCC.

²⁷ Businessman, group interview.

²⁸ Interview, Rathnayaka, HDCC.

should know the labour law. There are no trade unions here, since the biggest business is only 10-15 employees”.²⁹

To encourage the associations, the HDCC now arranges a competition; the prize will be given to the best in terms of growth in membership, special activities, monthly reports, regularity of meetings, training activities, workshops, the quality of leadership and the assistance given to other trade associations. HDCC views the membership of trade associations as very valuable: “We can get our horizon widened. They can solve problems locally, listen locally and be a pressure group.”³⁰

Staying out of “politics”

It is interesting to note the firm belief expressed by interviewees in the necessity and possibility of separating the spheres of business and politics. Whereas the business community clearly wanted influence in development, hence political, matters, it sought to avoid political interference in business. “We want the private sector to take the lead. The government should listen to us, not the other way around. And they have started to ask for our advice. Ministers do so often, others will follow. But there is no political interference in our business, no.”³¹

Representatives of the HDCC and a trade association repeatedly stressed the *neutrality* of their organisations. If a businessman used meetings “for political purposes”, this would result in his exclusion: “We have contacts with politicians, but we don’t want them to be involved. They have not been trying either. There are big and small businesspeople in the association. They are involved in politics, but not being political inside the association, as this is strictly prohibited. Here down South it is known that there have been political problems, but not inside the TA. But we have close contacts with the politicians, if we need to get something through. It has been functioning well, very successful. Of course there’s competition between businessmen in the same trade, but inside the TA we are all the same, no difference.”³²

Among the members of the trade associations there are very powerful local people with strong links to civil society, Government, and banks, but the advice given by HDCC to the associations is uncompromising: “As regards politics, keep a distance, but discuss. You should distinguish between the two, business and politics. If it is politics you like, you should give up the Association.”

It may mean not allowing businessmen to use, for instance, trade association meetings to promote their party political agenda. It also implies preventing powerful politicians from interfering in business decisions regarding positions within the HDCC, or tampering with the rules of the game, for instance in tender procedures. Stressing independence probably should be seen as an

²⁹ Interview, Paranagama, TTA.

³⁰ Interview, Rathnayaka, HDCC.

³¹ Interview, Ramanayake, HDCC.

³² Interview, Paranagama, TTA.

attempt at shaking the private sector loose from the grip and whims of the politicians, to improve the predictability of their economic environment.

A “one-stop shop”

Under the roof of the HDCC building, several private-sector institutions have their offices, creating a focal point, a “one-stop shop” for local as well as non-local businesspeople.

The activities of the *Enterprise Service Centre* are the most important to the local business community. Three types of service are provided: training, organising of businessmen, and information dissemination:

- ? Conducting training programmes for entrepreneurship development,
- ? Organising trade exhibitions, seminars and investment forums,
- ? Facilitating the process of securing financial services for business,
- ? Establishing and strengthening Trade Associations,
- ? Provision of business consultancy services,
- ? Dissemination of business services.

According to Atapattu (2002), ESC has rescued and rejuvenated several enterprises on the brink of bankruptcy. ESC has assisted with credit rescheduling, business planning, introduction of promotional linkages and general advice and guidance. ESC was also instrumental in attracting both the National Development Bank (NDB) and the Development Finance Corporation (DFCC). Both institutions run their mobile offices at the ESC. ESC has arranged study tours for businessmen (to India, Malaysia and China), with the aim of technology transfer and network building.

The *Information Desk* is probably the first stop for new businesses to Hambantota. This is a GTZ project, aiming at providing market and production information to the business community. A monthly newspaper, “12 000 villages” is published here. This service is linked to similar offices in the other chambers of commerce in the country, and each district office specialises in up-to-date information on specific economic sectors. In Hambantota, nation-wide databases on fisheries, livestock, paddy and dairy are found, and can be accessed on the Internet.³³ They aim to link up to the database of the Export Development Board.

The *Career Service Centre* collects information on employment opportunities and placements. A Canadian organisation, World University Service (WUSC) funds the centre. They register unemployed graduates and match them to a potential employer. In an interview, it is decided whether an applicant is suited for professional work, or he or she may be referred to vocational training. It is undertaken as a service to business, not as “help to the unemployed”. The centre does not advertise its services; it runs well on the snowball effect.

According to HDCC, the main role of the *International Youth Business Trust*, a nation-wide project funded by the Prince of Wales Foundation, is to give

³³ Information on this project can be found on www.hdcc.lk/about_district.htm .

access to credit to the less privileged. It represents a new methodology in enterprise development, and has been in operation for the last 5 years. Fifty loans of 7500 Rupees have been granted, and they want to expand gradually. The applicants are carefully selected, and closely followed up. The recovery of loans is 80 percent.

The HDCC also arranges a Vocational Training Consortium, with monthly meetings in Hambantota with representatives of key training institutions. The rationale is that the institutions need to meet the businesspeople to develop relevant education.

What future role for the new private sector institutions?

Will HDCC become financially sustainable?

A future without financial support is continuously discussed at HDCC. One strategy for becoming financially independent is to charge the members for the services they provide, another is to use the knowledgeable and experienced staff to do consultancies. The umbrella organisation of the chambers of commerce of the country may also provide opportunities. The main income source is the membership fee, which is low to attract and keep members.³⁴ The policy of HDCC is to increase fees very gradually; as the members experience its usefulness for their businesses, they will be willing to pay more. According to the chairman of TTA, the drought conditions and the general economic situation of the district does not allow for an increase in fees right now. So far, HDCC earns between 10 and 15 per cent of its costs, of which the staff cost comprises two thirds. The plan is to cover 30 per cent in three years.

It is possible for HDCC to access public funding for training that is provided, but again it was stressed that political independence was crucial for the continued existence of the HDCC. The emphasis on independence is interesting, and should be studied in terms of changes in the political culture of Hambantota. A hypothesis is that the policy of independence turns the balance of power towards the business community. If efforts are made to do away with corruption at the same time, one may speak of a modernising political culture.

Will local business benefit from foreign investment?

The talk of the town in Hambantota is the new, huge foreign direct investments. There are plans for a container harbour, an airport, an oil refinery, and several other investments that have already been approved by Government.³⁵ According to the Board of Investment, due to the sea depth

³⁴ The enrolment fee for single members is 1000 Rupees, and the annual fee is the same. The fee for trade associations is 1500 Rupees, as is the annual fee. At workshops fees are 150 for single members and 200 Rupees for trade associations, which is very low compared to similar workshops at the Chamber of Commerce in Colombo. There, members are charged 3000 Rupees to attend, and the chamber earns a profit from workshops and seminars.

³⁵ According to Board of Investment (BOI), 35 new investments (some domestic, mostly foreign) have been approved in 2002, including garments and shoes; tourist industry; tanneries; agro-industries, fisheries; other manufacturing (including ship-breaking, engineering, bricks, plastics, chemicals). It is not clear how many of the projects will be built.

close to shore, Hambantota is the perfect location of a harbour to serve some of the 35 000 ships that yearly pass by the southern tip of the country. The Chinese oil refinery has selected Hambantota for similar reasons; the plan is to ship in crude, and ship out refined oil. The airport is planned to reduce the pressure on the airports of Bangkok and Singapore. The new developments may create considerable employment, and may also necessitate the extension of the new Southern Highway into Hambantota. Planners also envisage a new inland business and administrative centre, since the space for expansion of Hambantota town is limited.

The business community of Hambantota seems positive, and considers the new investments great opportunities for development of the smaller enterprises. They seem not to fear competition: “it’s what all are waiting for”. HDCC also supports the investments and has had a role as a “Hambantota lobby” in getting some of them. The role of the local private sector is to supply inputs, services and goods to the new enterprises, and consumer goods to their employees. HDCC claims that local investors will seize the opportunities, but the challenge is to ensure that the spin-offs stay in Hambantota: Do the local businesses match the needs of big enterprises; can they become future partners? Are the types and quality of services and products that are produced locally sufficiently sophisticated?

The role of HDCC is to secure a trickle-down instead of a trickle-out. HDCC searches to attract non-local investments, but to serve the interest of their (local) members, they need to ensure that at least some multiplier effects stay in the district. This can be done through encouraging linkages between foreign and local investors. Such network formation is crucial in facilitating sub-contracting arrangements and fostering a greater propensity among the new entrants, who may be inclined to be outward looking in their supply strategies, to buy local products.

What about poverty reduction?

The title of this chapter is “Creating new economic opportunities for the poor”; evidently, a discussion on *what role the institutions that facilitate private sector development can play in poverty eradication* is called for. The only reference made to the poor is in conjunction with the *trickle-down mechanism*. There are, probably, poor people who can escape poverty through the promotion of private sector development. A family member may get a job, or, in very exceptional cases, a poor person may create his or her own job through entrepreneurship. However, it is our firm belief that *poverty alleviation of the magnitude needed* in Hambantota cannot be left to the market mechanism through the promotion of the private sector. Thus, the question should be posed differently: *Can and should* institutions such as the HDCC play a direct role in poverty alleviation?

The *origin* of the institution in question, HDCC, is different from that of other chambers of commerce. Normally, such institutions emerge as the effort of the private sector itself. HDCC, on the other hand, was born a planner’s idea, and raised in a planners’ environment in HIRDEP. This legacy may result in a role

conflict. HIRDEP's mandate, to improve the living conditions of the inhabitants of the District, was much wider than what a chamber of commerce can have. The contribution of HDCC to reaching such a goal can only be indirect: What is good for the private sector is good for the poor. Whether that is the case is an empirical question – it may or may not be true.

Stating that the aim is to become a powerful institution that speaks for the interests of the private sector – primarily, the top 150 enterprises of the District – is an attempt at coming to terms with the HIRDEP legacy. In this manner they may avoid legitimising any government's lack of responsibility for poverty eradication. We should not be surprised if a politician came up with the excellent solution that “we don't need special programmes for the poor, it's all taken care of by the private sector”. It is not the job of HDCC to deal with poverty eradication, but it is good if their efforts contribute to this aim. This has implications for whether HDCC should also take care of the interests of micro-enterprises, which is briefly touched upon in the next chapter.

Do what you're good at

Determining “company policy”, spelling out what role HDCC intends to play in future, is of utmost importance with internationalisation emerging. The least controversial is the role as provider of *independent business advice* for “everybody”. Taking care of *the local member's interests* may be somewhat more problematic as the economy becomes more international; when big business knocks on the front door, conflicting aims slip in the back door. Added to such dilemmas comes donor dependency. How free is HDCC to decide its future when dependent upon donor funding? A well-functioning institution targeting private sector development is a magnet for donors, some of which have their own agendas, advising “everybody” to “become entrepreneurs”. Sometimes good business advice is *not* to do business. In Hambantota, any potential entrepreneur should carefully consider the limitations of the poverty market.

HDCC should be advised to “do what you're good at”: Cultivate its role as a business organisation; continue as a voice of Hambantota; and promote the interests of the local private sector versus politicians, the bureaucracy and foreign investors. Enhance social responsibility among business people; continue to speak for decent wages and working conditions for the labourers. That is building on the best of the HIRDEP tradition.

3.3 Fourth Challenge: How to sustain people's organisations that strengthen poor people's capabilities for income generation – the case of SMF

Fighting poverty through empowerment

The Social Mobilisation Programme

This programme, initiated by HIRDEP, is an attempt at fighting poverty through empowerment of people. Some organisational aspects, strengths and weaknesses of the programme are treated here, with an emphasis on the phasing-out period of the NORAD support, a period which saw shifts in ideology and policy directly influencing the organisational set-up and the activities of the organisation. The organisation is still very active, facing challenges of a changing economic environment in addition to those formed by the transition from a government to a non-government organisation.³⁶

The implementation of a social mobilisation programme within HIRDEP started in 1986. It was a pioneering initiative, facilitated by the shift from a conventional sectoral to an integrated approach with emphasis on process planning. The Grameen Bank of Bangladesh, aiming at addressing the basic needs of the poor through savings and micro-credit, was the model. The organisation was a simple, two-tier structure, where small *Groups* at the lowest level formed *Self-Banking Societies* at the highest. In 1996, the structure was changed into a three-tier one, when the two institutions at the district level, the *Social Mobilisation Foundation (SMF)* and the *Banking Union* were introduced.³⁷ Several other district-level bodies were formed at the same time: a Training Unit, an Agriculture & Livestock Development Unit, an Enterprise Development Unit and a Leasing Unit. SMF is governed by a Board of Directors and guided by an Advisory Committee. As regards leadership at the lower levels, the Groups often claim that they have a “spokesperson” rather than a leader, usually the one that is the best writer among them. The Self-Banking Society leadership is formal, consisting of a President, a Finance Manager and a Secretary. The Finance Manager has the heaviest workload; some managers claim that they spend more than 2 hours per day on administration, and few Group members seem willing to take on such a

³⁶ This chapter builds on Dale (2002) for the understanding of organisational aspects as well as the strengths and the weaknesses of the programme. Dale undertook theoretical and empirical studies of the organisation during the 1990s and in 2000-2. The Evaluation Team's discussions with Group members, Social Mobilisers, the SMF leadership and other key informants form the basis to understanding the changes of policy during the 1990s. The reports by Atapattu (2002), Lakshman (2002) and Hewavitharana (2002) on the HIRDEP phase-out period supplement this information.

³⁷ The formation of a comprehensive district-level structure can be seen as a continuation of the Federation of Self-Banking Societies that had been formed in some divisions for the purpose of providing bigger loans than the Self-Banking Societies could give. The Federation was terminated with the formation of SMF. The Banking Union at the district level was thought to have a branch in each division (Dale 2002).

responsibility. None of these office-holders are paid; Dale (2002) considers this a major future challenge of the organisation.

SMF was started as a government organisation under HIRDEP and is currently registered as an NGO. The number of members has increased steadily, and the savings fund is now (in April 2002, according to Atapattu 2002) close to 45 million Rupees. In October 2001 there were 340 registered Self-Banking Societies in Hambantota District, with a total of 13 500 members. Only one person per household can become a Group member, which means that the programme involves close to 70 000 household members, constituting about 12 per cent of the population of the District (Atapattu 2002). SMF claims that the number of members now is 17 000 (in October 2002). The number of members in each group varies between 3 and 10, but most groups have between 5 and 7 members. The number of groups in each self-banking society varies between 4 and 9. Most members are women, over 90 per cent according to Dale (2002). In recent years, the programme has experienced competition from another organisation that has been recruiting members for similar activities in the District.

Mobilising the poor

The outcome of a social mobilisation process should ideally be a “slow but steady progress through self-reflection, augmented individual confidence, increased mutual strength, gradual accumulation of the members’ own financial resources, and strict organisational and financial discipline” (Dale 2002:78). According to these criteria, the HIRDEP social mobilisation programme can, to a large extent, be viewed as successful. The role of the Social Mobilisers (in similar programmes often termed *change agents*) is crucial; the aim is to set in motion people’s own abilities and resources to improve their living conditions. The ideology of the Social Mobilisers is one of social equality, and an aim is to help disadvantaged people against oppression. Forming strong groups implies enhancing individual confidence as well as strengthening solidarity among the members. Within development paradigms such as “alternative development” or “development from below”, such mobilisation strategies are central.

The Social Mobilisers were financed through HIRDEP and thus placed under the Director’s leadership. The Directors have played a very important role encouraging the Social Mobilisers, and shaping the overall strategy of the organisation. The programme therefore can, paradoxically, be considered a “bottom-up development strategy initiated from above”. Even today, when the SMF is formally an NGO, there is a strong sense of ownership of the programme at the office earlier known as the “Planning Unit”.

Apart from an initial contribution to the Self-Banking Societies by HIRDEP and the financing of Social Mobilisers by NORAD, the programme is self-financing. The fact that it is *the members’ own money* that enables the improvements should be kept constantly in mind, as should the fact that voluntary work, transparency in transactions and mutual trust among

members, and between leadership and members, are essential for the continuation of the programme.

Results

Measuring the achievements of the Social Mobilisation Programme immediately raises the question of which yardsticks to use. The meetings we had with group members, learning about their experiences and their views, inspire us first to treat the issue of *empowerment*. As a result of their involvement in the organisation, the members have started to reflect more deeply upon their own situation. The Social Mobilisers encourage them to search for opportunities to improve their situation, and to get a clearer understanding of potentials and constraints. Facing up to their problems and looking for ways to deal with them seem to have boosted self-confidence. According to Atapattu (2002), an indicator of this is increased demand for services in the fields of agriculture and livestock, health and nutrition and family planning.

It should be kept in mind that the target group is very poor people, mostly women who had hardly ever attended formal meetings or taken an active part in financial transactions of this nature previously. They are now requested to attend meetings on a regular basis, and inform the other members if they cannot attend. The Group meetings are held weekly, meetings of the Self-Banking Societies monthly. According to Dale (2002), most members have gained varied benefits from the programme, acquiring “greater understanding of social structures and the surrounding society, ability to manage household resources more wisely, organisation-related knowledge, greater self-confidence and self-assertion, and eradication of a feeling of inferiority (as local citizens and as women)” (:106). Generally, the husbands of the female group members have been supportive; in a few cases, the Social Mobilisers had to explain the benefits more thoroughly to avoid major disagreement.

Individual capacities and freedom were improved, but the benefit most emphasised by the members in Dale’s (2002) study was *increased economic security* (for instance, knowing that funds can be made available quickly if someone falls ill). The member households’ social networks were widened, leading to *increased social security*. Often, the group members help each other, for instance by exchanging labour, or in crisis situations. Both the Group members and the Social Mobilisers mentioned solidarity and loyalty as traits of the organisation. The formation of a group identity through the spread of the SMF logo and through cultural activities involving members was very visible in the Weeraketiya SMF exhibition that the Evaluation Team attended. The informants also mentioned *increased communal harmony* as a major benefit of the programme: gossiping is reduced when more important matters are discussed frequently. In the discussion, a Social Mobiliser argued that two aims were equally important: “There should be both, improvements in living standards and in women’s status”. Empowerment of women should be measured in terms of economic upliftment, and during the last decade they had seen some improvement in living standards: “Quality of life has been improved for our members.”

What loans are used for

The Social Mobilisation Programme is a savings and credit programme, aiming at economic upliftment of the poor. Putting a small amount of money aside every week has in the long run resulted in the possibility of obtaining loans. Most members have taken loans for various purposes during their membership period, and been able to repay them within 4 or 5 months. The repayment rate is very high, partly due to strict financial discipline and (informal) group sanctions. Full transparency is secured through lengthy discussions of loan purposes and their repayment conditions during the meetings where members present their applications (Dale 2002).

The members save to get credit. The savings accumulate in funds, either Group or Self-Banking Society funds. Any surplus (formed when the demand for loans is low) is normally deposited in fixed deposit accounts in banks, or transferred to the Banking Union. The latter gives a higher interest (12 per cent) than commercial banks, which currently give 9.5 per cent. Most Self-Banking Societies also allow voluntary savings, if a member has the ability, wants to see results faster or wants a bigger loan. The weekly contribution to the fund, 5 or 10 Rupees, may seem a small amount, but some of the members interviewed now face problems in raising even this due to the drought. In a few instances, members may contribute to the savings fund in kind, such as collected coconut shells, which can be sold. The activities are run at very low cost; the only income sources are interest on loans and bank deposits. SMF at district level earns a profit from the Leasing Unit, which leases production and transport equipment (three-wheelers, tractors, carpentry machines, sewing machines, motorcycles, grinding machines) to customers.

Obtaining loans without any other collateral than savings, and the very low interest rate, are major advantages of the credit programme. The interest rate is 2 per cent as compared to the rates of some of their alternative financing institutions, which may be between 10 to 20 per cent monthly. Often, the only option of the very poor is the informal credit market in times of crisis. An encouraging result of the programme is that many members have liberated themselves from the grip of the moneylenders, using low interest loans from the programme to repay such debts (Dale 2002).

The members decide themselves for what purposes loans should be given. Generally, non-members cannot get loans. A high degree of flexibility is demonstrated; loans are granted for immediate consumption (medical expenses, food, household utensils), investment in housing (which is a controversial topic among members), and investment in productive activities. About half of the loans are utilised for production, consumption is the second most important, and housing comes third. Individual activities are preferred; there are few examples of collective production projects, but more examples of collective purchase of consumer goods or production inputs. Half of the loans taken directly from Group funds are used for consumption, whereas loans from the Self-Banking Societies are mainly used for production purposes (Dale 2002). The success of the programme may partly be explained by this flexibility – loans for purposes that the participants themselves define as

“urgently important”, satisfying day-to-day needs, are granted. Secondly, the fact that the money may be spent for purposes that are *not* visible in the application, termed the “fungibility of resources”, may be another part of the explanation.

A turbulent phasing-out period

Institutional changes

As stated above, the Social Mobilisation Programme was fundamentally changed in 1996. The umbrella organisation at district level, SMF, was formed, together with the Banking Union and the units aiming at sectoral development. Dale (2002) is critical of the formation of the Foundation at district level. He views the changes as “efforts at diversification and hierarchy building” (84), and claims that it demonstrates the democratic deficiency of the organisation: “The whole construct of district-level units and divisional branches ... has been managed entirely from above, by ... the HIRDEP Directors and, to increasing extents, persons recruited as staff of the SMF” (86).

The changes have many causes; the activities had spread to many divisions of the district during the decade, and it may seem a natural next step to have a forum to discuss experiences and strategies. More important, however, was that NORAD had decided to withdraw support, and the HIRDEP Director at that time looked for ways to sustain the Programme. It was worth saving, the results were promising. The first step was to transform the organisation into an NGO; and measures had to be taken to cover expenses after the phasing-out period. The income of the organisation at district level had to cover the wages of the Social Mobilisers. By this time, the ideology of the dynamic role of the private sector in development had reached Hambantota (see previous chapter). The formation of the *Enterprise Development Unit* of SMF in 1996 should be seen in the light of this shift; this unit were given a special role in sustaining SMF activities.

A not-so-wise choice of doing business

The emphasis on private sector development – fostering entrepreneurship, facilitating capital accumulation – generally goes together with *privatisation* of state enterprises. In Hambantota, however, HIRDEP created a hybrid strategy during the mid-1990s by actively promoting what may be termed a “state-driven industrialisation effort”. Altogether 21 enterprises were started and handed over to SMF. A bold experiment it was, and generally regarded a failure. Today, none of these businesses are retained by SMF, whose ownership was short-lived (1998-1999). In 1999, they were transferred to the Ministry of Southern Region Development and thereafter taken over by private investors and NGOs. According to the former HIRDEP Director, who was instrumental in the formation of the enterprises (and deeply involved in the running of them), 12 were still profitable in 1999, and went bankrupt later. A Social Mobiliser, however, claimed that none of the enterprises were successful: “The cost was too high, it had to stop”.

Initially, the concept was one of *private sector partnership*; the enterprises should be run as joint ventures with experienced local businessmen. It is thus an example of innovative thinking in HIRDEP at that time. When partnerships failed to materialise, HIRDEP decided to run the enterprises. The establishment of enterprises served a triple purpose: *firstly*, they should create employment based on the exploitation of local resources; *secondly*, they should employ educated youth (graduates) as managers of businesses, as part of a centrally-planned initiative designed to reduce political unrest in Hambantota; and *thirdly*, when the decision was made to hand the enterprises over to SMF, they were supposed to create income to sustain SMF activities at district level (for instance, to finance Social Mobilisers when NORAD support was withdrawn).

The Social Mobilisers debated the wisdom in SMF owning and running enterprises, but the decision was not theirs nor the grassroots members' to make; HIRDEP decided. According to SMF informants, SMF was "owner in name only", as the real owner and manager was the HIRDEP Director. The relationship between HIRDEP and SMF seems to have been one of unequal decision-making power where the HIRDEP Directors had the stronger position, due to their position as "employer" and because they possessed greater resources in terms of knowledge. A probable hypothesis is that *dependency* and even *submission* have characterised the relationship.

The SMF enterprises

The types of enterprise started demonstrate a deliberate focus on the resource base of the district; most of them were agro-based.³⁸ Some enjoyed subsidies such as free buildings and some transport. The enterprises also capitalised, according to a former employee, on the team spirit of the Social Mobilisation Programme as well as the HIRDEP "company culture". The latter means in this context "deliver, be punctual, keep your word as regards orders and you will keep your market, work hard, the whole night if necessary". Some of the workers in the SMF enterprises were recruited from among SMF household members, and a sense of ownership may have developed, conducive for enhanced labour productivity. Long working hours and unpaid overtime is the darker, "self-exploitation" side of the sense of ownership.

Some of the enterprises went well, and escaped the management and bureaucracy problems inherent in state enterprises. This may be caused by the unusual – for a government institution – leadership style of HIRDEP. Sound economic sense was also demonstrated when the decision was made to hand the enterprises over to the Ministry of Southern Region Development; SMF kept the profitable Leasing Unit and also tried to secure a share of future profits from the enterprises handed over.

³⁸ The enterprises that were started were production of chalk, curd, hand-made paper, grinding mills, goat breeding, leasing, showroom of SMF products, bakery, dehydration, vegetable collection centre, vegetable farm, organic fertiliser, lime, poultry production, cashew, curd plot, ceramics, *sahana* stall, fish production and the Thala Kerali project (information from the SMF Enterprise Division).

Questions unanswered

Why the businesses ultimately failed, and when, we do not know. It is not documented which companies were profitable or non-profitable at the time of the transfer, why they ran at profit or loss, the extent of subsidies given, whether labour productivity was low or high, the rationale for “privatisation”, who decided who should take over; in short, it is impossible to conclude.

What we do know is that some former employees are dissatisfied with the process of transfer, and claim that SMF lost economic opportunities. Politicians gave the companies to their friends and good businessmen in the private sector did not get a fair chance. Political interference and corruption led to their failure; the new owners had neither the knowledge nor the spirit to run them, they claim. Another informant also pointed to management failure, but during the period they were run by HIRDEP, since few of the managers were trained in business management. Others pointed to the crucial role of the hard-working HIRDEP Director; the enterprises relied too much upon a single person. When he left for another position, all fell apart. Moreover, a lack of knowledge of markets may have contributed to the failure, since the feasibility studies were of low quality (if they existed at all). The products therefore faced too harsh a competition or local bottlenecks.

However, when twenty businesses in different sectors, some even profitable ones, fail during a very short time period, many causes are at work, and no firm conclusions can be drawn without a detailed empirical investigation. Improved knowledge of this failed industrialisation attempt may provide insights into several dimensions of development in Hambantota, the political and economic constraints of enterprise development in particular.

“Private sector development is coming – we must be willing to change”

Promoting entrepreneurship

In a group discussion, Social Mobilisers related that the enterprise adventure has not damaged its reputation; nobody had heard that “projects run by women are doomed to fail”. There is too much evidence against such a claim in Hambantota! And the leadership of SMF is not afraid of putting even *more* emphasis on business development in future. The plan is to improve the income-generating activities that the members are currently engaged in, and encourage the members to become entrepreneurs, to move from micro-enterprises to small-scale and medium ones.

The SMF Board had started a discussion of the challenge of free enterprise, and how to link up the members to private businessmen in order to improve their knowledge of business: “Private sector development is coming. We must be willing to change. ... We do take the advice from members of the Chamber of Commerce.” They would also welcome a division for dealing with micro-enterprises at the Chamber. A Social Mobiliser also stressed the need to renew the strategy and prepare the members for tougher times: “In the existing open

market system we cannot ignore competition.” However, the new focus does not involve a complete u-turn; SMF plans to continue the well-functioning credit system for the poorer people: “We must do things through the grassroots level, start small scale and gradually build up”.

Income-generating activities

Projects that fall into a broad category of “investments in agriculture” are the most common income-generation activity so far (Table 3). The investments are made in coconut, tea, citronella, livestock and other production (including water for paddy). Agro-related processing is also important, sweets, spices, milk products and leather products are attracting investment, and there are also a few investments in fish processing. Manufacturing, comprising pottery, dressmaking and jewellery, is an important activity, as are construction (carpentry and masonry), retail and mobile trade.

**Table 3 Income-generating activity according to sector
Loans given up to March 2002**

Sector	Loans	Percentages
Agriculture	2467	50
Trade	858	17
Other manufacturing	733	15
Construction	502	10
Agro-related processing	343	7
Total	4903	99

Based on Atapattu (2002, Table 12) and data from the SMF Enterprise Division

According to the SMF Board, the success of the Leasing Unit shows that there is a need for bigger loans; altogether 175 loans for leasing transport and production equipment have been granted. This has improved economic activities. The SMF Board was positive that the loan limit of 50 000 Rupees was too low, and since Self-Banking Societies cannot give bigger loans, the Banking Union should play a more important role in future. They underlined that this is a *demand from below*, the *members* find it necessary, and “we must respond to the demand from the grassroots”. The Social Mobilisers agreed that the demand for bigger loans comes from below: “Yes, because some want to expand their businesses to a higher level. Most of the members are women, and some demand loans to carry on their business, others to expand. They are confident that they can get more profit with bigger loans. Some tried to go to commercial banks, but had no success. ... The Social Mobiliser also can identify who in a group can be a successful businesswoman. So it’s OK to provide this credit. They also discuss with their husbands whether to start an enterprise. There are many who want to expand.” Training of members in business management is the key component of this policy, and the SMF Board plans to train Social Mobilisers firstly so they can motivate the members: “We must make sure that the trainers are very good; we want more donor money to improve training.”

Add training, stir, and there's the entrepreneur?

The training programme that seems to have inspired the thrust towards the cultivation of entrepreneurial spirit is the course in business management given by Competency Based Economy through Formation of Enterprise, CEFE. This is a GTZ initiative, covering 150 countries so far. In Hambantota, 21-day-courses started in 1996, and later the number of days was reduced to 15. The SMF Board views the course as useful; it will secure a more professional attitude towards business among the members. The course covers marketing, production, management, entrepreneurship, how to select a good business, costing, pricing, progress reports – all in 15 days. The SMF Board has so far sent 24 Social Mobilisers (21 women, 3 men) to the course, and wants to expand this to encompass 56 of the Self-Banking Societies. The Social Mobilisers that undergo such training can call themselves “Entrepreneur Development Officers”, the SMF Board enthusiastically stated. The target for 2003 is that 200 members become entrepreneurs.

A Social Mobiliser stressed that the demand for training comes from the grassroots level, “then we put forward this idea to the SMF office, which contacted the CEFE. HIRDEP provided money to this institution and they provided the training.” Other participants of the group discussion did not question this statement, and one added that they were asked what kind of training they needed before the course started. Most members wanted to learn accounting, management and bookkeeping. Also, they wanted to understand markets, how to find a good market, how to deal with competition and produce quality goods.

However, HDCC (chamber of commerce, see previous chapter) is somewhat sceptical as regards the possibility of producing entrepreneurs by sending a large number of applicants to training courses.³⁹ Maybe *economic opportunity* creates the entrepreneur – and not the other way around? They have experienced that training 30 may result in 5 or 6 *attempts* to start something; should a potential *winner* be “picked” and given more thorough training instead?

Complementary or contradictory visions?

What have characterised the Social Mobilisation Programme from the start are flexibility regarding the use of savings, emphasis on gradual improvement, voluntary work, transparency, solidarity and mutual trust. It may be termed a *combined survival and productive investment strategy*, in which accumulation of savings that are used for consumption is considered to be as valuable as those used for productive investment. With a greater focus on enterprise development, “unproductive” use of savings for consumption purposes may come under attack. The next step may be that potentially successful members are targeted in a *picking of winners strategy*. However, the SMF Board may succeed in their attempts at riding both horses; the strategies may be complementary rather than contradictory. But it is also possible that a gap

³⁹ Interview, Rathnayaka, HDCC.

may develop if the members keep a “gradual and safe” profile and the leaders pursue a “fast and risky” strategy.

What kind of organisation do the members want, and how does it match the visions of the leaders? In future, will the change agents be termed “Social Mobilisers” or “Entrepreneur Development Officers” – or both? Five actors are important in shaping the future of the organisation: members, Social Mobilisers, SMF leaders, the Government and donors. Whose voices will be strongest? Referring to the relationship between government institutions and SMF, a Social Mobiliser claimed, “We are independent. The Board makes the decisions”. This is formally the case, but strong linkages seem to be kept up through the Advisory Committee. There were also critical comments on politics: “We must avoid political interference; expel members if they try to misuse the organisation for political purposes”. Another comment shows awareness of a possible gap between the members and the top of the hierarchy: “But members do not really think the Bank Union belongs to them”. When asked if they take part in the debate on the future of SMF, the Social Mobilisers answered: “All policy decisions are taken by the Board but as a democratic organisation they are concerned with the ideas at the grassroots”, and “All decisions are taken on behalf of the people by the Board.” This way, decision-making is “bottom up”, they claim. The members’ voices are probably *heard* through the Social Mobilisers, but to what extent do they *influence* policy decisions? The loyalty of the Social Mobilisers may also be split between the grassroots and the leadership.

An inevitable outcome?

According to the SMF Board, the most enterprising women may leave the organisation unless bigger loans are provided, and this will weaken the organisation. The SMF Board was aware of the increased risk of granting bigger loans; but greater risk means greater potential reward. Applicants for bigger loans are carefully selected, based on education, experience and attitude, and they will have to undertake a training programme. However, the SMF Board did not mention the consequences for the organisation if they stay and have great success in business. We raised this question with the Social Mobilisers, referring to an example: Some women in a group had more success in business than others, resulting in increased divergence of living standard among the members, and “a couple of the poorest earlier members said that it would no longer be possible for them to participate ... since they could not even invite those who had become ‘rich’ to their houses anymore!” (Dale 2002:77) The Social Mobiliser that responded to this question played down its implications: “There is no reason (for them) to feel bad, it is an encouragement if someone comes up because of collective effort. One should not look down upon others. The small Group is built upon that spirit. And they are doing different things, some cultivate, some are in business, they do not compete.” Another Social Mobiliser agreed: “Most of the groups have a very good ‘feeling of unity’. They help each other in a friendly way.”

However, with economic success greater social stratification follows, and the key question is whether this is seen as the outcome of collective effort or

individual. Socio-economic differentiation may put a strain on feelings of unity; solidarity and individualism may not go well together. But Dale does not think that differentiation will necessarily lead to social discord or other social problems: “Those who become better off than others should feel welcome to stay on in their organisations, whether for egoistic or altruistic reasons (or some combination). However, one should not promote a system in which those relatively few who will require much bigger loans than others (say, over 50,000 Rupees) should have a ‘right’ to get these from the funds of these organisations. That would disrupt the solidarity platform on which they are built and, I am sure, have negative consequences for organisational culture and the interests of the majority. Instead, such persons must be assisted (if they need to be so) to make use of other facilities, either as supplement to or in replacement of the money they can get within their organisations.”⁴⁰

The Future

When you dream, dream big?

To recruit new members and keep the old, the members must experience improved social and economic security, and empowerment. Already it has become more difficult to recruit new members: “Yes, there are fewer asking for membership every year. The biggest problem is the competition from other NGOs at the grassroots level. We don’t have enough staff, and the area is big. But we will continue, we have had success. We can expand to more villages and strengthen the organisation. Maybe we have 25 000 members in 5 years.”⁴¹

Discussing the strengthened focus on entrepreneurship, Atapattu (2002) warns against the greater risks involved: “Great care must be taken not to push poor people into risky investments, at least without some basic safeguards.” (16). He calls for a broad-based and systematic approach to developing these activities, involving “a combination of exploration of opportunities, facilitation and training of members, loans and possibly some insurance arrangements. No blue print exists for this; a differentiated strategy is needed to address the needs of people who do not have an aptitude for business, are risk averse and therefore likely to cling to their traditional occupations and those few displaying entrepreneurial talents.” (Atapattu 2002:16).

This warning is important, but it should be kept in mind that any “fluffy idea” – such as the promotion of entrepreneurship by “training market” actors such as CEFE – may fall flat if it meets sound scepticism at the grassroots level. The down-to-earth attitude of the members diminishes the danger that grandiose leaders may gamble with poor people’s money, but only democratic procedures can prevent it. We asked if the Social Mobilisers feared the consequences of exposing the members to a greater risk, but were (rightfully) reminded that the members in question have a mind of their own: “We are confident that they can decide for themselves if they should take the risk.” The Groups and SMF had banked savings. When members still are reluctant to

⁴⁰ Interview, Dale, AIT.

⁴¹ Interview, Social Mobiliser.

invest, this may appear as “risk aversion”. However, it may also be analysed in terms of sound economic sense, and valuable carefulness in a situation with no insurance of the funds generated through collective effort.

The members’ careful consideration, even reluctance, before starting new enterprises are probably well founded. There may be many in the same business, and an increasingly open, very slowly growing economy, and thus a limited local market: “The problem of market saturation of village craft products is very real,” according to a banker interviewed. “They are advised to produce, but do not think of the marketing side.”⁴² Another line of advice was given by an insurance broker: “I know their activities; I am impressed by their savings, but the ladies should *not* invest directly in their own business. Fifty thousand is not very much to spend, but a lot to lose. If they invest, they should diversify.”⁴³

Poverty market constraints

Most of the economic activities invested in by the Group members are micro-enterprises; some can be classified as small-scale. Many can be termed *crafts*, and it is a crux of thought that rural crafts still survive in Hambantota, against many odds. Using the word *survive* indicates that we expect them to vanish; and in fact, that has been the case in many developing countries when artisan production has been exposed to competition from industrial goods. Artisan production in the district is characterised by family labour, low levels of technology and generally, low quality products as compared, for instance, to imported industrial goods.

In a study based on fieldwork undertaken in 1979, Hesselberg (1981) argues that artisan production in Hambantota is reproduced largely because of characteristics of the *market* it serves. He terms this a *poverty market* where low quality products are supplied to local consumers with very low purchasing power. To cater for the poverty market, the price of the product must be as low as possible; capital accumulation necessary for technological upgrading is thus difficult. As soon as people become better off, they demand higher quality goods that are produced using better technology, such as imported goods. And if the artisan accumulates enough to upgrade the technology and compete with the quality of imported goods, the price of the product will have to increase to cover the costs – and the product is out of reach of the poverty market segment of the population. The middle-income market segment is then targeted. At this market segment, local artisans find it very hard to compete. This way, the reproduction of rural crafts is linked to the reproduction of the poverty market; whether artisans continue their trade depends on the continued existence of the poor.

More than twenty years have passed since this study was undertaken, and the continued existence of rural crafts indicate the continued existence of poverty and a slowly growing middle class. During this period, some potential investors, local as well as non-local, have no doubt anticipated a continued

⁴² Interview, Jeffrey, Seylan Bank.

⁴³ Interview, Paranagama, TTA.

low buying power, and avoided investment in the district. As discussed in the previous chapter on the private sector, a low level of aggregated demand has probably to some extent protected from competition the local producers catering for the poverty market.

It should be noted that depending on the product, artisans and micro-enterprises catering for the poverty market also target other market segments. A case in point is the producers of foodstuffs that keep their market shares due to local consumer tastes. Another case is where the artisan's products, although produced by low technology, are superior in terms of appropriateness to their use, such as the traditional curd pots. These producers may withstand outside competition better than, for instance, those who compete with imported, mass-produced plastic and metal goods. Thus, the lessons learned in this open economy, with no protection of the weak are: To survive, target niche markets, and go for the local tastes.

Entrepreneurship is, in *any* population, a scarce resource. Moreover, there may be too few investment opportunities; or too slow growth in demand, especially in the poverty market. Alternatively, there may be enough investment opportunities, but not for artisans or micro-enterprises. The members prefer individual projects, which may also be a limitation: Maybe the enterprises are *too small* to match the opportunities when they always go for individual projects? The demand for bigger loans may indicate this. The crucial question is whether bigger loans should be given, or the industrious members referred to other financial institutions.

Challenges

The selection of produce and market and social differentiation are but two of the future challenges. To meet them successfully, other challenges must be dealt with: firstly, the questions of leadership and organisational structure.

The Social Mobilisation Foundation has an institutional history; as part of HIRDEP, decisions regarding policy were top-down, which had to be dealt with during its transformation into an NGO. Its independence from government institutions can still, close to ten years afterwards, be questioned; and the implications for decision-making processes and the internal democracy of the organisation should be studied. In addition to the HIRDEP legacy is the organisational innovation during the formation of SMF, characterised by Dale (2002) as a lack of separation of the grassroots level and the facilities aimed at supporting the organisation. Dale considers this the major future challenge of the organisation: "Clarity about organisational structure is essential. Earlier, the individual Self-Banking Societies (with their constituent Groups) were registered voluntary organisations. What seems to have happened with the formation of the SMF is that the Self-Banking Societies have formally become sub-entities of this body. (This) is a major flaw that needs to be rectified, if one is ever going to pursue this thrust with any clarity of purpose and approach."⁴⁴

⁴⁴ Interview, Dale, AIT.

The future profile of the organisation is in the casting ladle, and in the process, the distance between the grassroots and the Group members may increase. Increased distance is a threat to its continued existence, but if internal democracy is enhanced, the threat diminishes. The policy decision regarding the size of the loans is thus a test case. Will it continue as a combined survival and productive investment strategy, as a grassroots organisation for poor people? Or become more of a rational actor in the financial markets? Dale gets the final word: "I fully support a strengthened facility for promoting small enterprises, based on sound ethical principles and regard for safeguarding people's savings. However, this must not be made the main thrust and responsibility of the 'ordinary' Social Mobilisers. The emphasis in social mobilisation must continue to be promotion of empowerment in a broad sense, with the prospect of deprived people enhancing their quality of life gradually – through some combination of many small trickles of mutually reinforcing nature (including strengthened solidarity, organisational ability, enhanced capacity of individuals to analyse their life situation, increased knowledge of many kinds). Business enterprise development must be seen as a supplementary flexible support mechanism, tailored to meet a variety of needs and in response to a variety of requests." ⁴⁵

⁴⁵ Interview, Dale, AIT.

4 Lessons from phasing-out

This chapter presents a summary of the team's main findings and conclusions, based on the above analysis on how HIRDEP responded to its four main challenges in the phasing-out period:

- ? How to build the capacity of the divisional level in development planning and management.
- ? How to ensure that investments in social and economic infrastructure will be effectively utilised and maintained.
- ? How to promote employment creation more effectively through private sector development.
- ? How to sustain people's organisations that strengthen poor people's capabilities for income generation.

We offer some suggestions as to how these lessons can be made useful in the future, for both development actors in Hambantota and at the national level, as well as for NORAD more generally.

The original phasing-out principles (from 1992) emphasised the following: (i) that HIRDEP should gradually reduce its budgets by not taking on new public sector projects and limit its role as project manager; (ii) that its planning approach should be transferred to and operationalised at the divisional level; (iii) that proper operations and maintenance of HIRDEP investments should be ensured; (iv) that HIRDEP should endeavour to find new ways of enhancing users' responsibility for public infrastructure; and (v) that it should experiment with new entry points for improving the economic situation of poor people.

The phasing-out did not go as planned

Compared with most aid projects the phasing-out of HIRDEP was exceptionally well prepared. Preparations started already seven years in advance, and involved careful discussions about principles and strategies. But following the intellectual efforts in 1992 and 1993, which produced two forward-looking documents (Amarasinghe nd and HIRDEP 1993), the phasing-out perspective seems to have been placed on the backburner as more immediate and pressing needs arose. HIRDEP embarked on its last phase much in the same manner as it had worked in the previous two phases – as a project implementer driven by a flexible planning process geared towards taking new initiatives.

HIRDEP did not do things that directly contravened its original phasing-out principles, with one notable exception (see below), but there was at the same time *no real monitoring of the phasing-out*. There was no mechanism for this either within HIRDEP or at the Norwegian embassy.⁴⁶ NORAD complained in several annual meetings about the lack of monitorable indicators regarding

⁴⁶ Interview, Leelasena, REAP.

progress and achievements. “Even this year the workplan has paid very little attention to the review of performance of last year’s programme”.⁴⁷

The scaling-down of HIRDEP’s expenditure became less gradual than planned. If we compare actual expenditure with the budgetary forecast made in the 1994-99 Perspective Plan, we see that total spending ended up fairly close to what had been agreed in 1994 – i.e. 337 million Rs spent compared with 305 million planned. But if we look at the distribution over the last six years we see that tapering off of funds became much less gradual than planned. In fact, funding peaked in 1997 and then nose-dived in 1998 and 1999 (see Figure 5). This indicates that the organisation tried to sustain a high level of activity as long as possible, and even as late as in 1998 we find that Government requested NORAD to extend its support beyond 1999.

Although NORAD dictated the terms of the phasing-out it did not pursue a consistent policy over the period. In fact, the policy course was changed mid-way as new political concerns were brought into the picture – especially private sector development. As late as 1997 the work programme underwent “a complete change in the orientation” (HIRDEP 1998:31). There was now a big push from several quarters, including NORAD, to bring employment creation centre stage in the programme and new activities were added, bringing up the budget.

A completely new set of projects was added to the programme, namely the establishment of 21 small-scale enterprises. This turned out to be the only major failure in the history of HIRDEP, with all the enterprises coming to a closure within only a few years. The intentions were laudable – technology transfer and employment creation – but the strategy failed. And it is difficult to understand why this attempt at state-sponsored industrialisation was approved in the first place, as there were few reasons to believe that it would succeed. Adding to this, the introduction of such a demanding new approach at the tail end of the programme period borders on irresponsibility, even though the decision-makers had good reasons to trust HIRDEP’s innovative capacity, looking at its proven track record.

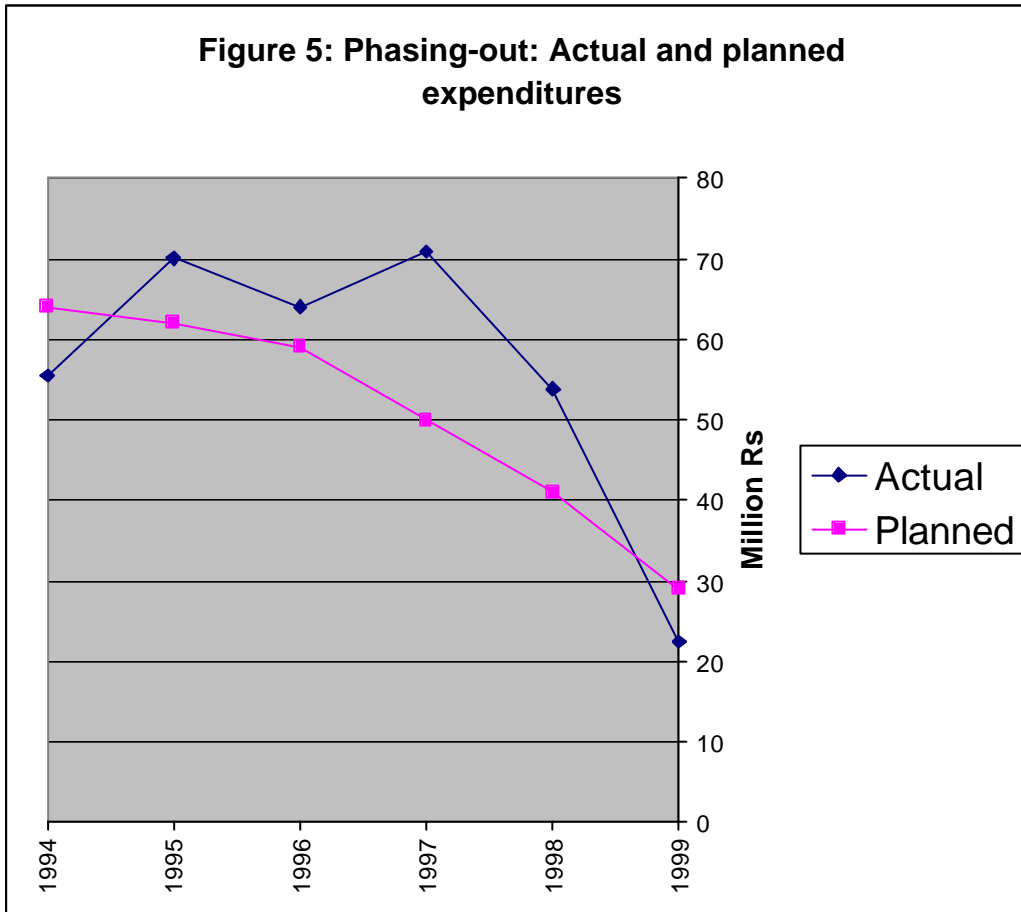
And the context changed

The focus of the Perspective Plan was on public sector-led activities and service delivery, especially at divisional level. The Local Level Planning Project constituted the bulk of investments. The assumption made was that the new local government – at divisional level – would gradually embrace the HIRDEP approach as the organisation built its strength. This did not happen, for reasons beyond the control of HIRDEP. The Pradeshiya Sabha reform of 1987 has faltered, lacking both the required political and financial backing from the Parliament and the central government.

It is part of the picture that HIRDEP’s phasing-out period coincided with a period of low economic growth and a government financial crisis, mainly as a

⁴⁷ Royal Norwegian Embassy. ‘Comments to the Annual Workplan-HIRDEP-1999’, dated 4 June 1998.

result of the war. That the District has been through a period of four years with below normal rainfall has placed many families under severe economic stress. Under such circumstances it is understandable that it has not been possible to maintain many HIRDEP-financed assets properly. At the same time it is our impression that much of the institutional capacity, built with the support from HIRDEP, is still in place, and can be mobilised if the conditions improve in the near future.



Lessons from public sector development

Capacity building in public institutions could only be sustained where other financial resources could fill some of the vacuum after the withdrawal of HIRDEP. This has been a major problem at the divisional level, with activity levels plummeting after HIRDEP.

HIRDEP invested mainly in the Divisional Secretariats, which was conducive to project implementation, but contributed little to the strengthening of the local government councils. Devoid of strong political support, the local government system has remained fragmented and hamstrung by political interference from above. In this situation HIRDEP's vision of integrated and participatory planning was by and large unfeasible. The main emphasis was placed on so-called spot improvements – i.e. individual projects identified by

popular demand and individuals' initiative rather than careful needs assessments.

HIRDEP set new standards with respect to quality of implementation and professionalism in the public sector. It contributed greatly to enhancing the responsiveness of the public sector, although "the man in the street" tends to differentiate between "government" and "Norad", the latter referring to HIRDEP.

HIRDEP's impact on the established public organisations is likely to be short-lived unless the 'collective memory' of trained personnel is retained in institutionalised forms in the different agencies. The lack of a policy to retain a core cadre of officials with HIRDEP experience has been a problem.

Lessons from civil society development

Probably the most lasting impact of HIRDEP will be its efforts in institution building at the grassroots. The setting-up of Farmer Associations and Water Users Associations may be cited as examples, and there are many cases of very strong associations successfully attending to the operation and maintenance of common properties. As a result communities have been empowered to have confidence on their own abilities. Although recurring droughts have made some of them inactive, they could yet be resilient when the opportunity for irrigation presents itself. But even negative lessons can be valuable to individuals. Overall, the growth of 'social capital' in the District has been formidable over the last twenty years, and HIRDEP has been the single most important factor contributing to this.

An aspect of the same is the forging of partnerships with local communities. The conventional approach to rural development has been based on the delivery mode and there was far too much dependence on external sources, whether state or donor agencies. Through its participatory planning process HIRDEP has been successful in entering into partnerships with local communities whereby a proportion of the project costs are borne by the beneficiaries. The practical experience of HIRDEP in this regard represents important local innovations that are now being emulated by NGOs as well as the Samurdhi movement.

The growth of NGOs in the district has been commensurate with the growth in community-based organisations. HIRDEP has actively encouraged this development, not least through the Social Mobiliser programme.

Lessons from private sector support

A success story has been the role of HIRDEP as a midwife to the birth of Hambantota District Chamber of Commerce. This success was intimately connected with HIRDEP's capacity for innovation and ability to act as an unconventional public institution. The process cannot easily be replicated, not least the quality of leadership in both HIRDEP and HDCC, but one general lesson can be drawn: This was a process where time was a critical factor and

with it continuity in personal relations. The building of networks and trust took place over a very long period of time.

We have found that HDCC needs to be more explicit about its core mandate and purpose as a membership organisation representing the interests of small and medium business in the District. This requires dealing with the following challenges more explicitly: (i) the development of linkages to the anticipated foreign investments being planned; and (ii) further development of its profile and commitment to corporate social responsibility regarding issues such as pollution, labour standards, land issues/expropriation, access to water, and employment creation. HDCC should be careful not to become an implementing outfit for a whole range of development-oriented programmes. It cannot replace the now defunct IRDP Project Office. In order to attract donor funds it is tempting to move in this direction, but clearly there is a need to be cautious.

On the negative side, HIRDEP proved not to be an effective instrument for supporting infant industries. The short-lived experiment in setting up enterprises failed because as a public organisation HIRDEP could not provide the incentive structure required for effective business management.

HIRDEP's micro-credit programme, however, has hitherto been a success. This is now registered as a NGO – the Social Mobiliser Foundation – and a Banking Union. The success has first and foremost been through its broad membership, its outreach to poor families and the emancipating effect on its largely female membership. The organisation now stands at a crossroads. Should it continue as a grassroots organisation for poor people where social mobilisation remains the core mandate and micro-credit a means, or should it become an entrepreneur development organisation? The SMF management believes both can be developed as complementary activities, a strategy which we believe is unlikely to succeed.

Recommendation

Twenty years of HIRDEP has demonstrated the virtues of having a development *catalyst* at sub-national level. HIRDEP was never successful, partly for reasons beyond its control, in making much headway in comprehensive planning at district and divisional level. Although this was constantly referred to as a goal, its failure cannot be regarded as a big loss. What the District needed was an organisation with financial leverage and a political mandate to both stimulate and challenge the established system, and to develop new types of networks. That HIRDEP succeeded in this role, which has far from been the case with all similar aid-sponsored projects, can at least be attributed to the following factors:

- ? A flexible planning approach
- ? Lots of money
- ? Close monitoring of results
- ? Well qualified and committed staff
- ? Continuity in management and other key staff, including within MPPI and NORAD

- ? Formal authority within the government structure
- ? Time

There is no reason to conclude that such catalytic functions are less needed today, although the development challenges at district, division and village levels have changed a lot since 1978. Most observers tend to agree that REAP cannot fill the vacuum left by HIRDEP, while at the same time it is unlikely that other programmes or donors will come forward in a similar way as NORAD did. The situation is made no easier with the current impasse in the devolution reform. This may rapidly change, however, if and when a lasting peace agreement with LTTE comes into place.

HIRDEP will enter the annals of development aid as a successful project, and this evaluation contribute to this conclusion. The history of HIRDEP can tell us much about the commitment, the trial and errors and painstaking effort needed to succeed in development. There are no shortcuts and quick fixes. And first and foremost it is about building human and social capital.

There is only one recommendation from this study that matters at this juncture in Sri Lanka's history: Let the HIRDEP experience be a basis for how to think reconstruction and development in the war-torn parts of the island.

5 Annexes

5.1 List of persons/institutions met

Interviews

Abewardhane, W. (Mr.)	Assistant Divisional Secretary, Angunakolapelassa
Abeywardena, K.R. (Mr.)	District Engineer, Provincial Irrigation Dept.
Amaratunga, A. (Mr.)	GA, Hambantota
Ariyaratna, R. (Ms.)	AGM Training, SMF
Dale, R (Mr.)	AIT
Damika, C. (Ms.)	General Manager, WDF
Dayawathie, M.M. (Ms.)	AD (Planning), Angunakolapelassa
Ekanayake, D. (Mr.)	Divisional Secretary, Katuwana
Gajanayake, P.S. (Mr.)	Former HIRDEP Project Director
Gamage, M.P. (Mr.)	Consultant
Helbert, S.H. (Mr.)	Contractor
Hemachandra, H. (Mr.)	Former HIRDEP Project Director
Imbulgoda, H.A.S. (Mr.)	Dep. Chief Secretary (Planning & Monitoring), Southern Province
Jayasuriya, S. (Mr.)	Board of Investment of Sri Lanka
Jeffrey, A.R. (Mr.)	Manager, Seylan Bank
Kaluratne, G. (Mr.)	Dep. Eng., Irrigation Department, Hambantota
Kodithuwakku, G. (Ms.)	AGM Enterprise, SMF
Leelasena W.M. (Mr.)	Former HIRDEP Project Director
Mahanama, G.S. (Mr.)	Trader
Munasinghe, R (Ms.)	Veterinary Surgeon, Hambantota
Paranagama, P. (Mr.)	TTA
Pathegamage, D. (Ms.)	AGM Bank, SMF
Piyasena, M.L. (Mr.)	Acting Divisional Secretary, Angunakolapelassa
Ramanayake, B.L. (Mr.)	HDCC
Rathnayaka, W. (Mr.)	ESC, HDCC
Rohitha, D. (Mr.)	AD (Planning), Katuwana
Siripala, P.P.G. (Mr.)	General Manager, SMF
Siriwardena, T. (Mr.)	Assistant Director Planning, Angunakolapelassa
Thassim, A (Mr.)	Director General, HDCC
Wijayarupa, D.C. (Mr.)	AD (Planning) Tangalle
Wijsekara, U.S. (Mr.)	Chief Residential Engineer

Group meetings

Members of HDCC
 Social Mobilisers, SMF
 Divisional Secretaries
 SMF groups in Ambalanota
 SMF groups in Tissamaharama

5.2 List of HIRDEP projects in the period 1993-1999

	No.	Sector	Project
95-99	181	205 Project Management	Planning Unit Studies
95-99	369	205	District Training Programme
95-99	397	205	Project Coordination and Management
95-99	262	205	Assistance to HIRDEP
95-99	001	308 Institutional development	Staff training and technical assistance
95-99	348	212 Environment	Reforestation VI
95-98	002	314 Fisheries	Provision of services to fish sector IV
95-96	395	314	Provision of services to fish sector III
95-96	373	314	Kudawella settlement scheme
95-96	373	314	Removal of harbour obstacles
97-99	407	216 Irrigation	Support to consolidation of rehabilitated irrigation schemes
95-96	406	216	Improvement and rehabilitation of irrigation schemes II
93-96	406	216	Improvement and rehabilitation of irrigation schemes III
95-96	408	216	Lift irrigation Ranna-Wadigala
93-95	396	216	Improvement and rehabilitation of irrigation schemes I
93-96	405	216	Augmentation of Malala Ara by Mau Ara
96-99	003	217 Agriculture	New development of agriculture
96-99	004	217	Livestock development
96-99	005	220 Industrial and small business	Entrepreneur development and infrastructure development
95-97	006	220	Skills development
93-95	404	220	Skills development training centre
93-95	371	220	Vocational training I & II
98-99	New	220	Skills development
95-99	386	230 Settlement and community development	Local level planning (in 11 divisions)
96		230	Readware projects - Tissahamarama Export Village
93-96	311	230	Maha Aluthgama settlement cluster
96-99	375	230	Social mobilisation IV
93-95	410	210 Water	Rehabilitation of tube wells
93-95	401	210	Beliatta water supply scheme

5.3 Overview of investments in physical assets

Data compiled from HIRDEP's Assets Registry completed 2001

Name of institution	Investments '000 Rs until 1992					Investments '000 Rs 1993-99					Total
	Machinery equipment	Buildings	Vehicles	Office equipment	Sub total	Machinery equipment	Buildings	Vehicles	Office equipment	Sub total	
Divisional Secretaries and Pradeshiya Sabha											
Tangalle DS			20		20	313	605	563	575	2056	2076
Weeraketiya DS	31	1092	454	163	1740	167	51		390	608	2348
Weeraketiya PS					0			191		191	191
Lunungamvehera DS	63	544	372	198	1177			191	377	568	1745
Tissamaharama DS	40	566	434	99	1139	631			325	956	2095
Tissamaharama PS					0			192		192	192
Sooriyawewa DS	126	1198	434	175	1933		1056		224	1280	3213
Sooriyawewa PS					0			191		191	191
Okewela DS	19	1495	374	172	2060		168		410	578	2638
Hambantota DS	33	584	392	208	1217	35	885		390	1310	2527
Katuwana DS		609	394	130	1133		729		284	1013	2146
Katuwana PS					0			191		191	191
Ambalantota DS	62	752	434	210	1458	257	523	476	719	1975	3433
Ambalantota PS				25	25					0	25
Beliatta DS		1193	434	342	1969		59		335	394	2363
Beliatta PS					0			191		191	191
Weeraketiya Police					0		41			41	41
Angunokolapelasse DS	35	582	434	149	1200	40		13	255	308	1508
Angunokolapelasse PS					0			191		191	191
Tube wells - PS				134	134					0	134
Village roads - DS			101		101					0	101
Sub total	409	8615	4277	2005	15306	1443	4117	2390	4284	12234	27540

Name of institution	Investments '000 Rs until 1992					Investments '000 Rs 1993-99					Total
	Machinery equipment	Buildings	Vehicles	Office equipment	Sub total	Machinery equipment	Buildings	Vehicles	Office equipment	Sub total	
Line agencies											
Health Department	1270	28726	1829	925	32750		4074		60	4134	36884
Agrarian Services		5970	566	427	6963					0	6963
Irrigation Department	9194	243	2099	415	11951					0	11951
Coconut Development Board	35	1421	1105	161	2722					0	2722
Water Resources Board	13852		1036	340	15228					0	15228
Forestry Department	230	515	1297	43	2085	116	199	2	5	322	2407
Livestock Department	235	1987	1518		3740					0	3740
Minor Export Crops Department			152	78	230					0	230
Land demarcation project			559		559					0	559
District Planning Unit					0	44			205	249	249
Water Supply and Drainage Board	1488	1990	31		3509		55			55	3564
Highways Department	6417		2044	13	8474					0	8474
GA Hambantota	26	948		210	1184					0	1184
Education Department		53667	451	30715	84833		7826		4229	12055	96888
Sub total	32747	95467	12687	33327	174228	160	12154	2	4499	16815	191043
Other public institutions											
Vocational Training Authority					0	8332	5564	1982		15878	15878
Machine Pool and Workshop	2253	873	1933	30	5089					0	5089
National Youth Service	173	1334	71	4	1582	5			68	73	1655
Middaniya Farm	37	150		14	201					0	201
Post and telecommunication		1852	269		2121					0	2121
Agriculture Insurance Board	249		301	26	576					0	576
Sericulture Bedigama	414	2846	825	87	4172					0	4172
Sub total	3126	7055	3399	161	13741	8337	5564	1982	68	15951	29692

Name of institution	Investments '000 Rs until 1992					Investments '000 Rs 1993-99					Total
	Machinery equipment	Buildings	Vehicles	Office equipment	Sub total	Machinery equipment	Buildings	Vehicles	Office equipment	Sub total	
Membership organisations/cooperatives											
Handicraft Centre					0	86	229		141	456	456
Chamber of Commerce / Enterprise Service Centre			22	100	122	21		142	1046	1209	1331
Ruhunu Ridiyagama Agric. Ass.					0				54	54	54
District Fisheries Federation	7790	4298	20987	22	33097			11977	175	12152	45249
Farmer's org. - highland farmers		277	718	19	1014					0	1014
Tissahamarama Export Village					0		1315	352	158	1825	1825
Ambalantota Trade Association					0				23	23	23
Social Mobilisation Foundation					0	3739	9359	706	3222	17026	17026
Sarvodaya Sharamadana Sangamaya					0		498		181	679	679
Milk Cooperative Society	214	35	383		632	43				43	675
Thrift and Credit Society Union				134	134					0	134
Grazing Land Ass. Amarawewa			61	66	127					0	127
Sub total	8004	4610	22171	341	35126	3889	11401	13177	5000	33467	68593
Private sector / producers											
Handloom industry	499	180			679	77				77	756
Bee keeping	30				30					0	30
White fibre - choir	223	456			679					0	679
Sub total	752	636	0	0	1388	77	0	0	0	77	1465

Name of institution	Investments '000 Rs until 1992					Investments '000 Rs 1993-99					Total
	Machinery equipment	Buildings	Vehicles	Office equipment	Sub total	Machinery equipment	Buildings	Vehicles	Office equipment	Sub total	
Village level organisation - Gramodaya Mandala											
Ethgalmulla	5	77		33	115					0	115
Okandayaya		22			22					0	22
Welandagoda	12				12					0	12
Bandagiriya		8		3	11					0	11
Bundala	1			1	2					0	2
Siyarapitiya	5				5					0	5
Handugala	3				3					0	3
Wauwa	1				1					0	1
Galpothayaya				0	0					0	0
Medamulana				0	0					0	0
Bowala				0	0					0	0
Kanumuldeniya				0	0					0	0
Omara				0	0					0	0
Yakkghamulla				35	35					0	35
Sub total	27	107	0	72	206	0	0	0	0	0	206
IRDP Office + Various minor support to organisations											
"Project Coordination"	1008	8849	8459	1871	20187	0	0	2397	2701	5098	25285
Grand total	45065	116490	42534	35906	239995	13906	33236	17551	13851	78544	318539

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Summary

Aid has been successful when it is no longer needed, but we all too often see how aid breeds dependency, and how both donors and recipients have difficulties preparing for termination of the relationship. This is a study of a case of planned phasing-out. Commissioned by the Norwegian Agency for Development Cooperation (NORAD) and the Ministry of Southern Area Development, Government of Sri Lanka, it summarises the main experiences and lessons from twenty years of cooperation in the Hambantota District with a focus on the last phase from 1992 to 1999.

The study looks at two broad themes. Firstly, how were the achievements of HIRDEP in building a more responsive public sector sustained within a changing government structure? And secondly, how did HIRDEP contribute to the new policies of the 1990s of strengthening economic growth, and, in particular, promote institutions able to create economic opportunities for the poor?

The phasing-out did not go as initially planned. The scaling-down of HIRDEP's expenditure was not gradual. It first peaked and then nose-dived, which indicate that the HIRDEP-organisation tried to sustain a high level of activity as long as possible. Moreover, NORAD changed the policy course mid-way as new political concerns were brought into the picture – especially private sector development.

With the faltering local government reform, it turned out that the new divisions were not capable of replicating and sustaining the development approaches pioneered by HIRDEP. In general, capacity building in public institutions could only be sustained where other financial resources filled some of the vacuum after the withdrawal of HIRDEP.

Probably the most lasting impact of HIRDEP will be its efforts in institution building at the grassroots, related to micro-credit and the management of local infrastructure – irrigation, drinking water supply, community centres etc. HIRDEP's attempt to establish new small-scale industries, by-and-large, failed, while its role as a midwife to the birth of Hambantota District Chamber of Commerce is a remarkable success.

Twenty years of HIRDEP has demonstrated the virtues of having a development *catalyst* at sub-national level, and the authors make a strong plea for making use of this experience when, at this juncture, government and donors are preparing for reconstruction and development in the war-torn parts of the island.

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