



# SME

National Policy Framework for  
Small & Medium Enterprise Development



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# **National Policy Framework for Small Medium Enterprise (SME) Development**

## **I. Introduction**

The Small Medium Enterprise (SME) sector has been identified as an important strategic sector in the overall policy objectives of the Government of Sri Lanka (GOSL) and it is seen as a driver of change for inclusive economic growth, regional development, employment generation and poverty reduction. SME sector is envisaged to contribute to transform lagging regions into emerging regions of prosperity.

The Government of Sri Lanka recognizes SMEs as the backbone of the economy, as it accounts for more than 75% of the total number of enterprises, provides 45% of the employment and contributes to 52% of the Gross Domestic Production (GDP). SMEs promote broad based equitable development and provide more opportunity for Women and Youth participation in the economic development of the country.

With the globalization trend, the SME sector is not merely seen as a sector for “protection and promotion” but, more importantly as driving force for “growth and development”. Therefore, Government of Sri Lanka recognizes that enhancing national and international competitiveness is fundamentally important for this sector to face the emerging challenges and develop SMEs as a thriving sector.

Given the nature of this sector and the challenges faced, it is important to have a Government led intervention and support mechanism to upgrade and strengthen this sector to meet the expectations of the country. This SME Policy Framework aims to promote high potential, promising SMEs and improve business environment to allow them to realize their full potentials in today’s globalized economy. This Policy Framework will foster small enterprises to grow into medium sized enterprises and medium sized enterprises to grow into large enterprises and large enterprises to grow into globally competitive enterprises.

## **2. Vision, Mission and Objectives of the SME Policy Framework**

### **2.1 Policy Vision**

The vision of the National SME Policy Framework is to create significant number of globally competitive, dynamic, innovative, technologically driven, eco-friendly and sustainable SMEs that contribute greatly to the national economic development.

### **2.2 Policy Mission**

The mission of the National SME Policy Framework to stimulate growth of SMEs to produce world class products & services that can compete locally and internationally with supportive enabling environment and interventions of technology transfer, entrepreneur culture, skills development, access to finance, market facilitation and research and development.

### **2.3 Policy Objectives**

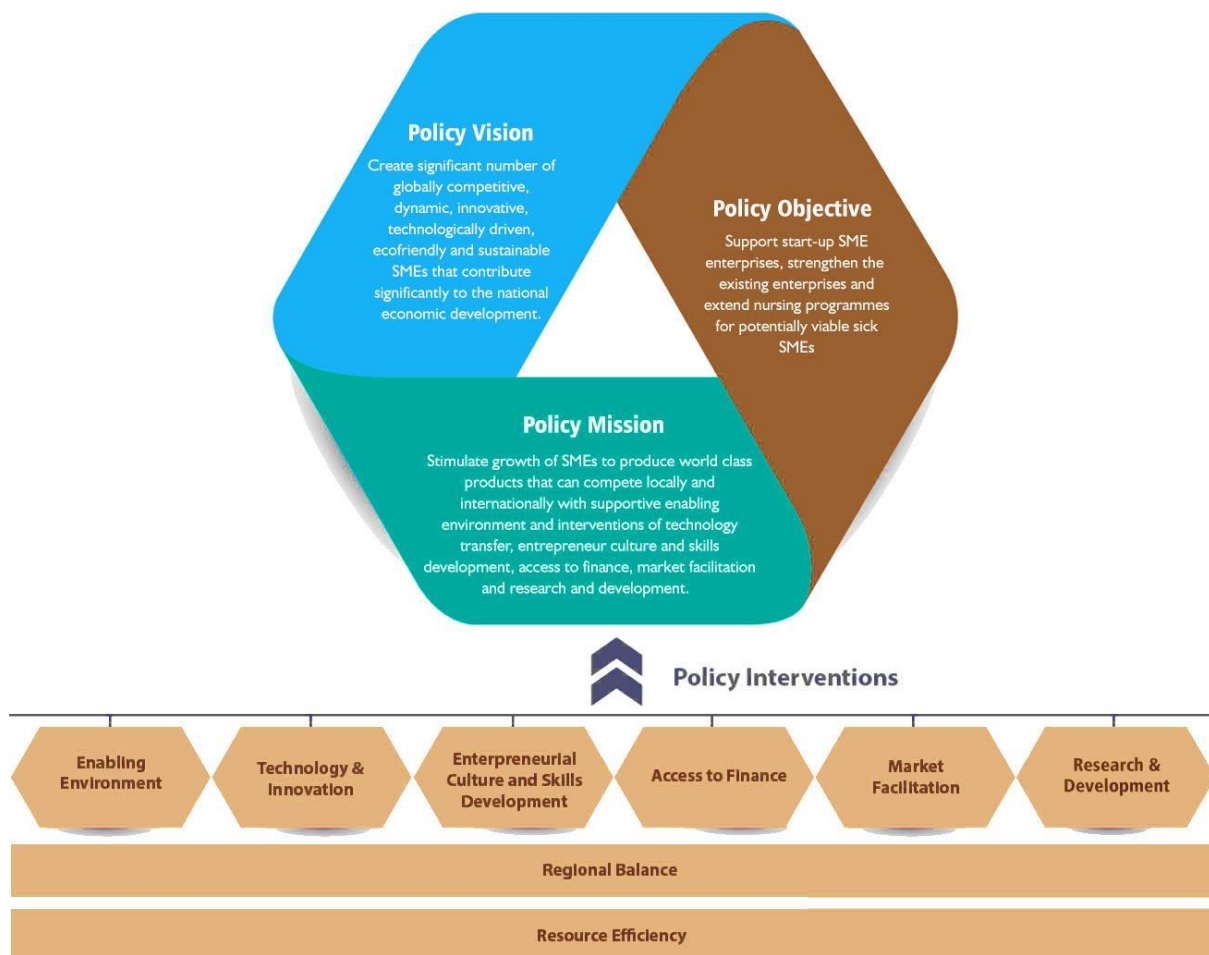
The SME Policy Framework will support start-up SME enterprises, strengthen the existing enterprises and extend nursing programmes for potentially viable sick SMEs. SME policy will focus on the following aspects.

- Promoting high potential, viable and promising sectors

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- Focus on 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.
  - Promote enterprises with high value addition and encourage enterprises that use the local raw materials as they offer strong comparative advantages due to factor endowments.
  - Motivate and encourage export oriented or import substitution enterprises and industries.
  - Encourage and promote flagship SME sectors with high potential spillover effects to facilitate job creation or employment generation.
  - 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 in order 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

The SME Policy framework will also give special attention to maintain nature's capital, green growth, entrepreneurship development, women entrepreneurship, craft sector and promising industrial clusters by strengthening enterprise villages, handicraft villages, Industrial production villages and SME industrial estates / zones.

**Figure I: SME Policy Framework Matrix**



### 3. Definition of SMEs

The term SME is used to denote micro, small and medium enterprises. Different countries use different definitions for SMEs based on their level of development. The commonly used yardsticks are total number of employees, annual turnover and total investment. In the Sri Lankan context, the SME policy framework defines SMEs based on the number of employees and annual turnover.

**Table I: Defining SMEs in Sri Lanka**

Size	Criteria	Medium	Small	Micro
<b>Manufacturing Sector</b>	Annual Turnover	Rs. Mn. 251 - 750	Rs. Mn. 16 - 250	Less than Rs. Mn. 15
	No. of Employees	51 - 300	11 - 50	Less than 10
<b>Service Sector</b>	Annual Turnover	Rs. Mn. 251 - 750	Rs. Mn. 16 - 250	Less than Rs. Mn. 15
	No. of Employees	51 - 200	11 - 50	Less than 10

The category of Small and Medium sized Enterprises (SMEs) is made up of enterprises which employ less than 300 employees and which have an annual turnover not exceeding Rs.750 Mn. In this context, micro enterprises are also read with SMEs for any policy related measures.

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In terms of definition, both criteria are considered in defining SMEs. In the event of an enterprise falling under more than one category then the number of employment should be the deciding factor. The ceiling applies to individual enterprises only. Subsidiaries of holding companies shall not be considered as SMEs. However in the event of turnover and number of employees of whole group is within the above limits this exclusion will not arise.

The purpose of SME definition is to provide an instrument for the targeting of policy, provision of national statistics on SMEs, serves as basis for directing State support for SMEs and targeting a broader range of policy measures. This definition be revisited once in 3 years and amended where necessary based on the economic and business development in the country.

#### **4. High Potential Promising Clusters**

For the purpose of supporting and encouraging SMEs, the high potential promising clusters have been identified. In determining the promising clusters; criteria such as the value addition, use of local raw materials, export orientation / export connectedness, forward and backward linkages, and flagship sectors with high spillover effects, technologically driven innovative products and employment generation aspects are considered.

The Government in supporting enterprises will give preference for the committed, capable and interested entrepreneurs with reasonably good track record. In this regard, the policy of “Picking the Winner” will be adopted in giving preference for supporting entrepreneurs. This policy of picking the winners will give due consideration to the following criteria (a) proven credentials as an entrepreneur (b) reasonable and fair amount of equity participation (c) skills and competencies acquired in the relevant sector or cluster (d) ability to meet and comply with the recognized quality assurance processes (f) commitment to innovation and (g) women entrepreneurs.

#### **5. Policy Interventions and Strategies**

This SME Policy Framework will broadly set out the policy direction, the challenges to be addressed and the broad intervention strategies. The major policy intervention areas are identified into six core areas namely enabling environment, modern appropriate technology, entrepreneurial culture and skills development, access to finance, market facilitation and research and development. Also it is important to focus on the regional balance and resource efficiency in developing SMEs.

##### **5.1 Enabling Environment:**

**Policy Perspective:** The Government of Sri Lanka will improve the legislative, regulatory and institutional framework including proper coordination, simplification and rationalization of procedures to enhance the ease of doing business to improve the competitiveness and support in establishing a conducive environment for SME development.

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**Challenges Addressed:** Reduce transaction cost and improve ease of doing business for SMEs

**Key Strategies:**

- Design and enforce SME friendly laws and regulations and contract enforcement to strengthen the legal environment for SMEs
- Improve the quality and outreach of service delivery of SME related Ministries, Departments, Statutory Boards, and other public and private sector institutions. SME friendly front office or SME desk in key ministries / agencies and one-stop service should be provided to SMEs through a coordinated approach.
- Support and improve infrastructure facilities including common service centers, industrial estates, incubation facilities and geographical location based clustering and SME enterprise village development mainly focus on less developed regions.
- Strengthen public private dialogue and partnership arrangements and development of industrial associations for more effective empowerment and involvement.
- Simplification of business and industry commencement and dispute settlement procedures including simplification of accounting standards.
- Create awareness to SMEs on green growth opportunities and promote environmental friendly cleaner production technologies and practices.

## **5.2 Modern Appropriate Technology**

**Policy Perspective:** The Government will facilitate the acquisition and adoption of state-of-the-art modern and appropriate clean technologies for SMEs to increase quality, innovative, productive and competitive products. Industrial policy thrust is directed towards the promotion of knowledge based, technology intensive industry while focusing on regional industrialization.

**Challenges Addressed:** Improved access to appropriate and affordable modern technology

**Key Strategies:**

- Establishment of a Technology Transfer and Development Fund (TTDF) with appropriate incentives to support the acquisition and adoption of modern, clean technology for SMEs.
- Establish a strong network, platform and link between SMEs and technology providers. Strengthen the technology transfer programs, outreach of technology demonstration platforms and centers in the industrial park sand through special technology showcase and dissemination exhibitions.
- Promote and conduct special technology transfer and diffusion programs to promote the adoption of modern technology by SMEs. Establishing and strengthening technology bank for collection and dissemination of information on technology resources. Also strengthen training centers by upgrading



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the course contents and capacity development of resource personals to meet the market sensitive training requirements.

- Recognize and reward innovative and technology leading SMEs and assist them to participate in foreign trade fairs, exhibitions and technology demonstration platforms.
- Foster University – Business linkages and ensure curriculum development of Universities and Technical and Vocational Education Training (TVET) institutions by following a consultative process with SMEs to meet the needs of the industry.

### 5.3 Entrepreneurial Culture and Skills Development

**Policy Perspective:** Government will promote, facilitate and support entrepreneurship development and build capacity at schools, universities, technical and vocational training institutions and focus on Youth and Women and strengthen capacity of institutions providing such training and skills development on entrepreneurship and SME development.

**Challenges Addressed:** Building skills, entrepreneurial spirit and culture, improve mindset (risk taking attitude) and institutional capacity.

#### Key Strategies:

- Strengthen demand driven technology transfer, training and skills development programs.
- Strengthen the entrepreneurship values, thinking and attitudes in the curriculum of primary, secondary, tertiary educational institutions and technical and vocational programs to produce job creators rather than employment seekers.
- Special programs to develop Women and Youth entrepreneurship development and strengthen the institutional capacity of training institutions.
- Support women led SME and new women entrepreneurs through various measures such as women entrepreneurship development and strengthen women chambers and rewarding women entrepreneurs.
- Strengthen tailor made SME entrepreneurship program for start-ups, existing enterprises and nursing program for sick industries.
- Officially recognize, reward and motivate successful enterprises and SME heroes to create a culture conducive for entrepreneurial development.
- Disseminate success stories, best practices and strategies adapted to the wider community through media and other outreach.
- Strengthen and support industry related institutions, associations, chambers and bodies that support entrepreneurship and promote incubators in educational institutions of repute.
- Strengthen the extensions services to cover important services such as preparation of project reports and feasibility reports for credit facilitation, provision of technical information, advisory services, laboratory services, and quality assurance services. Support and revive viable sick industries through resuscitation fund at districts.

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- Support social entrepreneurship, ethical production and fair trade branding by creating awareness of the concepts, requirements and opportunities in local and international markets.

#### 5.4 Access to Finance

**Policy Perspective:** Government will facilitate, support and strengthen the mechanisms for easy and affordable access to finance to SMEs.

**Challenges Addressed:** SMEs have access to Finance to invest in modernization, expansion and successful operations.

#### Key Strategies:

- Banks, financial institutions and leasing companies to scale-up special lending window and have special SME desks to facilitate access to credit.
- Expand the SME re-financing schemes, banking clinics, Treasury Guarantee and non-collateral based access to credit. Viability based lending be promoted and encouraged.
- Angel funds and venture capital arrangements be promoted to inject equity participation in viable SMEs.
- Scale-up concessionary bank loan schemes for Women and Youth entrepreneurship development.
- Strengthening the capacity and skills of the officials of the banks and financial institutions with SME focused bank lending and appraisal methods.
- Strengthen and capacities of SMEs on financing topics such as preparation of business plan, accounting and book keeping and use of IT based accounting packages. Strengthen support structure such as CRIB, BDS Providers, Chambers, ICASL and related accounting bodies and IBSL etc.

#### 5.5 Market Facilitation

**Policy Perspective:** Government recognizes the importance of internationalization and will facilitate and support SMEs to access local and export market

**Challenges Addressed:** Improved product quality, packaging, branding, and market information to enable SMEs to access local and global market.

#### Key Strategies:

- Promoting business linkages between large enterprises and SMEs and facilitate buyer-seller meetings and buy-back and sub-contracting arrangements to ensure assured market for SMEs.
- Support SMEs to participate in the local and international market through trade fairs and exhibitions.
- Overseas market information will be made available to SMEs to access international market. Technical support will be extended for exporters through subsidization of their participation in the overseas exhibitions and trade fairs.

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- Road side marketing outlets will be expanded specially in tourist and heavy public visiting locations to help SMEs to market their products.
  - Procurement Preference Policy will be implemented to assist SMEs to increase the market share in Government procurements
  - Establish SME website and e-commerce arrangements to enable the SMEs to link with exporters and buyers and strengthen their marketing network.
  - Support product development, quality improvement, ethical practices, packaging, branding and market networking of SMEs to compete locally and internationally.

## 5.6 Research and Development

**Policy Perspective:** Government recognizes the importance of research and development as a powerful process to develop cost effective modern technologies, innovations and market oriented new designs with a view to improve product development, process development, productivity improvement and to increase the competitiveness.

**Challenges Addressed:** Greater partnership between the industries, research institutions and academic institutions in developing cost effective, affordable modern technologies and applied research to help SMEs to be more efficient and competitive.

### Key Strategies:

- Establish closer linkage between industry and research institutions and promote industry relevant applied research and adoption of research for commercial enhancement of the SMEs.
- Focus research on product quality improvement, preservation techniques to extend the expiry period of products. Institutionalize quality assurance and standard certification system for SMEs.
- Provision of laboratory and testing facilities for quality assurance and to access international market.
- Promote research to find alternative substitute raw materials to address the raw material scarcity problems.
- Increase the investment in research and development both from public and private sector through appropriate fiscal incentives.
- Establishment of Special Fund to support SME focused R&D.
- Recognize and reward public and private enterprises in applied research and assist researchers and SMEs to obtain international patents and commercialize them.
- Capacity building of public institutions involved in standards, accreditation, metrology, quality management and norms.
- Continuous investment on SME focused R&D and provide incentives for encouraging R&D

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## 5.7 Resource Efficiency

**Policy Perspective:** Government recognizes the importance of resource efficiency as it improves the competitiveness of the SMEs through cost saving and it helps to protect the natural environment thus maintain sustainable foundation for future development.

**Challenges Addressed:** Even though Sri Lanka is blessed with rich natural resources that serve as the base of socio economic development and overall well-being. It is increasingly under threat and needs to be protected and rebuilt. SMEs through awareness and skills improvement should be encouraged to exploit the short and long term benefits of resource efficiency and recycling potentials and as well as huge economic opportunities for green technology in global market.

### Key Strategies:

- Improve supply and demand for resource efficiency services by strengthening the service providers, existing institutions, train skilled labour for green technologies and enhance awareness among SMEs.
- Introduce incentive schemes for clean technology and facilitate to overcome the institutional hurdles.
- Create demand for sustainably produced products from SME with government green procurement policies at all levels and foster media campaigns to create public awareness on advantages of environment.
- Improve recycling systems and educate SMEs on material flow analysis and incorporation and extended producer responsibility provisions in to the laws and regulations.

## 5.8 Regional Balance

**Policy Perspective:** Government recognizes the importance of balanced regional growth in terms of the overall economic development strategy.

**Challenges Addressed:** Infrastructure is developed in regions and access to information, technology, training and awareness and capacity with Business Service Providers is strengthened.

### Key Strategies:

- Improve supply and demand for public and private sector financial and non-financial Business Development Service Providers (BDS) with various incentive schemes.
- Make available information and services of national languages (Sinhala & Tamil).
- Awareness creation among the SMEs of the availability and usefulness of BDS especially in technology and innovation.
- Link SMEs with large firms, foreign direct investments and BOI companies.
- Enhance existing and establish new industrial zones and clusters in the regions

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## 5.5 Implementation Arrangements

### 6.1 Coordination for the implementation of the Policy

It is important to have a single coordinating body responsible to coordinate and facilitate the implementation of the SME Policy. In this regard, an Inter-Ministerial Coordination Body convened by the Ministry of Industry and Commerce with other cluster Ministries including the Ministry of Finance, Institutions and Stakeholders will be entrusted with the responsibility for coordination, facilitation and for overseeing the implementation of the SME Policy.

Before moving on to the option of creating new institutional arrangements possibility of restructuring the existing institutions would be considered in order to avoid duplications.

Existing well established research and technology institution network of the country can be strengthened to achieve the objective of proposed Technology Development and Transfer Fund.

### 6.2 SME Advisory Council

The Government will set up an Advisory Council - a “Think Tank” at the National Level for strategizing the promotion and development of SMEs. The council may come up with new ideas, proposals and strategies for setting up of appropriate Industrial Zones / Estates, common services facilities, entrepreneurship village development program, market facilitation programs, financial support initiatives, venture capital models and other initiatives to strengthen SMEs.

Also the Advisory Council will re-examine the viability of sick industrial entities in coordination with the banks and guide and support in the implementation of suitable rehabilitation packages. The Advisory Council may also look into the following matters:

- Execution of this SME Policy Framework with appropriate action plan.
- Broad policies and strategies for the development of SMEs.
- Review the current policies, strategies and plan and advice on innovative strategies and interventions.
- Re-structuring the institutional landscape to focus on strategic priorities and cost effective service deliveries for SMEs.
- Review the relevance, efficiency and effectiveness of the strategies including projects and programs to enhance outcomes.
- Advising on emerging issues of SMEs and recommending corrective measures.

### 5.6 SME Cluster Committees

The Government will set up strategically important SME cluster committees to discuss the problems of the clusters, areas where assistance is needed, and dialogue and discuss the progress of sectors and assist in formulating of strategies and implementation programs. These cluster committees or panels will comprise of representatives of Ministries and Department, statutory bodies, private sector, chambers, industrial associations, academia and representatives of the relevant sector of the industrialists. The cluster committees will initially focus on high potential promising sectors identified in the policy paper. A redress mechanism will be established to address grievances of the SMEs on an urgent basis.

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The cluster committees will discuss the issues in the clusters such as technology, raw material, marketing, financing and design and formulate suitable strategies and interventions to place the sector in a more level playing field to compete with other products in the industry. The cluster committees should recommend investment strategies, public private partnership modalities, fiscal incentives, tariff measures, financing modalities including credit, forward and backward linkages, supply chain related interventions and other key aspects which may be vital or complementary to achieve strategic outcomes and results of the sector.

#### **6.4 Monitoring and Evaluation**

The proposed Inter-Ministerial Coordination Body will function as the SME Policy Monitoring and Evaluation Committee (PMEC) and will conduct quarterly progress meetings to assess the policy implementation progress and its outcomes. The Ministry of Industry & Commerce will function as the Secretariat of SME policy monitoring and evaluation committee. The National Council for Economic Development (NCED) – SME Forum, the apex body will be provided with progress reports on policy implementation.

Further, on a periodic basis, SME survey should be launched to track the progress of SMEs, their challenges, issues and constraints. Such data will help the Government to design more effective policies and programs.

### **6. Conclusion**

SMEs are the backbone of our economy. In light of that the Government of Sri Lanka is seeking to create the best possible general conditions for SMEs with an SME Policy Framework. Government strongly believes that the policy will foster small enterprises to grow into medium enterprises and medium enterprises to grow into large enterprises. The private sector should take full advantage of the basic provisions and realize their full potentials.