

CHAPTER VI

SMALL & MEDIUM BUSINESSES

6.1 Small & Medium Scale Businesses

**6.2 Incentives & Encouragements for Small
Businesses**



Concepts & Issues that emerge from the content

- ❖ Small & medium scale businesses
 - + Introduction, characteristics & importance
 - + Factors considered by small businesses
 - + Contribution of small businesses towards economic development
 - + Problems & Reasons for failure

- ❖ Incentives & encouragements for small businesses
 - + Steps taken by the government
 - + Institutions granting incentives
 - + Types of incentive provided

“A big business starts small”.

- Sir Richard Branson



6.2 SMALL & MEDIUM SCALE BUSINESSES

What is a Small Business?

A small business is an enterprise with a capital below Rs. 4 million & number of employees below 50. These businesses are mostly independently owned & operated with or without a business location.

Note –

“A small business is one that is independently owned & operated & is not dominant in its field of operations”.

- Small Business Administration Organization – USA

A small-scale enterprise is a business that employs a small number of workers and does not have a high volume of sales. Such enterprises are generally privately owned and operated sole proprietorships, corporations or partnerships. The legal definition of a small-scale enterprise varies by industry and country.

- www.smallbusiness.chron.com

A business with a headcount of fewer than 250 is classified as medium-sized; a business with a headcount of fewer than 50 is classified as small, and a business with a headcount of fewer than 10 is considered a micro-business.

- European Union

One that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business). A firm that has more employees than these cut-offs but fewer than 500 employees is classified as a medium-sized business.

- Industry Canada

In manufacturing, for example, an SME is defined as having 500 employees or less, whereas in wholesale trades it is typically 100 employees or less.

- North American Industry Classification System

What are the criteria given by Sri Lankan organizations to identify small businesses?

- ❖ Industrial Development board - invested capital does not exceed Rs. 4 million.
- ❖ Institute of Industrial Technology - invested capital does not exceed Rs. 4 million.
- ❖ Small Industries Department - invested capital does not exceed Rs. 4 million.
- ❖ Ministry of Industrial Development - invested capital does not exceed Rs. 20 million
- ❖ Department of Census & Statistics - Business with less than 25 employees
- ❖ Ministry of Rural Industries Development - Business with less than 50 permanent employees.
- ❖ Central Bank of Sri Lanka - Businesses using less than 50Kw/h of electricity

What are the special features & characteristics of small businesses?

- Cater to a small market share
- Invested capital being low
- Fewer number of employees
- Mostly being labour intensive
- Decision making on information available personally
- Independent business management - owner is the manager.
- Business mainly being targeted to the local markets - However, there are some small & medium scale businesses that export goods to overseas markets as well
- Less financial liabilities - Compared to large scale businesses
- Basic technology being used.

What are the qualitative & quantitative factors to identify small businesses?

Qualitative	Quantitative
Level of technology	Amount of capital invested
Nature of type of business	No of employees
Nature or type of market	Average annual turnover
Type of business organization	Production capacity
Type of management style	Power consumption rates
	Value of fixed assets

Why small businesses are important for Sri Lanka?

- ✓ To reduce unemployment
- ✓ To utilize rural resources
- ✓ To reduce poverty
- ✓ To create equal distribution of income
- ✓ To promote regional economic growth
- ✓ To develop competition
- ✓ To reduce level of environmental pollution
- ✓ To create the marketing concept
- ✓ To increase contribution to GDP
- ✓ To provide a start for business growth

Why small businesses succeed?

- ✓ Availability of sufficient infrastructure facilities
- ✓ Incentives such as financial and tax relief.
- ✓ Having an expanded market
- ✓ Provided with various institutional and marketing facilities.
- ✓ Having a good business management
- ✓ Enthusiasm & commitment of the businessmen.
- ✓ Less financial liabilities
- ✓ Having a simple business system

Why small businesses fail?

- ✓ Financial problems
- ✓ Lack of a proper business plan
- ✓ Lack of infrastructure
- ✓ Problems in the market
- ✓ Inability to face the competition in the market
- ✓ Weak points in management
- ✓ Less entrepreneurial skills
- ✓ Insufficient infrastructure facilities
- ✓ Less awareness & usage of modern technology
- ✓ Changes in the market & environment

6.2 INCENTIVES & ENCOURAGEMENTS FOR SMALL BUSINESSES

What are the incentives given by the government to small businesses?

Financial	Non-Financial
<ul style="list-style-type: none"> • Short term & long term loans • Financial aid • Tax concessions • Refinancing facilities • Low interest charges 	<ul style="list-style-type: none"> • Advisory services • Entrepreneurship development programs • Research & technology services • infrastructure facilities • market facilities • awards of excellence

What are the Government organizations in Sri Lanka assisting small businesses?

- ✓ Industrial development board
- ✓ Export development board
- ✓ Sri Lanka standards institution
- ✓ National development bank
- ✓ Industrial technology institution
- ✓ National center for packaging
- ✓ Sri Lanka handicrafts board
- ✓ National youth services center
- ✓ Board of investment
- ✓ Regional development banks
- ✓ Small & Medium Entrepreneurs bank
- ✓ Ceylon electricity board
- ✓ National Water Supply & Drainage Board – water board
- ✓ National Apprentice & Industrial Training Authority
- ✓ Vocational Training Authority
- ✓ Sri Lanka Samurdhi authority

- ✓ Department of agriculture
- ✓ State Mortgage & Investment Bank

What are the Non-Government organizations in Sri Lanka assisting small businesses?

- ✓ Sarvodaya organization
- ✓ Japanese Bank of International Co-operation
- ✓ Canadian International Development Agency
- ✓ International fund for agriculture development
- ✓ Licensed commercial banks
- ✓ Asian development bank
- ✓ Central bank of Sri Lanka
- ✓ SL commerce & investment board
- ✓ Sanasa development bank
- ✓ Cooperative banks
- ✓ GTZ institute

What are the special programs in Sri Lanka to help small businesses?

1. SME bank loan scheme

A special bank opened on the 29th of June 2005 under the supervision of Ministry of Small & Medium Enterprise Development specifically to assist small & medium scale entrepreneurs financially mainly with the objective of generating more employment opportunities.

Eased rules & regulations, less documentation, low interest rates & on-time loans are the facilities given. Business sectors considered are; gems, garments, beauty culture, construction, food processing, motor vehicle repairs, carpentry, jewelry craft, milling, fiber glass production etc.

2. SMILE / SUWANA

This is a program implemented by National Development Bank (NDB) with the financial assistance of Japanese Bank of International Co-operation (JBIC) to uplift small businesses.

3. ISURU

This is a program implemented by International Fund for Agricultural Development, Canadian International Development Agency (CIDA) & Central Bank of Sri Lanka to fund farmers in order to eliminate poverty by providing medium & long term loans.

4. SAHANYA

This is a program implemented by DFCC bank & other licensed commercial banks with the financial assistance of Asian Development Bank (ADB) to assist small businesses by providing loans.

5. SURATHURA

This is a joint program implemented by Bank of Ceylon (BOC), People's Bank (PB) & Hatton National Bank (HNB) under the supervision of Central Bank of Sri Lanka to provide loans to small businesses for self-employment.

6. SMED (Small & Medium Enterprise Developers)

This is a joint program implemented by Sri Lanka Commerce & Investment Board & the Fredrick Neuman Foundation of Germany to strengthen small & medium businesses, expanding them, creating employment opportunities, export development etc.

7. SDP (Skills Development Project)

This is a program implemented by Tertiary & Vocational Education Commission under the funding of Asian Development Bank (ADB) to provide loans to candidates who complete training programs of Vocational Training Authority (VTA)

8. Gami Pubuduwa

This is a program implemented by Hatton National Bank (HNB) to start up self-employment businesses.

9. SANASA loans

This is joint program implemented by Sanasa Development Bank & National Development Trust Fund to finance agriculture, fisheries, farming, trading etc.

10. Cooperative rural bank loans

This is a program implemented by the department of co-operative development & co-operative societies by utilizing the National Development Trust Fund & member's deposits to fund small scale businesses.

11. SEEDS (Sarvodaya Economic Enterprise Development Services)

This is a program implemented by the Sarvodaya Bank by using funds of National Development Trust Fund & Sarvodaya Bank member's deposits to assist small businesses mainly through micro-financing schemes. This program is administered by "Seeds (Guaranteed) Ltd.

12. Samurdhi development loans / Divineguma

This is a program implemented by the Sri Lanka Samurdhi Authority through Samurdhi banks using government allocations to assist small businesses. Control of this scheme is exercised through the divineguma Development department. (Government has announced that Samurdi/ Divineguma banks work jointly with Regional Development Banks)

13. Randivi

This is a program implemented by Bank of Ceylon (BOC) to provide loans to its female customers for self-employment.

14. Indian loan project

This is a program implemented by the Ministry of Industries, commerce & investment promotions with the financial assistance of the Indian government to financially assist small businesses.

15. SUSAHANA

This is a program implemented by the Central Bank of Sri Lanka to assist small & medium businesses damaged by the tsunami.

16. Govi jana bank loan

This is a program implemented by the Department of Agriculture using government funds & donations to provide loans & farming materials to small scale farmers.

17. Janashakthi bank loan

This is a program implemented by the government through National Development Trust Fund to financially assist small businesses in the Hambanthota district

18. Rural bank innovation project

This is a program implemented by People's Bank (PB) & GTZ institute to encourage innovations

19. PAMP (Poverty Alleviation Micro Finance project)

This is a program implemented by the Sri Lankan government with the assistance of Japanese Bank for International Co-operation (JBIC) to provide micro-financing in order to eliminate poverty.

20. GAMIRA

This is a program implemented by the Regional Development Banks under the patronage of the Grameeya Punarjeeva fund of the Ministry of Rural Economy to financially assist skilled youth.

21. DIRIYA

This is a program implemented by the State Mortgage & investment Bank (SMIB) & Industrial Development Board (IDB) to provide loans to small businesses & self-employment.

22. SMERDP (Small & Medium Enterprise Regional Development Project)

This is a program implemented by the National Development Bank (NDB) to financially assist small businesses.

What are the services needed by small businesses?**Consultancy**

- ✓ Product development
- ✓ Advanced technology
- ✓ Financing facilities
- ✓ Marketing strategies

Technical services

- ✓ Info on latest technology
- ✓ Reliable sources to get it
- ✓ Technological changes
- ✓ Spare parts & accessories
- ✓ Training & development

Marketing facilities

- ✓ New market openings

- ✓ Changes in existing markets
- ✓ Promotion strategies
- ✓ Details of potential customers
- ✓ Customer contact details

Infrastructure facilities

- ✓ Roads
- ✓ Electricity
- ✓ Water
- ✓ Waste disposal
- ✓ Government institutions

Finance

- ✓ Sources of finance
- ✓ Low cost of finance
- ✓ Long repayment period
- ✓ Relaxed terms

What are the organizations providing those services mentioned above?

Consultancy

- ✓ IDB
- ✓ ITI
- ✓ EDB
- ✓ SLSI
- ✓ National center for packaging

Technical services

- ✓ IDB
- ✓ ITI
- ✓ National engineering R&D center
- ✓ NAITA
- ✓ VTA
- ✓ SL handicrafts board

Marketing facilities

- ✓ EDB
- ✓ SL handicrafts board (Laksala & viskam nivasa)
- ✓ IDB
- ✓ Dept. of Agriculture

Infrastructure facilities

- ✓ BOI



- ✓ IDB
- ✓ RDB
- ✓ CEB
- ✓ NWSDB
- ✓ RDA
- ✓ Local authorities

Finance

- ✓ SME bank
- ✓ NDB
- ✓ DFCC
- ✓ LCB's

Self-employed vs Home based business

Self-employment - A business activity carried by a person by himself using his self-effort & service is self-employment. Here mostly there won't be any employees found & rarely a business location is found.

Ex-

Home based business - A business activity carried out by a person or very few people mostly from his family where the business is based in his residence, is a home business.

Ex-





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