



P O L I C Y B R I E F

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

Women's Chamber of Commerce and Industry
January 2015

INTRODUCTION

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 high and inclusive economic growth, job creation, as well as in reducing inequality and poverty, particularly in developing countries.

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.

Women's entrepreneurship is also important when considering policy interventions to enhance female labour force participation in an economy, which in Sri Lanka is rather low – just 34% of the 'economically active population'. 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.

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.

KEY POLICY ISSUES

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. Specific ones are explored below.

Issue 1: Access to Finance

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; a constraint not often faced by their male counterparts.

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.

Recommendation: Mandated Loan Ratios

Mandated loan portfolio ratios in banks, dedicated for lending to women entrepreneurs, could be a solution to expanding bank credit. This would have to be stipulated by the Central Bank of Sri Lanka, with annual monitoring mechanisms (and

penalties) put in place. However, the scheme must guard against generating perverse behaviour by banks – for instance, lending large amounts to a handful of reputed women entrepreneurs, for the sake of meeting the mandated ratio.

Recommendation: Gender-sensitive Bank Branches

Banks can cultivate gender-sensitive local bank branches that are more sensitive to the needs of SME women entrepreneurs. With the support of the banking regulator as well as the Association of Professional Bankers, and in collaboration with government

institutions like NEDA, gender-sensitivity training programmes can inculcate women-friendly banking practices among branch managers and loan officers. Awards schemes can be launched to recognise banks or bank branches that implement this the best.

Issue 2: Government Institutional Support

Government institutions tasked with enabling entrepreneurship and exports at the national level and institutions facilitating economic activity at the local level are reportedly not fully meeting 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.

Recommendation: 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. NEDA, together with the Chamber, can conduct a review of business

regulatory constraints faced by women entrepreneurs and advocate they be streamlined. The existing 'Issue Tracker' system implemented by NEDA can be leveraged to flag policy issues and follow them step-by-step to implementation/redress.

Issue 3: Women's Voice in SME Policy Making

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 Chamber's first 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.

Recommendation: Consultative Policy-making

Providing a more formal institutional mechanism for women entrepreneurs, through business chambers, to voice their concerns and provide suggestions on policy matters, needs to be in place. At the national level, pre-Budget discussions must necessarily incorporate the ideas of women entrepreneurs, and the Ministry of Finance must consider groups like WCIC an integral part of the

stakeholder consultation process. Meanwhile, at the sub-national level, 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, and must welcome stronger participation by women. NEDA could have special REF and DEF sessions exclusively for women entrepreneurs, every quarter.

CONCLUSION

This Policy Brief draws from a longer Policy Advocacy Working Paper that highlights key issues facing women

entrepreneurs in Sri Lanka and possible solutions – both at a policy as well as a Chamber and partnership

level – that can be adopted. The specific issues and recommendations set out in this Policy Brief aim to motivate deeper engagement among key stakeholders to fine-tune and take forward the solutions proposed.

The key areas for policy action discussed here include developing a greater focus on women entrepreneurs in providing banking solutions for SMEs, improving government business regulatory services so that they are more

enterprise-friendly, and involving women entrepreneurs more comprehensively in the policy-making process. As asserted here, and in the accompanying 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.