

Small and Medium Enterprise Policy

Draft

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NEDA

Small and Medium Enterprise Policy

1 Background

Small and Medium Enterprises (SMEs) account for 80 -90% Of the total number of enterprises in Sri Lanka and contribute 30% in terms of value added and account for 32.7% of the employment from Agricultural sector, 26.3% of the employment from Industrial sector 41.0% of the employment from Services sector. Also 75% of SMEs are located outside the relatively prosperous Western Province. (SME White Paper 2002)

The Mahinda Chintana Plan (2006-2016), the current framework for macroeconomic policy, strives for the development of a competitive, innovative and technologically strong SME sector, capable of meeting the increasing demands of globalization and intensifying competition.

In this vision, policy framework consists often policy initiatives has been designed and it contains SMEs sector development. As for SMEs development policy, entrepreneurship development, promotional measures on enterprise support services (BDS service), enhancement of competitiveness, and development of micro enterprises were emphasized.

The SMEs sector has great potential to generate substantial employment opportunities particularly in the informal sector. The promotion of SMEs sector forms an integral part of poverty alleviation and regional development programs implemented by the Government and non-governmental organizations. Furthermore, the SME sector provides value addition in view of its greater utilization of indigenous machinery, equipment, and raw materials. SMEs nurtures entrepreneurial talents and forms good ground for training employees.

Actually, SME's importance and contribution in the economic activity suggests that there is a significant potential to enhance their growth through appropriate regulations and promotion.

On the other hand, the SME sector does not come within the purview of a single ministry. The different ministries involved have uncoordinated programs and this limits their ability to support the sector or address the core constraints inhibiting the growth of the sector.

One of the important objective of the national strategy for SME development in Sri Lanka is to create an enabling business environment for SMEs in Sri Lanka . The White Paper on

SME (2002) provides the requirements for this enabling environment for the achievement of a broad based, resilient and internationally competitive SME sector. It has also set in place policies and programs to further develop and integrate SMEs with various sub-sectors of the national economy and global markets.

On the basis of the background above mentioned, SME policy is divided into five Pillars as follows; Entrepreneurship development, enhancement of competitiveness, promotion of regional economy, creation an enabling business environment and development of micro sectors.

2 Small and Medium Enterprise Policy

2.1 *SME Policy*

- Entrepreneurship Development
- Competitiveness of Small and Medium Enterprises
- Promotion of Regional Economy
- Enabling Business Environment
- Micro Enterprise Developments

2.2 *Policy formulation and Regulatory reform*

- SME Promotion Law
- SME Council
- Definition of SME

2.1.1 Entrepreneurship Development

Entrepreneurship Development is a strategy to develop national economy and Small and medium enterprise development. To foster would-be entrepreneurs and create the entrepreneurial business climate, the NEDA runs and coordinates various programs such as the entrepreneurship training, Start-up training and so on.

Supporting measures

- 1 Vidatha Program by MOST
- 2 SEDD training program by MOYA
- 3 Award systems to encourage new business ideas (NEDA/MEDIP)
- 4 Programs by industrial organizations such as FCCISL
- 5 Promotion and Encouragement of Innovativeness by SLIC
- 6 Others

2.1.2 Competitiveness of Small and Medium Enterprises

SMEs are less dynamic and underdeveloped than the large scale enterprises. Appropriate supporting measures have to be taken to address those problems in order to improve their conditions and develop their competitiveness. It is vital issue to compete and build own position in the international market.

Supporting Measures

- 1 National Engineering Research and Development center program
- 2 IDB service
- 3 Management training by NIBM
- 4 Export development program by SLEDB
- 5 ITI service
- 6 Duty free concessions for import of new machinery by MEDIP
- 7 Others

2.1.3 Promotion of Regional Economy

Promotion and vitalization of regional economy is urgent issue in Sri Lanka. The role of SMEs is to contribute much to the local economy and maintain their sound conditions, what we call the creation of job opportunity and upgrade their living standards in rural area.

Supporting Measures

- 1 Establishing 300 new industries in regional area by MOI
- 2 Vidatha Program by MOST
- 3 IDB service in regional area
- 4 BOI incentives for regional development
- 5 Credit facilities for the rural development
- 6 Technical assistances for agricultural sector by MOAD
- 7 Others

2.1.4 Enabling Business Environment

One of the important SME strategies is to create an enabling business environment. This broadly covers access to finance, technology, regulatory framework, access to information and consultation, access to markets, business development services, industrial relations and labor, linkage formation and environment issues.

Supporting Measures

- 1 SME loan schemes by Financial Institutions
- 2 IDB services
- 3 Census and statistics by DCS
- 4 Export developments by SLEDB
- 5 Website to assist entrepreneurs by NEDA

6 Industrial development program by FCCIOSL and other organizations

7 Others

2.1.5 Micro Enterprise Developments

Micro enterprises play a major role in the development of local economies, in their self-help efforts to improve competitive conditions such as facilitation of management resources and upgrading management.

Supporting Measures

1 Micro finance scheme by financial institutions and Donor group

2 Vidatha Program by MOST

3 Technical assistances for agricultural sector by MOAD

4 Others

2.2 Policy formulation and Regulatory reform

2.2.1 SME Promotion Law

Development of a national SME policy - Lack of a national policy creates the problems for continuity and coordination of implementation.

2.2.2 SME Council

Establishment of a high-powered coordinating body to determine on policy issues affecting the SME sector

2.2.3 Definition of SME

Clear legislative definition - At present there is no clear definition of SMEs. This position has created confusion in identifying SMEs for various programs, It also creates implementation problems for the national policy.