



Industrial Development Board
of Sri Lanka



Industrial Services Bureau

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Developing the Coir Sector in North-Western Province

Value Chain Development
for more Competitiveness and Decent Work

- Second DRAFT study results and proposals -



Kindly supported by Puttalam and
Kurunegala District MSE Forums



FORUM, PUTTALAM



MSE FORUM
KURUNEGALA



List of abbreviations

APCC	Asian Pacific Coconut Community
BDS	Business Development Services
CCC	Ceylon Chamber of Commerce
CCFEA	Ceylon Coir Fibre Exporters Association
CCI	Coir Council International
CDA	Coconut Development Authority
CCB	Coconut Cultivation Board
CEB	Ceylon Electricity Board
CGASL	Coconut Growers Association Sri Lanka
CRI	Coconut Research Institute
DS	District Secretariat
EDB	Export Development Board
EPF/ETF	Employees Provident Fund / Employees trust Fund
FAO	Food and Agriculture Organisation
GMP	Good Manufacturing Practices
GWP	Good Workplace Practices
IDB	Industrial Development Board
ISB	Industrial Services Bureau
ITI	Industrial Technology Institute
MTF	Machine Twisted Fibre
NCCSL	National Chambers of Commerce Sri Lanka
NERD	National Engineering Research and Development Centre
NIBM	National Institute of Business Management
NWP	North western Province
SBA	Small Business Association
SLACMA	Sri Lanka Coir and Allied Products Manufacturers Association
SLSI	Sri Lanka Standards Institute
SME	Small and Medium Enterprises

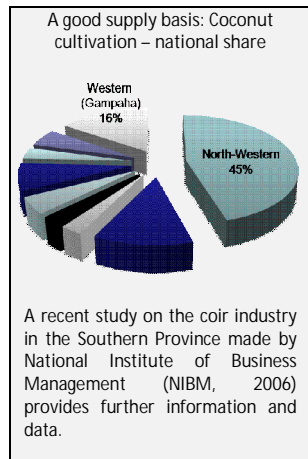
1. Background: The coir industry

The coir industry in the North-Western Province of Sri Lanka enjoys a competitive advantage: The cluster of coconut plantations and small farms, which exists in an area known as the “coconut triangle” (Puttalam, Kurunegala and Colombo), provides a unique supply basis. Over 45 percent of the countries coconut cultivation is in the NWP, and together with Gampaha it is even more than 60 percent. This puts the coir fibre industry, which extracts its basic raw material from coconut husk, into a competitive position on the world market. Additionally, 85 percent of the countries’ mills operate in NWP and Western Province.

Apart from having a good supply basis, the market has also seen robust growth over the past decade. According to the Coir Council International (CCI), the global market for coir products has increased by 6 percent per year on average. Adding to traditional uses of coir fibre (for example as upholstery in car seats), the increasing awareness of consumers regarding environmental-friendly products, has translated into growing demand for natural fibre products. This translates into the development of new products, such as geo-textiles for road construction and soil erosion control.

However, the coir industry is also facing serious challenges.

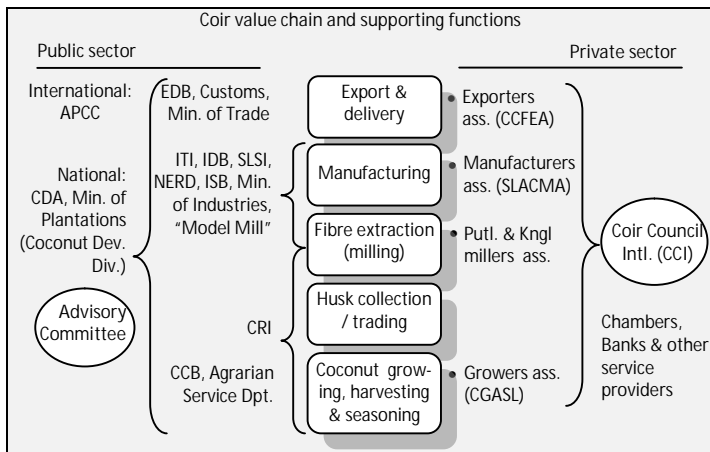
- New competitors enter the world market. As a result of growing demand for coir fibre, pith and various coir products, more countries are entering the world market and are rapidly increasing their coconut production. The overall world export share of Sri Lanka is therefore declining.



Source: Coconut Development Authority, 2006

- Stagnating supply of coconut husk. The gap between demand and supply is widening. Export companies in Sri Lanka have great difficulties in fulfilling export orders and they are increasingly looking towards India as additional raw material source and location for their production sites.
- Contribution to employment and income is falling. The importance of the coir industry for employment and income creation is decreasing – despite the enormous market potential. Work in the sector is regarded as unattractive due to various reasons, including health risks and low wages.

The time of resting on a comfortable supply of coconut husk as raw materials is over. If the coir industry is to maintain and expand its competitive advantage and if it is to turn into an industrial motor for rural employment and income creation, it needs to find answers to these challenges.



The coir sector in Sri Lanka can only face these challenges if all industry stakeholders work together. Competition amongst each other should

not stand in the way of cooperating in areas of common interest and making the industry as a whole more attractive for investments and labour recruitment.

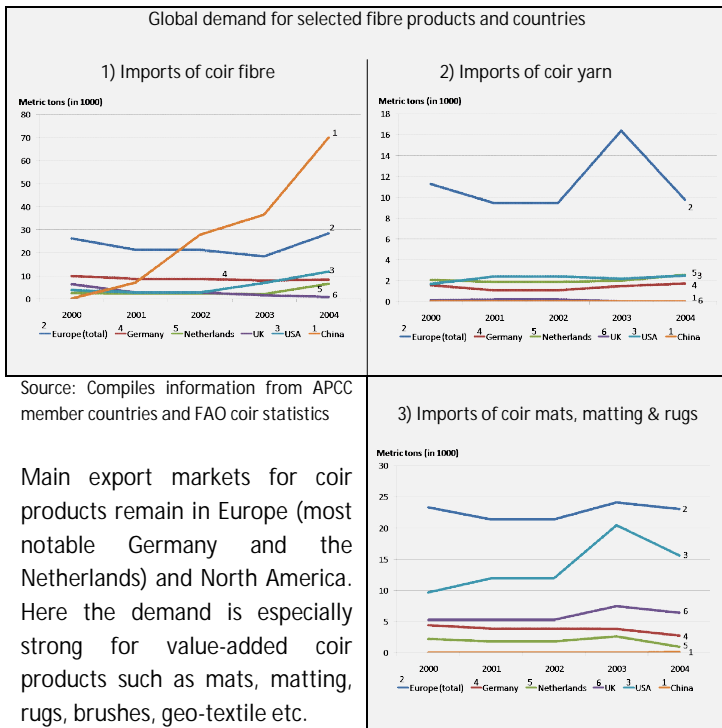
Efforts to bring together industry stakeholders and to improve coordination of public authorities and service providers have already shown positive results. On the private sector side, the Coir Council International (CCI) has been set up to represent the industry and provide valuable services; whereas on the public side, an advisory committee was established under the Coconut Development Authority (CDA).

This value chain initiative organised by the Industrial Development Board (IDB) hopes to contribute to these efforts.

2. Market: growing demand for natural fibre (coir) products

Up-to-date market information about emerging and declining markets, market requirements, international competitors and product trends is essential for the Sri Lankan coir industry to remain competitive. A professional market research company should be contracted by the industry (for example the Coir Council International) to conduct annual market assessments.

Main markets



However, the market in China has seen a tremendous growth over the past five years – especially for raw coir fibre as well as machine twisted fibre. It is expected, that this market will further expand.

Market requirements

Manufacturers and exporters mentioned that ISO 9000 is not particularly required by buyers outside Europe, but that it remains an important precondition for many buyers in Germany and Netherlands. The compliance with ISO 9000 is therefore not necessarily seen as an urgent need, but it certainly opens doors of more quality conscious markets.

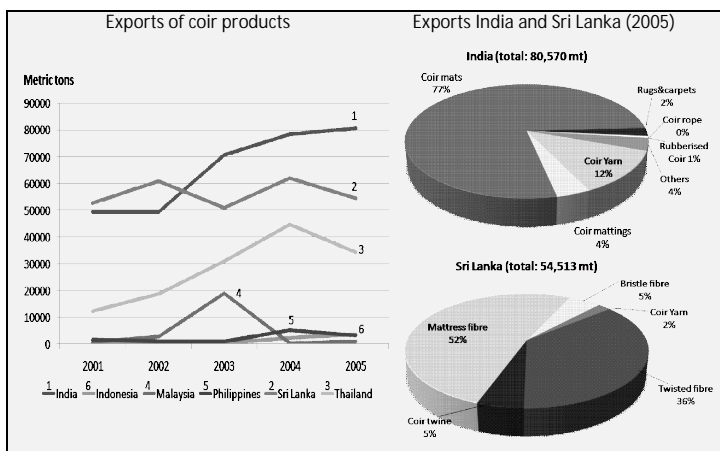
Despite this fact, buyers usually have specific requirements regarding moisture content and length of fibre as well as the amount of non-fibre particles such as sand. An attempt has been made a few years ago by Sri Lanka Standards Institute (SLSI) to translate these requirements into measureable standards for the coir industry. This attempt failed, since quality control mostly depends on human judgement and testing (as for example also tea-tasting).

Other requirements that buyers have, concern the reliability and delivery time of supply as well as price and flexibility to changing orders. It is essential that all these requirements are well communicated to small producers who enter the coir market.

International Competition

Coconut cultivation in Sri Lanka accounts for 4.17 percent – India: 17.39 – of the total coconut cultivation of the Asian Pacific Coconut Community (APCC). Total exports of coir products from Sri Lanka are 24.7 percent of the APCC total exports – together with India, that's nearly 70 percent.

However, the recent years have seen the entry of new countries into the coconut and coir market – most notably Malaysia, Thailand, Vietnam and Philippines. Their growth rates are impressive. Malaysia’s exports of coir products for example, have increased from 2,778 metric tons in 2002 to 18,861 in 2003 (Thailand: from 18,617 in 2002 to 44,625 in 2004). The entry of these countries into the coir market will lead to significant changes in global competition.



Sources: Compiled from information provided by APCC member countries; FAO coir statistics; NIBM (2006): The coir industry in the Southern Province of Sri Lanka, p.8-10.

Market potential

The following three coir products (made of brown fibre from NWP) have a good future market potential:

Geo-textiles	Bristle fibre for brushes	Improved machine twisted fibre
Geo-textiles are an excellent medium for soil bio-engineering applications in many parts of the world. They take the form	Bristle fibre for brushes is very superior to synthetics due to their stiff characteristic when compared to the diameter. This	Improved machine twisted fibre (MTF) is used to make rubberised coir for automobile seats, mattresses etc. Rubberised coir

Geo-textiles	Bristle fibre for brushes	Improved machine twisted fibre
<p>of meshes, netting, needled felts and pads, erosion control blankets, geo-rolls, geo-cushions, geo-beds, anti weed blankets. These products are used against soil erosion and for drainage filters. The applications for soil erosion are for earth slopes, inside water channels or along shore lines.</p>	<p>enables good brushing and or sweeping of the surface, which synthetic materials cannot do. Sri Lanka introduced this product to the world and there remain many more markets to be explored.</p>	<p>made from twisted fibre is mechanically resistant to damage; it breathes and keeps cool; and it does not sag after repeated use, unlike synthetic substitutes. Especially in the newly emerging economies (China), the demand will grow. Newer applications such as upholstery for buses, railway seats as well as methods to improve quality (removal of dust), and higher level use of omat fibre will lead to the opening of larger markets and higher unit export prices.</p>

Through joint marketing efforts of Sri Lankan coir industry stakeholders, these market opportunities can be explored and new markets exploited. Participation at international trade fairs, a common internet platform, product information materials distributed for example by Sri Lankan embassies abroad, but also intensive research and development are essential for developing the market potential. The Coir Council International (CCI) is an ideal platform for this purpose.

3. Main findings of the value chain analysis

As the figure on page 4 shows, the coir value chain can be divided into three parts:

1. Export and delivery of various products to markets in Europe, Asia and North America, but also to the local market in Sri Lanka.
2. Manufacturing of products made out of coir fibre – for example: twine, twisted fibre, geo-textiles (soil erosion nets), brushes, and more.
3. Raw material sourcing, which includes fibre extraction (milling), husk collection, husking and seasoning as well as coconut cultivation.

Within 4 weeks, the IDB value chain initiative has carried out several interviews and focus group discussions with coir sector stakeholders. The results are presented below.

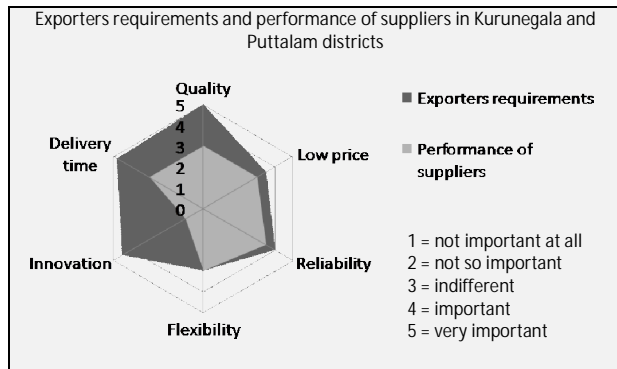
Export & delivery

There are 36 registered exporters of coir fibre products (mattress, bristle and twisted fibre) and 164 registered exporters for coir fibre processed products listed at the Coconut Development Authority (CDA), and more than 119 in the latest export directory of the EDB. According to this directory, 9 exporters are located in Puttalam and 10 in Kurunegala district – most exporters have their businesses in the Western Province due to better infrastructure.

Exporters – some of them large companies with international operations – depend on local supply of coir fibre and processed fibre products. Supply shortages of husk, low productivity and quality inconsistency of fibre millers and manufacturers therefore also affect their competitiveness on the world market.

The research therefore focussed on opportunities for small and medium producers to better link up to exporters, and tried to understand the constraints that prevent them from doing so. These are the main findings:

- Sub-contracting/financial support to small producers and embedded services. In order to secure supply and ensure quality, export companies have either sub-contracted parts of their production to small and medium producers or provide loans for machines. Along with this financial support come various other embedded services, such as technical training, supply of machines and equipments, maintenance, quality monitoring, information, research and development.



However, small producers in the districts find it hard to access these embedded services for two reasons: a) it is not seen as a viable business option, since a higher profit margin can be achieved through independent business operations; b) they lack information about such opportunities, which again is due to insufficient information channels – for example, through millers associations.

- Availability of trade information and export support services. The Coconut Development Authority provides marketing support and information through its marketing division; the Export Development Board has only recently published an updated version of its export directory that provides profiles and contacts of exporters; the EDB department for trade information is also able to provide contacts of foreign buyers (see box on the left).

Contact details of exporters and foreign buyers can therefore be obtained easily through various directories. However, the availability of other market information remains unsolved. This would for example include information about market trends, import requirements of individual countries, requirements of foreign buyers (in terms of quality, design, delivery time, price etc.), market incentives and trade fairs. This is crucial information needed by exporters to access new markets. Till now, nobody can provide this information. Export companies rely on own sources for market information.

A further obstacle for small producers to access available information sources is the lack of knowledge about such sources. Small business associations are not sufficiently informed by the service providers. This also includes

Some useful export services

EDB directory of exporters. Looking for an exporter for your coir products? The newly published directory offers contact details and profiles of exporters. Available as hardcopy and CD-ROM from the trade information department.

EDB trade information department. Want to establish direct export linkages and looking for a foreign buyer? For Rs. 40/- the department will provide contact details of buyers for specific coir products abroad.

EDB internet website. The EDB website provides many useful information and services for various product categories. Visit www.srilankabusiness.com to get product and market information, contacts of exporters and much more.

CDA marketing division and website. The CDA website (www.cda.lk) provides an online directory of all registered exporters with contact details. The marketing division provides further market information and marketing support.

information on available support for SMEs to participate at international trade fairs.

Manufacturing of fibre products



The North-Western Province produces brown coir fibre (Southern Province: white fibre, predominantly used for coir yarn, mats and matting). Products produced out of brown fibre include twine, machine twisted fibre used later as upholstery, geo-textiles used in soil erosion nets and for road construction, and brushes. New products are being added such as drainage filters or coir pots used in horticulture.

- Starting production of coir processed products is profitable. Finding buyers for value-added coir products is not a problem, given the high market demand. As the example below shows, starting production of coir based products is a highly profitable business opportunity that benefits not only the entrepreneur, but also contributes to more jobs and higher incomes.

Case example

Setting up a MTF factory in Pallama division with support of IDB

After conducting a research project in the Pallama division (Puttalam), IDB together with ILO Enter-Growth identified a good market potential for machine twisted fibre (MTF). One miller, who was convinced that this was a profitable business opportunity, decided to take up a bank loan and make

necessary investments for a MTF factory in his village.

IDB assisted the entrepreneur in setting up a factory and management plan, applying for a loan at SME Bank, ordering and importing 2 machines from India, constructing the building, training the workers and applying for electricity supply through CEB. Later the entrepreneur also received a grant by NCCSL to purchase a third machine – an opportunity that IDB has also made him aware of.



In the meanwhile the entrepreneur operates his factory with three MTF machines, employing 23 workers (together with his mill 35) which earn above the local average. He further owns his mill, thus guaranteeing him fibre supply (other millers in the region also benefit, because their transport costs have decreased since they sell to him). He has no problems selling the twisted fibre and is even considering export himself. The business makes a profit, which provides the entrepreneur with an income ten times as high as he earned before with his mill.

Local producers usually have a large network of husk traders and fibre millers, thus ensuring raw material supply when they start production of fibre-based products. If they have previously even operated an own mill, they can control their supply of coir fibre.

Promoting rural industries is key to overcoming supply shortages and quality inconsistency in the coir sector. It is a win-win-win situation by which raw material suppliers (who can reduce their transport costs), local producers (who will generate more income for their families) and buyers/exporters (who can rely on a more stable supply basis) benefit.

- Shortage and inconsistent quality of raw fibre material. A major constraint to expanding industrial production of coir-based products is the shortage and inconsistency in raw material supply – especially during the rainy season. This is more a problem to large manufactories that produce for export markets than small rural producers.

A major threat to coir processed products is also the alternative use of coconut husk in the form of chips. The export volume of chips has more than doubled (by 156 percent, according to CDA) in 2006 when compared to the previous year, depriving the coir industry of opportunities to add more value within the country. Export of raw fibre material (in baled form) also remains high and could otherwise be used for more employment and income generating purposes.

As the star diagram on page 11 shows, many exporters and producers are unsatisfied with the quality of coir fibre supply. High quality standards are essential to meet market requirements in Europe – means: without adhering to quality standards, the market will remain closed for Sri Lankan coir exporters (the Chinese market however, is more price-conscious than concerned with quality). Though ISO 9000 is not required for all markets, there is a need to establish certain quality standards to which all coir value chain stakeholders adhere.

Since many millers are not aware of quality requirements (such as length of fibre for twine production, moisture content of 18 percent or particle/sand-free fibre), some exporters and producers are either thinking of setting up own mills, or trying to control millers by other means – for example through loans or sub-contracting.

- Available business development services and financial schemes/grants. Though the support for coir manufacturers is limited, there are a number of relevant services, including the Sri Lanka Coir and Allied Products Manufacturers Association (SLACMA) which is represented in the Coir Council International. Various public organisations such as the Coconut Development Authority and the Coconut Research Institute are increasing their services (such as technical training) to manufacturers – though this still remains very limited. Technical support to promote rural production of coir-based products needs to be reinforced by also including private BDS providers.

Although many small producers complain about a lack of financial support, many commercial banks provide SME loans – albeit high market interest rates. Development Banks (such as Wayamba Development Bank, Lankaputra Bank and SME Bank) provide low-interest loans. The National Chamber of Commerce

(NCCSL) even has a grant scheme to support coir manufacturers in purchasing machinery. Additionally, large

Services for manufacturers

Sri Lanka Coir and Allied Products Manufacturers Association (SLACMA) is represented in the industries overall body, the Coir Council International (in which also Exporters, Millers and Growers are represented). Many issues regarding marketing and supply can be discussed here with other value chain stakeholders. Though manufacturers are not yet satisfied with SLACMA's services, this might improve in future.

The Coconut Development Authority (CDA) is providing training on manufacturing of coir based products and has many useful extension services. However, the authority yet has to increase its efforts in promoting the industry.

Industrial Development Board (IDB) and Industrial Services Bureau (ISB) have both supported manufacturers in the past to set up their production. They have offices in Puttalam and Kurunegala districts. IDB Puttalam is currently working on a list of machinery suppliers.

Loan schemes to promote small industries are provided by various commercial banks ("SME loans"). Low interest rate loans can be obtained from SME Bank and Lankaputra Bank. The National Chamber of Commerce (NCCSL) has a grant scheme that helps small producers to purchase expensive machineries. Ceylon Chamber of Commerce (CCC) has a grant scheme for environmental-friendly production technologies.

export companies also provide their suppliers with loans and equipment, or lease out machines under favourable conditions.

In other words: there is no lack of financial resources. However, small producers do not have sufficient information about the availability of various financial schemes and support services and information about market opportunities. Entrepreneurs (such as millers) are therefore not yet willing to take the risks.

- Relationship between large and small/medium producers. Not all advanced coir-based products can simply be produced by rural and small/medium producers, because large companies possess patents and necessary licenses. This is especially the case for geo-textiles.
- Labour supply is not much an issue for producers in rural areas, thus creating good pre-conditions to set up factories there. On the contrary, urban producers face difficulties in recruiting skilled workforce, as other – more attractive – employment opportunities are available. All producers interviewed provide on-the-job training. Health risks are not as high when compared to coir milling.

Sourcing of raw material



Sourcing includes the full range of raw material processing: from coconut cultivation, seasoning, husking, collection and trading with husk to processing husk to coir fibre (milling).

Though demand is high, improving the supply basis of the coir industry is said to be the most important challenge to address. This concerned quantity of husk being processed to fibre as well as the quality of fibre. Especially during the rainy season, shortages in fibre supply often occur, because of the high moisture content (less time to dry the fibre before selling to producers).

- Excellent preconditions for husk supply to coir industry. The North-Western Province and Gampaha district together produce more than 60 percent of the countries' coconuts. Unlike the Southern Province, husk collection and trading is well established in the Province, due to the availability of more than 200 registered rural mills (in Kurunegala and Puttalam districts).

However, the potential is not fully exploited. Though supply shortages are largely caused through insufficient (or not existent) husk collection in other parts of the country, manufacturers and exporters complain that efforts to make

the husk collection more efficient in the NWP are still not enough. Three main reasons

- a) Though there are many, the productivity of individual mills remains low; most mills operate with 2 or 3 drums that are still operated manually; automation has not yet taken place (also because long fibre quality can only be ensured if processed in the traditional method)
- b) Productivity of coconut plantations has not made significant progress also due to mite infection of coconut trees
- c) The existing collection system of husk has flaws and gaps: tendering processes of larger plantations are often not done on time, thus leading to waste; millers associations are increasingly used for bulk purchasing of husk and distribution amongst their members – but plantations are not informed about this process; husk collection from smallholder coconut growers remains insufficient.

In terms of quality, communication between millers and manufacturers/exporters is insufficient to transfer knowledge about market requirements and methods. Millers often lack training on proper methods.

New research and training facility ("Model Mill") is being set up.

The Coconut Development Authority and Coconut Research Institute with the support of USAID are currently setting up a research and training centre for millers in Nattandiya Dunkenawa. First training courses for a pilot group of 27 millers have already started. The Industrial Technology Institute (ITI) and the Industrial Service Bureau (ISB) have been involved in developing training courses. A building is currently constructed, which will also display a model mill. Future activities could see training and services on coir-based products included into the programme.

More information: Mrs. Zahra Cader, USAID, coir@tcp.lk, 011/2380533; or CDA, CRI, ITI and ISB; also see Coir Council International (CCI)

- Millers possess the qualifications and requirements to start rural production of coir-based products. It was noticed during focus group discussions that millers seem to have the entrepreneurial qualities required for starting a business in coir-based products. The example on page 13 where IDB assisted a miller to set up a MTF factory in the Pallama division also proves this case. Therefore, when promoting rural production of value-added coir products, millers should be a primary target group.
- Husk collection, trading and processing provides income opportunities to rural poor. Given the growing demand for large quantities of husk and fibre in the coir industry, micro and small businesses can link into this industry by collecting, husking, trading coconut husk and processing it to coir fibre (milling). It provides vast income and employment opportunities especially for rural people.



However, there remain constraints, one of which is that employment in coir raw material processing is regarded as unattractive. Especially handling drums at mills is a highly dangerous job; many workers injure their hands so badly that amputation is often unavoidable. Also working in the ponds, where husk is soaked before being processed in the mills is a dirty and unhealthy job. Where dry fibre is being processed, dust poses health risks to workers, who mostly work without any mouth protection.

Health risks and unpleasant working conditions contribute to high labour fall-out, labour exodus and low labour productivity. Therefore, without solving the health risks posed to workers and improving their working conditions,

(including payment), the fibre processing industry will always face a scarcity of skilled labour force.

- Available business services and financial support schemes. In general, available services to millers remain limited and weak. However, CDA and CRI are increasingly turning their attention to the coir sector and especially to millers. It is also known from the University of Moratuwa and ITI that research projects are currently investigating new automation technologies to make milling more productive and safe. Until recently the EDB has also provided a grant scheme to millers, which however has expired this year. Other sources of financial support are SME loans of banks, as well as grant schemes of the chambers of commerce.

Support by various means (loans, training, technical advice, machinery equipment, maintenance, quality control) is also provided by exporters and manufacturers as embedded services,

There are two millers associations in Puttalam district and one in Kurunegala district. Both are represented at the Coir Council International (CCI). Growers have also formed a national association, the Coconut Growers Association of Sri Lanka. Interviewed millers however have stated not being satisfied with the services offered to them by the association. In general, the capacity of millers associations in both districts remains weak – especially their advocacy function towards CRI, CDA, CCI and CEB needs to be improved. A positive sign is that one millers association in Puttalam district has started with bulk purchasing of husk for its members.

Rules and regulations

Labour regulations and environmental protection laws are the main concern of most stakeholders in the coir industry. This value chain initiative certainly does not want to water down these regulations, as they are important for creating Decent Work and contributing to a clean environment.

However, the implementation and enforcement of rules and regulations needs more attention. Millers for example complained that officers of the environmental authority would take in a confrontational position rather than providing them with information and assistance on how existing environmental hazards could be avoided. All interviewed stakeholders sited problems in dealing with the Labour Department. Some of the interviewed millers and manufacturers also mentioned cases of corruption in dealing with government agencies (thus adding to the costs of small enterprises).

Rule or Regulation	Issue
EPF/ETF payments and other labour requirements	Workers prefer more cash rather than paying EPF/ETF. They do not see the benefit of saving for retirement. New regulations require enterprises to pay EPF/ETF immediately, rather than having an initial period of 6 months, where no payments are made. The new regulation is difficult to comply with because of seasonal workers. Documentation of rural workers in the coir industry is weak. Birth certificate, ID etc. are often missing and therefore prevent proper registration and payment of benefits at Labour Department.
Contradictory investment promotion policies	The government investment promotion policy is inconsistent and contradictory: The BOI has for example provided tax incentives and subsidies to a new Indian factory in Puttalam district (such as relief of EPF/ETF payments). However, local millers and small producers who lack capital to become BOI certified, suffer from increasing competition for fibre and pressure on their cost structure (such as wages). Such selective support is harmful for the coir industry.

Rule or Regulation	Issue
Return from Cess ¹ tax for coir industry	Millers, manufacturers and exporters – large and small – complain that Cess taxes paid into the government treasury are not sufficiently re-invested to promote and support the sector. This needs further investigation.
Supply and reliability of electricity	Electricity is a critical factor in the coir industry. Millers and manufacturers rely on stable supply. Millers and small in rural areas however, complain about electricity fall-outs, problems of getting transformers and the lack of cooperation of the electricity board (CEB).
Obtaining licenses and registering businesses	In order to fully benefit from public and private services and support, coir millers, manufacturers and exporters need to be registered. However, procedures are unknown, lengthy and costly. Most small enterprises are therefore informal, which again prevents them of signing formal and legally enforceable contracts with buyers and suppliers.
Customs procedure	Foreign buyers expect their goods to be delivered within a few days after ordering. Shipment has to be quick so to keep delivery time as short as possible. Some exporters complain that customs procedures take too long. As a result, foreign buyers turn to other suppliers from other countries.

¹ A local levy on a commodity / product for a special purpose, imposed under the Sri Lanka Export Development Act No. 40 of 1979. The Cess tax for the coir industry is handled by the CDA.

4. Main proposals to address the bottlenecks

In order to address the opportunities and constraints mentioned above, the IDB value chain initiative makes the following proposals. These proposals will be discussed with all coir sector stakeholders. We believe however, that once implemented, these proposals will contribute significantly to the development of the coir sector in the NWP.

Proposal 1
Promoting manufacturing of value-added coir products at rural level

There are generally two strategic options for small entrepreneurs to take in order to enter the market for coir-based products:

Sub-contracting to export companies and large manufacturers	Independent marketing with own investments in production
<p>Large export companies provide machines on leasing or loan basis, they train the producer, give him technical advice, maintain machines, and provide other embedded services.</p> <p>Though the profit margin is not as high as with independent marketing, this is an opportunity for small producers to learn the business from the start. By making use of the buyers' services, they also learn more about market requirements (e.g. quality) – thus making them more competitive in the long-run.</p>	<p>Small producers can also apply for SME loans or grant schemes to purchase own machines. This however, requires already some knowledge about production methods and market requirements.</p> <p>The advantage of this option is that the producer can choose his buyer. He is not bound to a specific exporter, but can sell to the buyer that offers the best price. If he has the capacity, he can also try direct marketing to foreign buyers.</p> <p>This option requires good existing BDS to support the entrepreneur.</p>

To promote these opportunities to small producers it is suggested that one BDS provider develops an all-in-one information package to provide to interested entrepreneurs. This package would provide details on all the necessary steps required to persuade one of the two options.

Further, training on the production of various value-added coir products should be included into the service portfolio of the newly established research and training centre at Nattandiya – for example a training course on the production and marketing of machine twisted fibre (MTF).

Proposal 2
Strengthening the capacity and role of small business associations in the coir industry

Strong millers associations are in the interest of the whole industry: they serve as channels for information dissemination to millers; they can help to overcome supply shortages through bulk purchasing; they can advocate for more attention and better services towards government authorities and other industry stakeholders.

We therefore suggest the following activities to strengthen small business associations (SBA) in the coir industry:

- The ILO Enter-Growth project has trained SBA facilitators, who should train and coach millers and growers associations at the ground level.
- Strengthening advocacy function of SBAs towards CCI, the government advisory committee, the district MSE forums, the CDA and CRI is essential to make these bodies more aware of the needs they have. As a first step, the millers associations should become members of the district MSE Forums.
- SBAs can also play an important market role: bulk purchasing and distribution of husk is already done by one association in Puttalam district. This should be strengthened and also encouraged for others. Plantations and growers should be made aware of husk selling to associations. The link between plantations and millers associations needs to be strengthened.
- Long-term target: millers associations could be transformed into self-governed cooperatives with joint marketing function and integrated services to members. This would strengthen their role as small business stakeholders in the coir value chain.

Proposal 3
Improving availability of and access to information and Business Development Services (BDS)

Up-to-date market information is essential to all coir sector stakeholders to remain competitive in an increasingly globalised coir market. BDS are essential for knowledge and technology transfer to small coir producers. The information about the availability of such services therefore must have absolute priority.

We suggest the following activities:

- The EDB has a very useful exporters directory and trade information services to find foreign buyers. These information services should be promoted to small and medium producers.
- Most rural and small producers are not aware of available services. Therefore one BDS provider should create an inventory of available BDS for coir industry
- Regular up-to-date market assessments on trends, requirements, markets, etc. should be conducted by a professional market research company. This information should then be widely distributed to all coir stakeholders. The CCI could take over the leadership for this initiative.

Proposal 4

Improving quality of work for higher labour productivity and better labour recruitment

If working conditions of workers especially at the lower levels of the coir value chain remain poor, the industry will always suffer a shortage of skilled labour. Better working conditions will therefore not only improve recruitment of workforce, but also enhance labour productivity as work becomes more attractive.

We therefore suggest the following activities:

- Conduct a study on how small and cheap measures to improve working condition can be implemented at coir mills; these measures should have immediate and positive effects on the outcomes
- Publish and disseminate these measures as Good Workplace Practices (GWP) and make them part of the proposed Good Manufacturing Practices (GMP)..
- Make Labour department and inspectors aware of these GWP by training them.
- Integrate the training of GWP in the training programme of the research and training centre in Nattandiya and, adapt practices at the “Model Mill” to the GWP.

Proposal 5

Improving utilisation and collection of husk for fibre milling

Husk collection for further processing to coir fibre remains a weak point in the whole coir industry. Though the collection network in NWP is dense, there remains many untapped potential. We therefore suggest the following activities to improve supply of husk:

- As mentioned above, organise husk collection and distribution through millers associations, and make plantations aware of this option.
- Starting production of value added coir products in rural areas will also improve utilisation of husk, as rural entrepreneurs are better connected to local sources (especially if they also do milling).
- CDA, CRI, CCB and Coconut Advisory Board should more strongly promote the use of drip irrigation, so that husk can be sold to millers instead of being buried in the plantations as moisture container.
- A lot of husk is burned in pottery kilns. There are alternative bio-fuel resources such as Gliricidia that could be used instead. Growing Gliricidia between coconut trees also increases the Nitrogen content of the soil. Such practices should be promoted more by CDA, CRI, CCB and Coconut Advisory Board. Pottery kilns should be made aware of alternative fuel.

Proposal 6
Developing Good Manufacturing Practices (GMP) for different product categories and mills

The introduction of ISO 9000 norm to small producers has not been very successful. ISO 9000 is also not required to access all markets – only some foreign buyers (mainly in Europe) require this standard. We therefore suggest the development of Good Manufacturing Practices that enhance quality production of fibre and coir-based products. These GMP should be a first step to acquiring ISO 9000 certification.

- Supply chain managers and staff of large export companies and manufacturers should be trained as GMP trainers; they in turn can then train their suppliers/sub-contractors on how to comply with the GMP (as embedded services)
- The GMP should also be included in the training programme at the new research and training centre (Model mill) at Nattandiya – especially when new courses are introduced on value-added coir production.

5. Summary: Action Plan

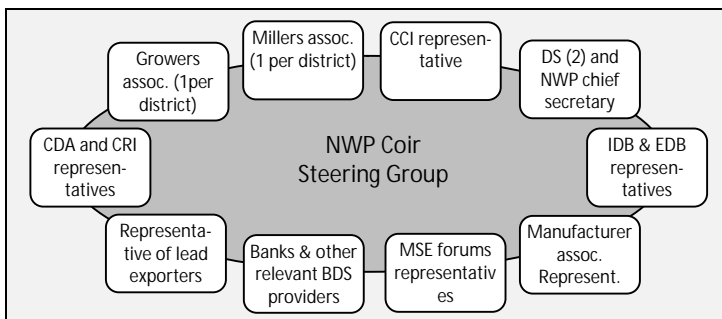
Proposal	Activities	Addressed constraints	Expected outcome	Implementing org.	Time-frame
1. Promoting rural manufacturing of coir-based products	<ol style="list-style-type: none"> 1) Sub-contracting to export companies 2) Independent marketing with own investments 	<ol style="list-style-type: none"> a) Poor income of rural poor b) insufficient use of local resources 	<ol style="list-style-type: none"> a) More jobs and income at rural level b) better husk utilisation 		
2. Strengthening capacities of Coir SBAs	<ol style="list-style-type: none"> 1) ILO SBA training programme 2) Advocacy towards CDA, CR, CCI and other bodies 3) Strengthen marketing functions of millers assoc. Long term: millers coop 	<ol style="list-style-type: none"> a) Lack of awareness for needs of millers b) Allegations of being cheated by large firms c) lack of information channels d) lack of services 	<ol style="list-style-type: none"> a) Better awareness of SME needs a) Better use of husk b) Increased bargaining power for SMEs 		
3. Improving access and availability of information & BDS	<ol style="list-style-type: none"> a) Promote EDB directory and trade info services b) Inventory on coir BDS c) Market assessments 	Insufficient knowledge about market access and market opportunities	Better access to information and BDS		
4. Improving quality of work and recruitment of workers	<ol style="list-style-type: none"> a) Develop good workplace practices b) Train Labour inspectors c) Integrate into miller training 	<ol style="list-style-type: none"> a) Health risks of mill workers b) Labour recruitment 	<ol style="list-style-type: none"> a) Recruitment of workers improved b) better working conditions 		
5. Improving husk collection	<ol style="list-style-type: none"> a) Husk collection through millers associations b) Promote drip irrigation 	Insufficient collection of husk for coir industry	More husk being utilised for coir industry		
6. Developing good manufacturing practices	<ol style="list-style-type: none"> a) Develop GMP b) train supply chain managers c) integrate to training programme of model mill 	<ol style="list-style-type: none"> a) Low quality and Productivity b) Lack of awareness for market requirements 	Higher quality and improved productivity		

6. Next Step: Coir Steering Group for NWP

A coir value chain steering group for the North-Western Province will be set up at the results presentation on August 2, 2007 in Negombo. It will not replace any existing committees, organisations, groups etc. already existing for the coir sector. It will initially be set up for a temporary period of 6 months. However, its members can also decide to maintain it for a longer period if it proves to be useful.

The purpose of the coir steering group is to prioritise, discuss practical details, initiate and support the implementation of the proposals made in this report. The mobilisation of networks of every member will be essential. The steering group also intends to enhance the networking between relevant business stakeholders in the coir sector, and to initiate a public-private dialogue with government institutions.

The steering group would be set up under the auspices of the chief secretary of the NWP and the Puttalam and Kurunegala District MSE Forums. The organisation will be taken over by the IDB Puttalam. The steering group will meet regularly once per month and discuss progress of implementation, obstacles and next steps.



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