



P O L I C Y   A D V O C A C Y  
W O R K I N G   P A P E R

FOSTERING WOMEN'S  
ENTREPRENEURSHIP IN THE SME SECTOR  
IN SRI LANKA

Women's Chamber of Commerce and Industry  
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## Executive Summary

In Sri Lanka's new era of post-war development, ensuring that growth is inclusive across regions and across population groups become new priorities. Around the world, Small and Medium Enterprises (SMEs) are recognised as playing a key role in generating employment and fostering inclusive growth in an economy.

In Sri Lanka too, the importance of the SMEs have been recognised, and successive governments have initiated various programmes aimed at supporting the sector. Yet, the actual focus on the SME sector in general, and women entrepreneurs in particular has often not matched the rhetoric. A National SME Policy that coherently and holistically sets out an SME development agenda is yet to be launched, and many ad hoc schemes are having minimal impact on supporting entrepreneurship.

Around the country, thousands of women entrepreneurs are starting and running their own businesses, but amidst tackling a myriad of challenges. These constraints also discourage new entrepreneurs from taking up business as a career option. From barriers related to access to finance, access to markets, and access to business development services to barriers related to socio-cultural issues and lack of agency, women entrepreneurs in Sri Lanka face many difficulties in growing their businesses.

This Policy Advocacy Working Paper explores these some selected issues and sets out recommendations for action by private and public stakeholders. It draws from existing literature, expert consultations, and insights from a focus group discussion. Some key suggestions include greater focus on women entrepreneurs in providing banking solutions for SMEs; creating innovative shared and online marketing platforms to enhance women's access to markets and market information; improve government business regulatory services so that they are more enterprise-friendly; and expand the availability of mentoring and business development services for women. The Policy Advocacy Working Paper also identifies opportunities for intervention by the Women's Chamber of Commerce and Industry itself, and possible areas for collaboration with other groups. Finally, this Policy Advocacy Working Paper aims to influence national and sectoral policies on SMEs and women's entrepreneurship, and advocates for such policies to be far more gender-sensitive than they are at present.

Through these approaches, Sri Lanka can boost women's entrepreneurship and ensure that women play a stronger economic role in this new era of growth.

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## 1. Background

Small and Medium Enterprises (SMEs) play a vital role in generating high and inclusive economic growth, job creation, as well as in reducing inequality and poverty, particularly in developing countries<sup>1</sup>. Development of this sector has been widely acknowledged as a crucial strategy for growth both in developed and in developing economies of Asian economies (UNESCAP, 2012). In their industrial policies, many countries are increasingly placing heavier emphasis on the development of the SME sector. In Sri Lanka, too, SMEs have been recognized as an important sector of the economy due to their significant contribution to national income, employment, inclusive private sector development, bridging regional growth disparities and poverty reduction. Since independence successive governments have introduced various support programmes to facilitate the growth and expansion of SMEs in different sub-sectors of the economy. However, the focus on specific aspects pertaining to women in SMEs has received little attention. This Policy Advocacy Working Paper seeks to identify key issues faced by women SMEs in Sri Lanka and put forward possible solutions. Preparation of this Policy Advocacy Working Paper is the first stage in what will be a continued policy advocacy effort. Using the insights gained through this process, WCIC aims to build partnerships with relevant private sector and government institutions to take practical steps in implementing these solutions.

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<sup>1</sup> See for instance: Ardic, P., N. Mylenko, and V.Saltane, 2011, "Small and Medium Enterprises: A Cross-Country Analysis with a New Data Set", Policy Research Working Paper No.5538, World Bank, Washington D.C.; and, Ayyagari, M., A. Demircuc-Kunt, and V. Maksimovic, 2011, "Small vs. Young Firms across the World: Contribution to Employment, Job Creation, and Growth", Policy Research Working Paper No.5631, World Bank, Washington D.C.

## 2. Entrepreneurship to Enhance Women's Economic Participation

Female labour force participation is important for an economy for many reasons. It indicates the utilization of labour in an economy (and in turn influences the growth potential); relates to income/poverty status of households; and is a signal of the economic empowerment of women. However, in Sri Lanka out of the 'economically active population' of the country only 34% are females and 69% are considered 'inactive'. This implies that a large reservoir of human resource potential remains untapped in the economy. This becomes particularly critical as the majority of Sri Lanka's population is female and also as the population begins to age and fewer working age individuals remain in the workforce.

Increasing female labour force participation can be done in two ways: first is by attracting more women in to the labour force as 'employees', and the second is by encouraging more women to be 'employers', i.e., become women entrepreneurs. Fostering women's economic development through small and medium enterprise promotion can have a positive impact on a number of areas. It provides employment opportunities and drives economic growth; and it improves the social, educational and health status of women, as well as their families, as women are found to invest more in their family's well being.

However, despite all these positive outcomes for the economy and society as a whole, gender biases against women are common in the SME sector. As the National Policy on Human Resources and Employment observes, "...there is a gender bias in SME employment. Workers employed in SMEs are predominantly men. Good equal employment practices are required to correct this bias."

### 3. Policy Focus

Sri Lanka continues to struggle with formulating and launching a national policy on SMEs. In 2002, a White Paper titled 'National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka' was released, identifying the key constraints to SMEs and comprehensive recommendations to tackle them. While this did not become a policy document, some proposals were carried out – for instance, the setting up of an apex SME body (SME Authority, which is now the National Enterprise Development Authority – NEDA), and the setting up of a dedicated SME Bank (SME Bank, now merged with Lankaputhra Development Bank).

Sri Lanka is yet to have a national policy that explicitly and holistically deals with SMEs, although some elements of it are tackled in other policy documents like the 'National Policy Declaration on Enterprise Development' (2009) and the more recent National Human Resources and Employment Policy (2012).

Since 2009 there have been efforts to formulate a comprehensive National SME Policy that builds on the White Paper and other policy declarations. It is tipped to become a national framework covering all aspects of SME development and ensure all line ministries and government agencies align themselves accordingly. However, the policy is yet to be launched, despite successive rounds of stakeholder consultations and revisions. In the latest manifestation of the draft policy document, there is no explicit treatment of women entrepreneurs in the SME sector or explicit reference to gender-sensitivity. As the policy is yet to be finalized and approved by the Cabinet, there is an opportunity to influence the plugging of this crucial gap.

## 4. Methodology

In preparing this Policy Advocacy Working Paper, the team conducted a review of recent literature and growing evidence around SME growth and women entrepreneurship in Sri Lanka, along with a Focus Group Discussion (FGD) with women entrepreneurs, and Key Informant Interviews with selected stakeholders (including those in banks, SME-mandated government institutions, and SME sector specialists).

## 5. Snapshot

Much of the issues raised and recommendations put forward can be broadly seen as being under the umbrella item of 'Business Development Services' (BDS) – the lack thereof and the need to have more of it. This includes improved access to markets, access to market information, access to know how, knowledge on marketing products, financial literacy, networking, mentorship, etc.

In the next section, the specific issues that were raised in the FGD and have emerged from KIs are explored in detail, clustered around four main themes – 'Lack of agency', 'expanding markets', 'access to finance', and 'government institutional support'. The recommendations section follows this.

## 6. KEY ISSUES

### 6.1 Lack of Agency and Cultural Barriers

Several participants indicated that they feel that women entrepreneurs lack agency and their husbands often stifle the growth of their business or the growth of themselves as entrepreneurs. Women who enter entrepreneurship without the necessary skills to start and run a business end up with losing control of the business to their husbands. Additionally, there are instances where women begin a small business but soon discover that they are unable to be independent and therefore have to depend on their husbands for financial support for the business.

It was argued that often “women are not ready to be independent” and their ability to fully commit to running an enterprise, take complete control of financial and other strategic matters of the business, and fully understand what is required to run an enterprise, must be enhanced. One FGD participant observed, “When women are independent we are seen as bossy, and then treated unfairly”. Women are also often unaware of the legal protection available to them. In the event that their husbands aren’t in favour of them independently running an enterprise, they would abandon the venture in order to ‘keep peace at home’.

Women often succumb to the perception that being ‘traditional’ (i.e., being a home maker and care-giver, instead of an entrepreneur) is a role model that should not be tampered with; that having a current or savings account of her own “is not right” and it should always be a joint account; and that she should always seek help from the husband in managing her finances - even in the business. The importance of improving financial literacy among women entrepreneurs was identified as a vital component in strengthening agency of women. Cultural barriers also contribute to this lack of agency.

### 6.2 Challenges in Accessing Markets and Information

In several KIs, existing literature as well as the FGD, a key constraint that emerged was the difficulties faced by women entrepreneurs in finding new

markets for their products. The constraint of market access is an issue common to all SMEs, and it is not very different for women entrepreneurs. Women entrepreneurs find it difficult to break into new markets, lack information on commercial opportunities in existing markets, and have weaker business networks than men that help to build new buyer and seller relationships. Supporting the linking of buyers and sellers was identified as an important step in improving market access for women entrepreneurs. FGD participants pointed to some initiatives taken by the government but asserted that they haven't had the expected outcomes. This was particularly true of local and international trade fairs, where the cost outlay to participate in them was not concomitant with the new business generated from it. Participants also advocated for more business matching sessions to expose women entrepreneurs to other players in their sector, and bridge the network gap that they face.

"Facing competition in the market", "finding a suitable market for my products", "not having marketing opportunities when I started my business", "I made the products but couldn't find a market to sell them in", "As a woman it was harder to move with the business crowd and I found it harder to do marketing", were some of the challenges expressed by women entrepreneurs.

These point to two key aspects of the market access issue. Firstly, there are many cases in which women get into entrepreneurship – start a business and begin making products – without fully understanding the market needs, the market gaps, the demand for products, etc. So, subsequently the women entrepreneur faces difficulty in selling her products in the market. The lack of understanding of the market gaps risks failure from the start of the business commencing.

The second aspect is the limited support provided by the business eco-system for women entrepreneurs to find out more information about the markets in which they wish to operate and provide advisory services, matching-making, and mentoring in breaking into those markets.

Networking is an important aspect of developing a business and business associations provide the opportunity for entrepreneurs to network more easily. In a recent survey, nearly half the sample was found to not be members of a trade association or business chamber. Addressing this could help resolve the issue of women's lack of social network. Improving buyer-seller relationships

will help secure firm orders, and in turn help women get bank credit more easily.

A second best solution to this is to have a stronger network of women entrepreneurs through the chamber network across the country, to provide mutual support in finding markets and linking buyers and sellers. Setting up common marketing platforms (virtual spaces like e-commerce portals or physical common retail stores) where several entrepreneurs can market their products in a common place, are also possible interventions. These are dealt with in the recommendations section.

### **6.3 Access to Finance Constraints**

Access to finance remains a universal challenge for SMEs in Sri Lanka in general, and women entrepreneurs are no different. However, the added element of weak financial literacy among women entrepreneurs further weakened their ability to access formal finance from banks. Nearly 60% of respondents in one survey reported that support from financial institutions was not adequate, while over half of respondents in another survey reported that access to finance was the top constraint to starting and running a business.

A critical constraint faced by some women entrepreneurs is in securing personal security for bank loans, where guarantors are often not willing to sign on their behalf. This is different to when male entrepreneurs require guarantors for bank loans, and appears to be an unconscious gender bias.

In addition to the general constraints in accessing finance, FGD participants noted particular difficulties in accessing finance in new sectors, for instance fashion design. The example was cited of putting together a new line fashion line, which required around a LKR 1 million outlay, but obtaining bank credit is difficult, as Sri Lankan banks would not understand these new emerging business models and enterprises.

There was acknowledgment of several new initiatives to improve access to finance, new government and commercial bank schemes, and specialized units for example state banks opening up special SME branches. However it was argued that they too are approaching SME banking through a traditional

mindset, and not catering to the unique needs of SMEs (moving from collateral-to cash-flow-based lending). Additionally, women entrepreneurs have difficulty in knowing how best to approach banks - which banks and which schemes – and not savvy on how to negotiate bank loans and other credit products.

#### **6.4 Government Institutional Support**

The majority of FGD participants and KII interviewees argued that government institutions tasked with enabling entrepreneurship and exports at the national level and institutions facilitating economic activity at the local level are not fulfilling their mandate. For instance, the EDB's export promotion activities were not sufficiently catering to entrepreneurs in the regions, and especially not women entrepreneurs. Trade fairs at home and abroad were poorly organized, with little attention to buyer-seller interaction.

Women entrepreneurs also complained of issues in dealing with government institutions that are the focal point for every aspect of conducting business. Difficulties, as well as outright fear, of such interactions also encourage greater informality. In an issue common to most SMEs not just those of women, fear of compliance with tax and other statutory liabilities encourage entrepreneurs to stay away from formal registration of their business. Meanwhile, women faced particular challenges over men in getting approvals, obtaining trade licenses, passing health inspections, and dealing with petty corruption of public officials.

Overall there is a clear absence of incorporating the concerns and ideas of women entrepreneurs in policy consultations relating to SME development. Nearly all of the participants at the FGD were participating in a stakeholder/policy discussion of this nature for the first time. Despite multiple processes for stakeholder consultation at national and regional levels, the participation of women entrepreneurs appears weak. It is yet to be ascertained whether this is because of insufficient outreach by the groups holding the consultations and forums, or because of limited interest of the entrepreneurs themselves. Nevertheless, forums like NEDA's Regional Enterprise Forums (REFs) and District Enterprise Forums (DEFs) offer useful opportunities for women entrepreneurs in all areas to air their grievances and seek redress and support.

## 7. RECOMMENDATIONS

### 7.1 Access to finance

#### *7.1.1 Mandated Loan Portfolios for Women Entrepreneurs*

One possible recommendation was advocating for mandated loan portfolios in banks, dedicated for lending to women entrepreneurs. A similar approach has been taken in the past for the general SME sector and for the general agricultural sector. However, the results have been mixed. In the case of the mandated loan portfolio for agriculture had perverse results, where some banks would lend a large share of the portfolio to a handful of agricultural companies. In the case of the general SME scheme, banks had fulfilled much of the mandated loan portfolio by lending large amounts to a handful of firms in the 'medium' category (i.e., less risky segment) of SMEs. Therefore, any implementation of a mandated loan portfolio by banks for women entrepreneurs must be carefully structured so as to have maximum impact on improving access to finance, while avoiding perverse lending behaviour.

#### *7.1.2 Gender-sensitive Bank Branches*

Another recommendation was to encourage banks to employ more women as loan officers at bank branches. However, this was seen to be further rooting of gender-based discrimination. A more progressive approach would be to cultivate more gender-sensitive local bank branches that are sensitive to needs of SME women entrepreneurs. A programme can be initiated by WCIC in collaboration with NEDA and the Association of Professional Bankers to conduct gender-sensitivity training in banking practices of branch managers and loan officers.

### 7.2 Mentoring and Business Development Services

Aside from access to finance, a critical issue that emerged was the lack of mentorship, advisory and business development services available to women entrepreneurs. Often the constraint may not just be financial, but rather a lack of ideas and advice. With limited availability of formal business development service (BDS) providers across the country and poor contribution by

government institutions in this either, chambers like WCIC have a strong contribution to make. Particularly for women entrepreneurs in areas with insufficient access to networks of other women entrepreneurs, expanding business counseling services, financial literacy programmes, business mentoring schemes, providing information and advice on setting up a business, how to carry out good bookkeeping, how to prepare business plans, etc., will have strong catalytic effects on enhancing women's' entrepreneurship.

### **7.3 Access to Markets**

#### *7.3.1 Shared Marketing Platforms*

WCIC can explore the setting up of shared marketing platforms to enable small women entrepreneurs access larger markets than they would have access to on their own. This could be a virtual marketplace – an online portal with products from the subscribing vendors, with the option of purchasing online (an e-commerce portal) or with the objective of simply connecting buyers and sellers. This could be a physical retail store – similar to 'Island Craft' – a shared store for unique craft-based home and fashion items - run by the Academy of Design in Colombo. A shared stall at The Good Market (or a stall taken by WCIC on behalf of members, on a rotating basis) is also an option.

#### *7.3.2 Assistance to 'Get Online'*

Many of the constraints in accessing markets and market information can be overcome through greater use of the Internet. Therefore, training and orientation sessions to help women entrepreneurs 'get online' can help overcome typical physical constraints – for example, understand how to maximize search functionality online, browse buyer-seller portals and make connections online, take their own business into the digital space through better websites and improved online presence, etc. A whole suite of free (or minimal cost) cloud-based digital tools (for accounting, document storage, design, etc.) can also greatly improve productivity of women entrepreneurs, without the large expenditure of hiring specialized staff.

#### *7.3.3 General*

The WCIC could have formal linkages with trade associations and business chambers across the country in order to create a network of buyers and sellers

which women entrepreneurs can tap in to and can help them find markets and foster business partnerships. In helping to find markets, the focus must quickly shift to helping women entrepreneurs learn how to identify new markets on their own and tackle them head on, rather than excessive hand holding by finding the markets for them.

## 8. Other Recommendations

### 8.1. Job Bank for Access to Skilled Workers

Many entrepreneurs observe a lack of skilled workers for their enterprises. WCIC could host a 'job bank' that provides a database of skilled workers looking for jobs, and connect them with women entrepreneurs looking for new employees.

### 8.2 Easing Regulatory Burdens

Expanding business freedoms by making government regulatory procedures easier would encourage more women to take up entrepreneurship in particular and grow the SME sector in general. WCIC could conduct a review of business regulatory constraints faced by women entrepreneurs and advocate they be streamlined. The 'Issue Tracker' system instituted by the National Enterprise Development Authority (NEDA) can be a useful mechanism to flag such issues and follow them to implementation/redress.

## 9. CONCLUSION

This Policy Advocacy Working Paper has highlighted some selected issues related to enhancing women's entrepreneurship in the SME sector in Sri Lanka and sets out recommendations for action by private and public stakeholders. It has drawn from existing literature, expert consultations, and insights from a focus group discussion. This Policy Advocacy Working Paper serves as an initial exploration only, and hopes to motivate a deeper investigation of these challenges, as well as engage key stakeholders around finding solutions for them.

Some key recommendations include a greater focus on women entrepreneurs in providing banking solutions for SMEs; creating innovative shared and online marketing platforms to enhance women's access to markets and market information; improve government business regulatory services so that they are more enterprise-friendly; and expand the availability of mentoring and business development services for women.

As asserted in this Policy Advocacy Working Paper, national and sectoral policies on SMEs and women's entrepreneurship must be far more gender-sensitive than they are at present. By ensuring this, Sri Lanka can boost women's entrepreneurship and ensure that women play an even stronger economic role in this new era of growth.