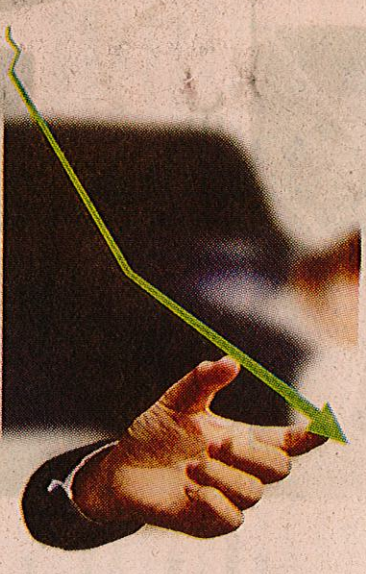


ARE SME'S BEING GIVEN A NEW LEASE OF LIFE OR A TIGHT NOOSE?

By SHASHIKA BUDDHINI AND SANKA GALLAGE



Micro, Small and Medium Enterprises (SME) make-up a large part of Sri Lanka's economy, accounting for more than 75 per cent of all businesses. Presently SMEs provide 45 per cent of employment and contribute as much as 52 per cent of the Gross Domestic Production (GDP).

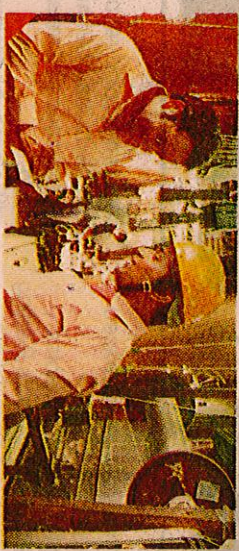
SMEs are often referred to as the backbone of a flourishing economy, because they generate employment, introduce new business methods and products, reduce poverty, inflation, income inequality and solve the balance of payment problems.

Every successive government in Sri Lanka has realized that this strategic sector was a driving force for 'growth' and 'development'. Governments elected from '56 provided facilities for development of rural SMEs while noticeable changes took place in industrial policy after '66 with the setting up of the Development Board (IDB).

Export potential

Later under the liberalized policy regime in '77 the role of SMEs was sought after for its export potential and ability to export raw materials to large firms. The government policies in '89 and till '95 saw SME as an impetus for broad based industrialization, employment generation and poverty reduction.

However, in spite of various policy reforms offered by these successive governments even with the donor funding, SME sector are less dynamic and underdeveloped compared to large-scale enterprises in the national economy. It was this lack of institutional support, which spurred the formation of a policy framework on SME in Sri Lanka. A White Paper (2002) prepared by the Task Force for SME development identified a plethora of constraints that keep this sector tied down. This included both at policy level and industry level and constraints such as adverse economic policies, inadequate market demand and access to credit, rigid and unfavourable regulations, lack of infrastructure and utilities and lack of business development. The National Policy Framework



for SME development cites that the main objective is to "support start-up SME, strengthen the existing ones and offer nursing programmes for potentially viable but sick SME". The economy-wide policy reforms indicate a concrete commitment towards an internationally competitive economy, combining growth and equity.

When the policy is described by an entrepreneur point of view, the National Policy Framework for SME envisions achieving this upward development curve through several means.

This includes: Promoting high potential, viable and promising sectors for instance ICTA. Focus on a cluster approach for SME Development. Under the cluster approach, the entire value chain from input supply to processing and export will be supported and promoted.

Encourage enterprises

Promote enterprises with high value addition and encourage enterprises which use local raw materials as they offer strong comparative advantages due to factor endowments. Motivate and encourage export-oriented or import substitution enterprises and industries. Promotion and relocation of industries in the backward regions to reduce urban-rural imbalances.

Transforming the landscape of the SMEs, away from mere trade and commerce, towards production and industry-based with special focus on high value addition, innovative and usage of modern appropriate technology.

Strengthening the SME sector to enhance inclusive economic development and thus provide opportunities for better employment and higher income. Achieve regionally balanced growth across Sri Lanka. Promote resource efficiency at all levels including the use of Green Technology.

SMEs have increasingly complained of the lack of access to finance, the transfer of technology, access to information specifically market, new skills development, infrastructure development and SME networking.

Other concerns were to do with improving advisory services, business development drive and linkage formations.

However, one of the biggest challenges has been the access to financing and working capital to grow their business. The reluctance of SMEs to use state-of-the-art technology is also identified as another drawback for SME development. Unlike in other countries in the region, the adaptability of SME in Sri Lanka to latest technology is limited due to a lack of know-how, high investment cost and less accessibility to finance.

National Policy Framework

To alleviate this situation the National Policy Framework has several broad decisive policy interventions in six core areas namely enabling environment, modern appropriate technology, entrepreneurial culture and skills development, access to finance,

market facilitation and research and development.

These broad strategies include improving the legislative, regulatory and institutional framework. The government has also pledged to facilitate acquisition and adoption of state-of-the-art modern and appropriate clean technologies for SMEs.

Despite the many positive policy reforms, there exist constraints to the growth and competitiveness of the challenges which have been addressed in the policy framework is access to adequate and timely financing on competitive terms, particularly longer tenor loans, which have been exacerbated by the current global financial crisis. Another challenge SME has limited access to larger markets in terms of linkages, transport, telecommunications and information which seriously undermine the demand for their products.

Lack of innovation also hurts productivity and the competitiveness of SME, hence mentoring and supporting SME entrepreneurs to build capacity for growth and development.

When it comes to the entrepreneur's point of view, the government should focus its concern regarding these issues and address them to have an appropriate and flexible solution.

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