Entrepreneurial Ecosystem for Fostering Women Entrepreneurship in Sri Lanka

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Abstract

Women entrepreneurs are a vital yet underutilized driver of economic growth and social equity in Sri Lanka. Despite the pivotal role of small and medium enterprises (SMEs) in the national economy, women's participation remains disproportionately low due to entrenched structural, institutional, and socio-cultural barriers. This study critically examines the entrepreneurial ecosystem (EE) in Sri Lanka through a gender lens, identifying systemic constraints that impede women's entrepreneurial engagement and growth. Grounded in systems theory, feminist institutionalism, the resource-based view, and the capability approach, the paper develops a comprehensive analytical framework to assess the inclusivity of the current EE. This study integrates qualitative insights, stakeholder mapping, and quantitative data collected from a representative sample of 384 SMEs across Sri Lanka to identify critical gaps and formulate strategic interventions aimed at fostering a more gender-responsive and equitable entrepreneurial ecosystem. The study finds that many of the issues related to SME development are towards the supply side. The findings contribute to the broader discourse on inclusive entrepreneurship and offer policy-relevant recommendations for ecosystem reform in developing contexts.

Key words: *Entrepreneurial ecosystem, SMEs, Sri Lanka, Women entrepreneurship*.

JEL Code: L26, L25, L53, O12, O17

Introduction

Entrepreneurship is widely recognized as the backbone of economic development, driving innovation, employment, and growth (Mason & Brown, 2014). Small and medium enterprises (SMEs) are critical for entrepreneurship development and are acknowledged as key instruments in reducing poverty and improving income. However, SMEs cannot thrive in isolation; they require support through effective policies and engagement from external stakeholders. Women, in particular, are seen as a potential yet underutilized source of economic growth (OECD, 2004). Though dubbed the "backbone of the economy," women still own and manage fewer businesses than men, and their enterprises tend to grow at a slower pace while generating lower income. Much of women's work remains invisible, unremunerated, and underappreciated. In Sri Lanka, women constitute approximately 52% of the population, yet 74% are economically inactive (Rajapaksha, 2021). Only 24.8% of enterprises are owned by women, with the majority (26.3%) operating at the micro level, and fewer involved in small (8.3%), medium (6.1%), and large-scale (4.6%) businesses (Attygalle et al., 2014; DCSSL, 2015; Sustainable Development Council, 2023; Women in Economy Sri Lanka, 2022). One of the main challenges they face is limited access to and control over the entrepreneurial ecosystem (EE). In this paper, an entrepreneurial ecosystem refers to a set of interdependent actors and factors that are coordinated in such a way enabling productive entrepreneurship within a particular territory (Isenberg 2010, 2011; Stam & Spigel, 2016; Stam & Van de Ven, 2018).

The concept of an EE has gained traction as a key economic development strategy, particularly for fostering environments conducive to SME growth (Meshram & Rawani, 2019, Mason & Brown, 2014; Spigel 2017). Policymakers worldwide are increasingly focusing on EE as a means of supporting entrepreneurship, especially SMEs. However, while the EE framework has been extensively studied in developed countries, its application in developing countries, especially in relation to gender, has received limited attention.

This study aims to examine gender-based disparities in the EE for SMEs in Sri Lanka, addressing a crucial gap in the literature. Women’s entrepreneurship remains underdeveloped in Sri Lanka, where female labor force participation is notably low. Many women are engaged in informal or casual labor, particularly in garment factories, plantations, or as migrant workers. Therefore, creating an entrepreneurial environment conducive to women's participation is vital for promoting sustainable economic growth in the country. A thorough understanding of the EE is essential to achieving this goal.

The current paper is organized as follows. Section 2 provides a brief overview of relevant literature concerning the role of spatial and complexity dynamics of EEs. Section 3 reviews integral theories to formulate the conceptual framework for the current study. Section 4 presents an overview of our methodology, the data set we established and used, as well as more details on our analytical approach. Section 5 then presents the findings, giving an overview and an analysis of EE builders. Section 6 presents gaps in the areas of EE in Sri Lanka. Section 7 presents the conclusion and policy recommendations.

Literature Review

The concept of an EE provides a comprehensive framework for understanding how actors, institutions, and contextual elements interact to support entrepreneurship. Isenberg (2010) identified key EE components—finance, culture, policies, markets, human capital, and infrastructure—that must be aligned for effective venture creation and growth. However, this model has been critiqued for being gender-neutral, often neglecting the distinct experiences and needs of women entrepreneurs (Stam & van de Ven, 2021). Brush et al. (2018) argue for a gender-sensitive approach, as women navigate entrepreneurship within a context shaped by social norms, restricted access, and institutional bias.

A major barrier for women is limited access to finance. Women-led businesses generally secure less venture capital and bank funding than male-led counterparts, due to discriminatory lending, collateral issues, and investor prejudice (Brush et al., 2006; OECD, 2017). While microfinance offers alternative avenues (Premaratna & Senanayake, 2006a), it is often insufficient on its own. Women's typically smaller and less influential business networks also reduce access to mentors, investors, and markets (Carter et al., 2003). In addition, cultural expectations around gender roles discourage public engagement and risk-taking, creating both psychological and structural hurdles (Jennings & Brush, 2013; Welter et al., 2014).

Policy environments significantly shape women's entrepreneurial outcomes. Countries that implement inclusive policies—such as Canada's Women Entrepreneurship Strategy and the World Bank's We-Fi—show improved female participation and business growth (Government of Canada, 2018; World Bank, 2020). Gender-targeted incubators and accelerators are increasingly effective, providing not only business services but also confidence and leadership training tailored to women (Brush et al., 2018).

Building capacity through education and skill development—particularly in digital literacy, financial literacy, business planning, and marketing—is crucial (World Bank, 2019). In conservative social settings, training that involves families and communities proves more effective in enabling women's agency and mobility.

Programs that integrate financial services with mentoring and business training yield more sustainable outcomes (IFC, 2021; Chaudhuri et al., 2020). However, women continue to face constraints due to low education levels, inadequate vocational training, and lack of career guidance (Attygalle et al., 2014; Kandanearachchi & Ratnayake, 2017).

Internationally, integrated ecosystem models such as the International Trade Centre's SheTrades platform and Goldman Sachs' 10,000 Women initiative offer examples of effective support. These initiatives combine market access, technical training, business education, and financing (Goldman, 2014).

Nevertheless, women in developing regions, especially in South Asia and Sub-Saharan Africa, remain constrained by structural barriers such as legal discrimination, restricted mobility, weak property rights, and limited digital access (Amine & Staub, 2009; Khan, 2013; Khanna & Palepu, 2010). Although microfinance has expanded women's access to capital, its impact is limited in the absence of complementary ecosystem features like infrastructure, legal protections, and market linkages (ADB, 2013, 2019).

Despite advancements in identifying success factors within EEs for women, several critical gaps remain. First, limited empirical research exists on how EE components interact for women across diverse socio-cultural and economic settings. Second, there is insufficient contextual adaptation of global programs to local realities, particularly in rural or conflict-affected areas. Third, intersectionality is often missing from analysis—there is a lack of exploration into how gender overlaps with disability, ethnicity, or age in shaping entrepreneurial opportunities. Fourth, informal institutions such as family structures, religious practices, and customary laws are under-researched. Lastly, the field lacks longitudinal studies, which restricts understanding of how women's navigation of entrepreneurial ecosystems evolves over time.

In the Sri Lankan context, while women make up 52% of the population, nearly 74% are economically inactive, indicating a significant gender gap (DCSSL, 2015). Around 24.8% of women are enterprise owners, but most operate at the micro level (26.3%), with smaller segments in small (8.3%), medium (6.1%), and large enterprises (4.6%). Female business ownership is highest in Kurunegala (38%) and lowest in Colombo (20%).

National policies, including the SME Development Policy (2017) and Action Plan (2018), largely ignore micro-enterprises, where most women entrepreneurs are concentrated. This policy oversight, coupled with regulatory and legal constraints, further marginalizes women (Jamali, 2009).

Theoretical Discussion

The concept of the EE is grounded in systems theory and evolutionary economics (Bygrave, 1993). Entrepreneurship emerges from a complex, interdependent environment composed of multiple actors and institutions (Isenberg, 2010; Stam, 2015). Isenberg (2010) outlined six core domains of a healthy entrepreneurial ecosystem: policy, finance, culture, supports, human capital, and markets. However, this framework has been largely developed with a gender-neutral lens and often fails to consider how these domains function differently for women entrepreneurs (Brush et al., 2018; Stam & van de Ven, 2021).

A growing body of scholarship highlights that gender-neutral approaches to ecosystem building overlook gendered barriers such as restricted mobility, limited access to networks, and socio-cultural constraints (Ahl & Nelson, 2015; Welter et al., 2014). These observations are consistent with feminist institutional theory, which argues that both formal institutions (laws, regulations, and policies) and informal institutions (norms, traditions, and societal expectations) are often shaped by patriarchal systems, thereby constraining women's entrepreneurial potential (North, 1990; Mackinnon, 1989; Scott, 2001). For example, while legislation may allow equal rights to property and finance, prevailing cultural norms often discourage women from taking on leadership roles or engaging in public economic activity (Ahl, 2006).

The Resource-Based View (RBV) provides a valuable lens to understand women's entrepreneurship within ecosystems. According to Barney (1991), a firm's competitive advantage depends on its access to and control over strategic resources. Women entrepreneurs typically start with fewer financial, social, and human resources than men (Brush et al., 2006), which affects their ability to innovate and scale. Studies have found that women's social networks are often smaller and more socially than commercially oriented, limiting access to mentors, investors, and customers (Aldrich, 1989; Carter et al., 2003, Premaratne, 2002). The RBV helps frame the need to ensure equitable resource distribution and access as a fundamental ecosystem function.

The Triple Helix model—which emphasizes interactions among university, industry, and government—has been useful for understanding innovation ecosystems (Etzkowitz & Leydesdorff, 2000). However, the gender dimension is rarely explored within this model. Women are underrepresented in academia, government leadership, and high-growth industries, resulting in fewer opportunities to influence entrepreneurial support systems. Gender-sensitive entrepreneurship education and inclusive policy formation are necessary to ensure that all three spheres contribute equitably to women's entrepreneurship (Brush *et al.*, 2018).

Social capital theory, as proposed by Bourdieu (1986) and later expanded by Granovetter (1985), offers another theoretical entry point. Social capital—referring to networks, norms, and trust—shapes access to resources and opportunities (Premaratne, 2002, 2000). While women may possess strong bonding social capital through family and community ties, they often lack bridging social capital, which connects them to diverse networks that offer access to business resources, market information, and investment opportunities (Granovetter, 1985; Aldrich & Cliff, 2003).

The intersectionality framework developed by Crenshaw (1989) is also vital in understanding the diverse realities of women entrepreneurs. Intersectionality recognizes that gender interacts with other social categories such as race, class, caste, ability, and age to produce different layers of privilege or disadvantage. Therefore, a one-size-fits-all approach to ecosystem development is insufficient; tailored strategies must account for these intersecting identities (Cho *et al*., 2013).

Finally, the Capability Approach by Sen (1999) and Nussbaum (2000) reframes entrepreneurship as a means to expand human freedom and agency rather than merely an economic activity. From this perspective, an entrepreneurial ecosystem must enhance women's substantive freedoms—such as the ability to make decisions, access markets, and participate in community and economic life. Women entrepreneurs should not only be supported as business owners but also as empowered individuals with the freedom to choose and shape their own paths (Nussbaum, 2000; Alkire, 2005). It stresses the importance of enabling conditions—including education, healthcare, social protection, and voice—that empower women to convert available resources into real opportunities.

These theoretical perspectives argue for a gender-intentional ecosystem—one that challenges patriarchal norms, enhances access to strategic resources, acknowledges intersectionality, and expands women's real freedoms. Ecosystems must evolve beyond infrastructure and finance to include inclusive culture, participatory governance, and community support systems that reflect the lived realities of women entrepreneurs.

Conceptualization: Key Domains in the Entrepreneurial Ecosystem

The conceptual framework for this study is informed by the EE theories developed by Isenberg (2011) and further expanded by Stam and Spigel (2016), offering a comprehensive foundation for analyzing the enabling and constraining factors that shape entrepreneurial activity within a specific geographic context. Isenberg's model identifies six interrelated domains—policy, finance, culture, support systems, human capital, and markets—that must function in alignment to cultivate a vibrant and sustainable entrepreneurial environment. Building on this, Stam and Spigel

emphasize the systemic and relational nature of ecosystems, highlighting the interplay between formal institutions (such as regulatory frameworks and financial infrastructure) and informal institutions (such as social norms, networks, and trust) that collectively sustain entrepreneurial activity. Drawing from these theoretical foundations, this study incorporates entrepreneurial networks as an additional domain, recognizing their critical role in facilitating access to resources, knowledge, and opportunities—particularly for marginalized groups. The framework is applied to the Sri Lankan context to systematically map ecosystem components, identify structural and institutional gaps—especially those impacting women entrepreneurs—and propose targeted, evidence-based interventions. By integrating these theoretical perspectives, the study offers a context-sensitive and multidimensional analysis that captures the complex interdependencies influencing equity and inclusivity within the entrepreneurial landscape.

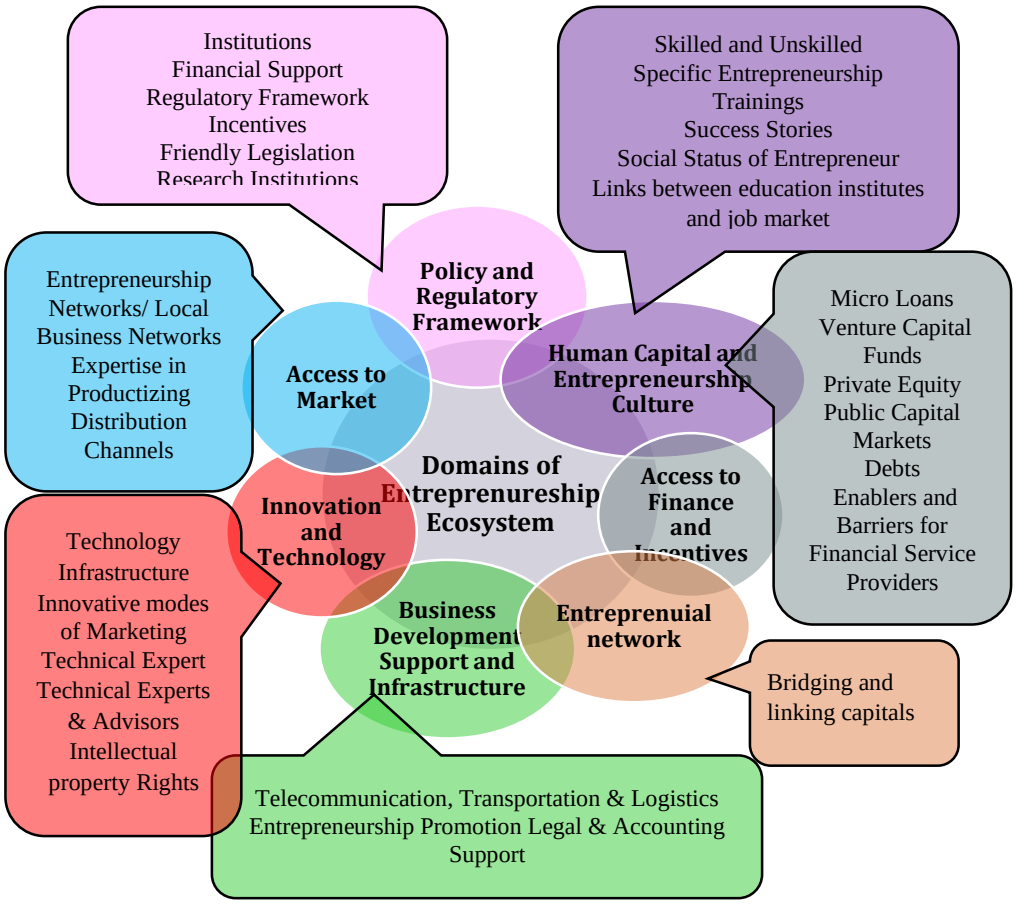
Any form of enterprise development depends on the capabilities and development of the three components: (1) entrepreneurs' characteristics, (2) internal business environment, and (3) external enabling business environment.

The following section briefly explains the seven domains to understand their importance for an EE.

Enabling policy and regulatory framework*:* Despite the dynamism and success of entrepreneurs depending on their traits, skills, and capabilities, their activities are affected by the policy of the government in one way or the other (Akinyemi, & Adejumo, 2018). A conducive policy and regulatory environment are significant requirements for (Micro, Small and Medium Enterprise (MSME) development, where efficient policies and regulations build confidence among MSMEs and women entrepreneurs while improving business linkages (Yoosuf & Premaratna, 2017).

Human capital and entrepreneurship culture: Human capital, defined as the collection of knowledge and skills acquired through education or experience (Dimov, 2017), plays a crucial role in fostering entrepreneurship (Audretsch et al., 2019; Audretsch & Link, 2019; Obisi & Anyim, 2012). To cultivate an entrepreneurial culture, it is essential to provide education, training, and new business incubation opportunities (Hayton et al, 2002). In addition to the efforts of various governmental and non-governmental organizations in delivering education and training programs, schools and universities also offer a range of educational programs, courses, and degrees aimed at developing entrepreneurship and entrepreneurial skills among youth.

Figure 1 Entrepreneurship Ecosystem



Access to finance and incentives: Access to adequate finance is the most critical area for MSME development throughout their business cycle (Somoye, 2013). Particularly women-owned MSMEs seek finance mainly from less formal sources since most of them do not have collateral facilities that are requested by formal financial institutions. In addition, there are many other constraints, such as the lack of information, financial sector ineffectiveness, inefficient banking and finance, regulatory and supervisory mechanisms, lack of suitable financial products, as well as high cost of production (Premaratne & Kudaliyanage, 2016). Many stakeholders, including government and non-governmental organizations, provide financial support services such as credits, savings, and insurance to MSMEs and new entrepreneurs.

MSME business development services and infrastructure: Business development services (BDSs) intend to assist MSMEs to obtain new ideas and advisory services. With the emergence of global value chains (GVCs), BDS support is essential in the EE. MSMEs need a one-stop-shop to receive services and requirements. BDSs provide advertising, accounting & audit, legal, communication, trade fairs, training, and consultancy. Business infrastructure facilities such as electricity, water, internet, and transportation are key areas in an entrepreneurial ecosystem. In many developing countries, infrastructure facilities are costly, inefficient, and poor in quality.

Access to Market: The market is a key factor in operating a successful business (Ruokolainen & Igel, 2004). It refers to customers and distribution channels. In recent development of modular production network[1] (Sturgeon, 2002) and digital marketing (Bizhanova et al, 2019), MSMEs require proper and affordable facilities.

Technology and innovation: The use of new technology will enable MSMEs to reduce the cost of production, improve productivity, enter the global market, as well as enhance competitiveness. MSMEs, particularly women-owned MSMEs still may continue to face many challenges in accessing relevant technology as well as having capacities to use new technology in a productive manner (Zhu & Kuriyama, 2016).

Entrepreneurial networks: Due to their limited capacities, MSMEs alone cannot participate in the GVC. Hence, networking is a key area, and many entrepreneurship development projects focus on developing a network among MSMEs and with other supporting stakeholders. Entrepreneurs spend nearly half of their time during their start-up phase making contacts and networks with other entrepreneurs and related agencies (Gnyawali and Fogel, 1994). Many studies found that particularly women are less likely to develop effective networks than men and therefore are more disadvantaged (Zhu & Kuriyama, 2016, Premaratna, 2001a). Entrepreneurial networks open up potential business opportunities and are critical to stimulating MSME internationalization through value chain engagement (Kepler & Shane, 2007, Premaratne, 2001b, 2002).

Table 1: Summarize of Entrepreneurship Ecosystem Components

Main Components	Literature
Policy & regulatory framework (government)	Isenberg, 2010, 2011, Spiegel, 2017, Audretsch and Belitski, 2017,Stam, 2015, Mason and Brown, 2014, Nir, 2014, Sussan and Acs, 2017, Bosma *et al.,* 2017, Acs et al., 2017a, Suresh &

[1] In the modular production network, lead companies concentrate on the creation, penetration and defense of markets for end products while manufacturing capacity is shifted out-of-house to globally operating MSMEs. The system helps to reduce transaction costs, build large external economies of scale and reduce risk for network actors (Sturgeon, 2002).

	Ramraj, 2012, Pyper, 2016, Zulham et al. 2022, Akinyemi & Adejumo, 2018.
Financial capital	Isenberg, 2011, Spiegel, 2017, Stam, 2015, Mason and Brown, 2014, Nir, 2014, Bosma et al., 2017, Acs et al., 2017a, Suresh & Ramraj, 2012, Mark et al., 2014, Pyper, 2016, Jansen et al, 2017, Zulham et al., 2022. Somoye, 2013
Human capital & entrepreneurship culture	Isenberg, 2011, Spigel, 2017, Stam, 2015, Mason and Brown, 2014, Nir, 2014, Bosma et al., 2017, Acs et al., 2017a, Cannavacciuolo et al., 2017, Suresh & Ramraj, 2012, Mark et al., 2014, Pyper, 2016, Jansen et al, 2017, Dimov, 2017 Audretsch and Belitski, 2017, Borissenko and Boschma, 2017 Audretsch & Link, 2019, Obisi & Anyim, 2012, Hayton et al. 2002
Business support services	Isenberg, 2011, Spiegel, 2017, Audretsch and Belitski, 2017, Stam, 2015, Mason & Brown, 2014, Sussan & Acs, 2017, Mark et al., 2014, Pyper, 2016, Jansen et al, 2017, Zulham, 2022
Access to Market	Isenberg, 2011, Spiegel, 2017, Audretsch & Belitski, 2017, Borissenko & Boschma, 2017, Stam, 2015, Mason and Brown, 2014, Nir, 2014, Cannavacciuolo et al., 2017, Suresh & Ramraj, 2012, Mark et al., 2014, Zulham, 2022, Ruokolainen & Igel, 2004, Sturgeon, 2002, Bizhanova et al, 2019.
Entrepreneurial network	Isenberg, 2011, Premaratne, 2002, Spiegel, 2017, Audretsch & Belitski, 2017, Stam, 2015, Mason & Brown, 2014, Nir, 2014, Bosma et al., 2017, Suresh & Ramraj, 2012, Gnyawali & Fogel, 1994, Zhu & Kuriyama, 2016, Premaratna, 2001a, Kepler & Shane, 2007, Premaratne, 2001b, 2002
Technology & Innovation	Audretsch & Belitski, 2017, Belitski & Heron, 2017, Borissenko & Boschma, 2017, Mason & Brown, 2014, Nir, 2014, Sussan and Acs, 2017, Acs et al., 2017b, Bosma et al., 2017, Acs et al., 2017a, Cannavacciuolo et al., 2017, Suresh & Ramraj, 2012, Mark et al., 2014, Pyper, 2016, Zhu & Kuriyama, 2016, Acs & Audretsch, 1990

Sourced: Prepared by the authors, 2025.

Methodology

This study adopts a qualitative research design to explore the entrepreneurial ecosystem for women in Sri Lanka, with emphasis on context-specific, gender-sensitive insights. A multi-method qualitative approach was employed, integrating value chain analysis, stakeholder mapping, and thematic analysis to ensure triangulation and depth.

Primary data was collected through semi-structured key informant interviews (KIIs) with a purposively selected sample of 20 stakeholders, comprising government officials, representatives of non-governmental organizations (NGOs), policy experts, and women entrepreneurs from diverse socio-economic and regional contexts across

Sri Lanka. These interviews were designed to elicit in-depth perspectives on structural barriers, enabling factors, and institutional dynamics shaping women's participation in entrepreneurship. As the total women entrepreneur population in Sri Lanka is not formally documented, an infinite population formula was applied to determine the required sample size. Using a 95% confidence level and a 5% margin of error, the estimated sample size was 384. To reach respondents across the island, a snowball sampling technique was adopted, enabling the inclusion of women entrepreneurs from varied geographic and socio-cultural backgrounds.

Secondary data was obtained through an extensive review of academic journals, national policy documents, donor-funded program evaluations, NGO reports, and statistical publications from institutions such as the Department of Census and Statistics Sri Lanka, World Bank, and UN Women. This helped contextualize the findings and validate insights from primary sources.

An original tool -the Entrepreneurship Ecosystem Confidence Index (EECI) - was developed to qualitatively score the perceived effectiveness, inclusivity, and coordination of ecosystem actors in each domain. The EECI scores were derived from coded qualitative responses and stakeholder rankings.

The confidence index scale used in the questionnaires and the analysis. These scores reflect the confidence of entrepreneurs and ecosystem builders in the entrepreneurship ecosystem in the Maldives. EECI ranges from 1 to 5, with 1 indicating the lowest confidence and 5 indicating the highest confidence. Domains and their components that scored less than 3.00 are below the average, indicating that entrepreneurs and ecosystem builders believe that these domains and sectors need to be improved. Domains and their components that scored 4 or above can be considered as good quality elements of the entrepreneurship ecosystem.

Thematic analysis was employed to analyze interview transcripts and documents, using both deductive codes based on seven ecosystem domains and inductive codes emerging from stakeholder narratives. NVivo software was used to manage and analyze qualitative data, enhancing the rigor, traceability, and reliability of findings.

Informed consent was obtained from all participants, and confidentiality was maintained throughout the research process. The study adhered to ethical guidelines for social science research, ensuring that data collection was participatory, non-extractive, and sensitive to gender and cultural dynamics.

Stakeholder Engagement

Enabling policy and regulatory environment: A fairly large number of government organizations are involved in variety of assistance to entrepreneurship development such as formulating policies, strategies, and programmes. There are over 90

departments, authorities and councils which come under various ministries that serve the SMEs/ businesses.[2] Hence, the institutional structure is complex with substantial overlap and duplication of functions which create a rivalry among institutions (ILO 1995, Lakshman et al 1991, Lakshman et al 1994, Premaratna, 2002). The policy and regulatory framework domain is the foundation for building conducive entrepreneurship ecosystems.

The following key areas are examined under the policy and regulatory domain: (i) Policy and regulatory support, (ii) Getting business licensing and permits, (iii) Administrative, institution, and bureaucracy, (iv) Government facilities, (v) Laws and regulation, and (vi) Availability of social protection for MSME.

Table 2: EECI Scores of Female and Male Entrepreneurs in the Dimension of Policy and Regulations

Policy and regulatory framework	***Female***	***Male***
Existing policy and regulations relevant and supportive	2.84	3.19
No issue in getting business licensing and permits	2.15	2.38
Customs and trade regulations supportive	2.97	3.15
Labour policy and regulation supportive	2.58	2.98
No issues in tax administration	2.42	2.45
Tax rate is not a problem for MSMEs	2.58	2.80
No issue with bureaucracy efficient and supportive	2.98	2.93
Legal and judicial system relevant and supportive to MSMEs	2.81	3.05
Government institutional facilities relevant and supportive	2.78	2.90
Availability of social protection for MSMEs	2.32	2.42
Overall	**2.64**	**2.83**

The female entrepreneurs formed an average total score of 2.70 and the male counterparts reported an average score of 2.88. The values of the women's EECIs are less than the values of the men's EECIs indicating that the policy and regulatory environment is relatively more favorable for men than women. According to the confidence level scores, the component of getting business registration and licensing is relatively not satisfactory in Sri Lanka (Female = 2.15, Male = 2.38). The availability of social protection for MSMEs is also a weak area. The results of FGDs with females confirm the finding. Female entrepreneurs who participated in FGDs (FGD 11) did not know that the policies fostered women-led or youth-led enterprises. The results highlight the importance of intervention to address the existing gaps in the policy and regulatory environment for MSMEs, particularly for women and youth.

[2] http://www.industry.gov.lk/web/images/repsme.pdf [Accessed on 25 June 2020]

Developing entrepreneurial and managerial skills and human resources: Over the years, a large number of governments, private and non-governmental organizations have been actively engaging in providing education and training programs for the purpose of improve entrepreneurial and managerial skills and human resources. Apart from such specific institutions and centers, schools and universities have several educational programs, courses and degrees to develop entrepreneurship and entrepreneurial skills among the youth though none of them is focused on women entrepreneurship.

The following key criteria were considered to estimate EECI scores of the Human Capital and Entrepreneurship Culture domain.

Table 3: Criteria for Human Capital & Entrepreneurship Culture Domain

Human capital	Entrepreneurial culture
Skill supply and demand ● Availability of qualified managers ● Availability of qualified scientists & engineers ● Availability of educated & trained workforce. ● Workers with soft skills & motivation ● Skill supply-demand gap Entrepreneurial education ● Entrepreneurial education at the school level ● Entrepreneurial education at higher education level	● Societal norms promoting entrepreneurship culture ● Norms promoting women's entrepreneurship. ● Norms promoting youth entrepreneurship

Source: prepared by the Authors

Table 4 illustrates the confidence levels of female and male entrepreneurs in human capital and entrepreneurship culture.

Table 4: EECI Scores of Female and Male Entrepreneurs in the Dimension of Human Capital

Human capital	Female	Male
Availability of scientists and engineers	3.08	3.31
Educated and trained workforce for MSMEs	2.98	2.92
Worker with team spirit, motivation and committed	3.30	3.23
Entrepreneurial education at the school level	2.34	2.25
Entrepreneurial education at higher education level	3.51	2.92
Skills supply matches the demand	3.51	3.37
Education system is supportive of the development	3.17	3.16
Existing education system is supportive of entrepreneurial skills/development of enterprises	2.32	2.22
Total average	**2.94**	**2.92**

The female entrepreneurs gave a score of 2.94 to the human capital sub-domain while their male counterparts gave 2.92, indicating that the human capital domain is relatively favorable for women. However, the scores further indicate that human capital, as part of the entrepreneurship ecosystem in Sri Lanka, is not fully geared for business development in the country. The estimated scores for all of the components are less than 4.00. An educated and trained workforce for MSMEs is one of the major concerns, which scored the lowest among the other components of the human capital sub-domain. The results, therefore, evidently signal the requirement for further development of human capital in the context of entrepreneurship development in the country. Table 5 displays the estimated confidence scores for the entrepreneurship culture.

Table 5: EECI Scores of Female and Male Entrepreneurs in the Dimension of Entreprenruship Culture

Entrepreneurship Culture	**Female**	**Male**
A = Societal norms promote entrepreneurship and entrepreneurial culture in comparison to finding job employment	2.12	2.42
B = Societal norms promote women's entrepreneurship	3.28	3.24
C = Norms and values promote youth entrepreneurship	2.26	2.24
Overall	**2.55**	**2.63**

While the female entrepreneurs gave a total average score of 2.55 for the entrepreneurial culture sub-domain, the male counterparts gave 2.63, reflecting slight gender discrimination in entrepreneurship culture. These results were further confirmed at the FGDs. Overall, social norms to promote women and youth entrepreneurship are not pressing issues in Sri Lanka.

Providing business infrastructure: Quality and affordable economic infrastructure facilities such as electricity, road and transport, water, telecommunication, internets, are essential areas for business development. Women are the mostly affected by poor infrastructure facilities. This infrastructure gap not only limits market access but also reduces the efficiency and scale potential of women-led enterprises (Galpaya et al., 2017).

The following key criteria were taken into account in calculating the confidence level of entrepreneurs and eco-builders in business development support and infrastructure domain: (i) Availability and affordability of electricity, (ii) Availability and affordability of water, (iii) Availability and affordability of transports, and (iv) Availability and affordability of internet.

Table 6: EECI Scores of Female and Male Entrepreneurs in the Dimension of Infrastructure.

Infrastructure	**Female**	**Male**
Widely available basic utilities (Electricity)	4.32	4.25
Rates of basic utilities (Electricity) is reasonable	2.98	2.69
Widely available basic utilities (water)	3.96	3.99
Rates of basic utilities (water) is reasonable	3.22	3.22
Easy access to transports	3.50	3.36
Cost of transport is reasonable	2.05	2.00
Access to internet facilities	2.68	2.75
Rates of the internet are reasonable	2.13	2.15
Overall	**3.11**	**3.05**

The overall results indicate that further attention is required for basic infrastructure and the cost of providing infrastructure facilities. These may affect business competitiveness in the country.

Improving access to finance: Many stakeholders including government, NGOs, and private sectors provide financial support services such as credits, savings, and insurance to SMEs and new entrepreneurs. Several loan schemes were introduced by the GoSL to enhance the access to finance to SMEs. Central Bank of Sri Lanka has also introduced several credit lines for SMEs. In addition, the Central Bank issued directions to licensed banks to support enhancing credit flows to SMEs. In the recent past, the strong banking sector in Sri Lanka mainly focusses on SMEs as their main clients. A clear example is that in 2020 the Commercial Bank won two prestigious international awards. One of them is the 'Best Bank for SMEs'[3] (Commercial Bank, 2020). In addition to the formal banks, a large number of MFIs serve SMEs in numerous ways using their credit-plus approach. SMEs having collateral issues and graduate from MFIs can easily approach the formal commercial banks to get access to finance. According to World Bank (2015), Sri Lanka has numerous programs to enhance access to finance SMEs.

According to Kulasinghe et al. (2018), two local private equity funds in Sri Lanka: (1) Ironwood Capital, and (2) the Emerald Sri Lanka Fund. While MFIs have provided critical financial lifelines, they often impose high interest rates and inflexible repayment schedules, likely leading to cycles of debt and financial vulnerability (Brush et al., 2018).

[3]'Best Bank for SMEs', an award that recognizes Commercial Bank's efforts in identifying the importance of SMEs to the Sri Lankan economy and empowering the sector. The other award is the 'Best Bank for Corporate Responsibility.

Table 7: EECI Scores of Female and Male Entrepreneurs in the Dimension of Finance and Incentives

Finance and Incentives	**Female**	**Male**
Access to debt finance	2.95	3.22
Access to equity finance for MSMEs	2.84	3.07
Relevant grants or incentives to meet financial needs	2.67	2.91
Angel or crowdfunding are available and accessible	2.72	2.85
Financial instruments and services are available and accessible	3.04	3.04
Owners have enough financial literacy and knowledge	3.02	3.09
Overall	2.87	**3.03**

While the female entrepreneurs assigned an average total value of 2.87 to the access to finance and incentive domain, the male counterparts allocated an average score of 3.03. This indicates that the domain is relatively weak overall and that there is a small gender disparity in accessing finance and related incentives. Therefore, access to all forms of finance for MSMEs is required to improve to a greater extent in Sri Lanka without gender disparity.

Developing technology and innovation: The government of Sri Lanka has several programs to transfer technology and innovation to SMEs. One such program is the Technology Transfer (Vidatha) program[4] under the National Science and Technology Commission (NASTEC). According to the CBSL (2020), about 118,400 MSMEs were benefited by the Vidatha program. University-Business linkages Cells (UBLs)[5] funded by the World Bank are effective ways for research and development. All the state universities have set up UBLs and some universities have already started business incubation centers.

The following key areas were considered in measuring the confidence level of entrepreneurs and eco-builders in the innovation and technology domain: (i) Technology adoption, (ii) Facilities for innovation (e.g.: incubation centers, innovation labs), (iii) Entrepreneurs interested in research & development, (iv) R&D collaborations between businesses and university researchers, (v) Effective laws and

[4] The purpose of the VidathaProgarm is to transfer scientific knowledge and research findings to MSMEs at the grassroots level. They have an island-wide network of Vidatha Resource Centres.

[5] According to UGC Circular No 10/2016, Focal areas for the development of UBLs are: (1) developing practice and business oriented student's projects, (2) organizing trainings and coaching activities for businesses, (3) implementing technical consulting services for businesses, (4) implementing an IP policy at universities, (5) promoting the creation of university spin offs, (6) promoting research cooperation between businesses and the university, and (7) promoting strategic alliances with the private sector in order to develop the research infrastructures and capacities at universities.

legal authorities in protecting Intellectual Property rights, and (vi) Innovation and technology readiness for digitalization and smart economy

The point was further highlighted at KIIs:

> "W*ith regards to innovation and obtaining intellectual property rights, it is one area which needs to be explored from a policy level as currently there is no proper legislation for it*" (KII 4)

Table 8: EECI Scores of Female and Male Entrepreneurs in the Dimension of Innovation and Technology

Innovation and Technology	**Female**	**Male**
Business growth is increasingly being driven by technology adoption.	3.99	3.94
There are facilities for innovation	3.18	3.16
Entrepreneurs are highly interested in research & development.	3.41	3.38
There are R&D collaborations between businesses and university researchers	3.05	3.04
The laws and legal authorities are effective in protecting Intellectual Property rights.	2.94	3.00
Country's innovation and technology are ready to face digitalization and smart economy.	2.16	2.11
Overall	**3.12**	**3.11**

Female entrepreneurs (3.12) and male entrepreneurs (3.11) gave almost equal scores for the innovation and technology domain, indicating that the surveyed entrepreneurs moderately agree that they can benefit from the existing innovation and technology environment. By assigning a score of 3.99 by the female and 3.94 by the male entrepreneurs, they have agreed that business growth is increasingly being driven by technology adoption. The lowest scores were given to the effectiveness of protecting Intellectual Property rights by the legal authorities, proposing the need for improvement in the legal system in the context of Intellectual Property rights.

Developing SME business services: Sri Lanka has several BSPs to support SMEs. While most of them were set up by the government, few were initated by NGOs and private companies. National Enterprise Development Authority[6] is an example for a government body. The National Youth Services Council is another example. In addition, there are several private BSPs. MFIs also provide BDSs since most of them use credit-plus approach for supporting SMEs. They provide various services to SMEs: advertising, accounting & audit, legal, communication, trade fairs, trainings,

[6]National Enterprise Development Authority (NEDA) is established under the National Entrepreneur Development Act No. 17 of 2006 of the Government of Sri Lanka.

consultancy. Limited awareness and understanding of most services by SMEs is one issue. SMEs do not buy BDSs because SMEs have a perception that such services are not needed or that they can be done in-house. However, many MFIs such as Hambantota Women Development Council manly target women entrepreneurs.

The following key criteria were considered to calculate the confidence level of entrepreneurs and eco-builders in the business development support and infrastructure domain; (i) Business development support services provided by NGOs are relevant and accessible to MSMEs, (ii) Government-led business development opportunities supporting MSMEs, and (iii) Auxiliary professional services are adequate and supportive.

Table 9: EECI Scores of Female and Male Entrepreneurs in the Dimension of BDSs

Business Support Services	**Female**	**Male**
Existing business development support services provided by non-government institutions are relevant and accessible to MSMEs	2.92	3.27
There is enough government-led business development opportunities supporting MSMEs.	2.82	2.95
The existing auxiliary professional services are adequate and supportive of youth social entrepreneurship	2.86	3.08
Overall	**2.87**	**3.10**

The female entrepreneurs marked less than 3.00 points for all three components of business development support, and the male entrepreneurs gave about 3.00 (overall average = 3.10). However, as pointed out at FGDs and KIIs, the major problem is the lack of awareness of these services.

Developing entrepreneurial networks: Networking is a key area for women entrepreneurs. Small firms particularly women-led SMEs in developing countries need support to compete in their businesses. Networking is the best solution (Butler & Hansen 1991; Donckels & Lambrecht, 1995; Premaratna, 2001, 2002). In recent years, many projects funded by the government or NGOs focus on developing network among SMEs and with other supporting stakeholders.

The female entrepreneurs gave an average total score of 3.15 for access to the market while males gave only 3.12. However, the surveyed entrepreneurs gave less than 3.00 for the efficiency and affordability logistic infrastructure component, indicating the current logistic infrastructure support needs to be reviewed and improved. All the other components of the domain are only at moderate levels. The entrepreneurs gave relatively high scores (female = 3.24 and male = 3.08) for the component that indicates opportunities to link with the international market through foreign companies.

Table 10: EECI Scores of Female and Male Entrepreneurs in the Dimension of Access to Market

Access to Market	**Female**	**Male**
Market entry regulations are supportive of business establishment, operation, and expansion.	3.34	3.58
MSMEs are able to access the international market	3.14	3.08
Our firms have opportunities to link with foreign markets through foreign companies	3.24	3.08
Reliable market information is available	3.16	3.06
Certifications of quality standards are available	3.15	3.14
The existing logistics infrastructure is efficient and affordable for business use	2.96	2.97
The existing systems and institutions are supportive of the strength of the value chain	3.09	2.96
Overall	**3.15**	**3.12**

Gaps in Existing Stakeholder Engagement

Having discussed the trend and nature of SMEs in Sri Lanka and stakeholders' involvement in SME development under seven broad areas in the above section, the aim of this section is to identify gap areas for further intervention.

Enabling policy and regulatory environment: The review found that there are several attempts by different stakeholders to introduce policy and regulations for SMEs. However, the failure must be that those policies have not been converted into practical strategic actions and there was not a coordination mechanism. First and uttermost, the policy makers have not understood the core problems. Unfriendly enabling business environment is the key issue that SMEs face in Sri Lanka. If the enabling business environment is not conducive and encouraging, SMEs must be supported and subsidized. The case is serious when it is with women led SMEs. Most of the regulations and laws have been drafted without proper consultations with beneficiaries (SMEs, women and young entrepreneurs) and also without considering root-causes faced by women in SMEs[7]. The registration process of companies, for instance, is carried out at regional levels, but each province has different procedures and fees.

Poor enabling business environment leads to higher transaction costs (Williamson, 1975, 1985, 2008) for SMEs and to higher start-up costs. Without reducing transaction costs, local SMEs cannot be competitive at the international market and

[7] Based on the information collected from KIIs (A bank manager in a bank mainly cater agriculture and SMEs, and an experience retired bank manager and micro-finance expert)

even on the local market. Many procedures are costly and time consuming. For example, the National Intellectual Property office takes nearly one to two years to issue a license. The end result is that the government always must protect or subsidize SMEs.

Developing entrepreneurial and managerial skills and human resources*:* The study found that several stakeholders provide various types of training and capacity building programs for entrepreneurship development, vocational training, managerial and leadership development in Sri Lanka. This is one of the most common areas that donors and supporting agencies mainly focus on SME development in the country. One must understand that entrepreneurial and managerial skills alone would not deliver the best result because the entrepreneurship and SME development needs a holistic approach (De Mel et al, 2014; ILO, 2016). One concerning area is that capable and skillful people still prefer to choose large firms for their employment. SMEs are struggling to find the best human resources and labours. ILO (2016) found that existing training programmes have limited impacts on female entrepreneurs. In case of women-led SMEs, IPA (https://www.poverty-action.org/study/training-women-grow-microenterprises) found that providing grants and training to women may lead to new businesses, but training and grants did not have an impact on performance. With the COVID 19 lockdown, many firms cut their training budgets[8] (CCC & USAID 2020). According to a key informant interview that were conducted with an experienced trainer, training providers in Sri Lanka do not have an 'Enterprise Development Training Package inclusive of gender sensitization', which contains all the necessary aspects[9] for a young entrepreneur.

Providing business infrastructure: Sri Lanka lacks quality and efficient business focused infrastructure. Although there are agencies and institutions including government, donors, and NGOs that support in building infrastructure facilities such as information, internets, electrify, road, etc., SME specific infrastructure is insufficient, inefficient and costly in Sri Lanka. Sri Lanka even does not have a SME database. Some individual institutions such as NEDA, IDB, EDB, SED, and Youth Council maintain databases of SMEs, but they are reluctant to share their databases among each other though they are all government institutions. Non-availability of regional or national database impacts on generating sex disaggregated data, assessing the effects of policy measures taken by the government and policy making specially inclusion of women SMEs.

Galpaya et al. (2017) concluded that online freelancing and micro-work showed a growth opportunity for Sri Lanka. Galpaya et al. (2017) further found that the

[8] Impact of COVID 19 on exporters.

[9] Areas such as knowledge, technology, marketing, finance and attitudes.

majority of the micro-works in the IT-BPM sector work on a part-time basis, while engaging in full-time jobs or studying because the micro-works are flexible. "*I go to university and come and do this work during evenings*." (Galpaya et al, 2017: 240). This is a huge untapped market. Women with young children will be a good target group. Lack of infrastructure facilities such as payment methods, data quality, data upload speed, data cost, electricity and power failures has clouded these untapped but potential areas.

Improving access to finance*:* There are many financial institutions, government organizations, private organizations, and NGOs, particularly MFIs in the country to provide financial support to SMEs. An issue identified is not having access to the required amount of finance because SMEs have problems with collateral requirements. The refinance scheme offered by the Central Bank of Sri Lanka has various limitations. One such limitation is that CBSL does not allow giving more than LKR 1 million if the client (SME) does not pay taxes and contribute to Employees' Provident Fund (EPF). Many start-up businesses and agri-based businesses do not pay taxes and EPF. According to bankers, therefore, many young entrepreneurs both male and female at the start-up of their businesses do not get enough finance. Many studies found that SME loans granted through formal banks do not reach the needy SMEs, particularly women-led SMEs. They reached only those who maintain a close link with the banks and to established and medium-level firms. Banks require collateral, proper account system and tax payment records etc from SMEs, but most women-led SMEs do not maintain proper accounts, and do not possess financial information. From banks' point of view, SMEs belong to the high-risk category due to their lack of collaterals, lack of managerial capabilities, lack of financial information and records, lack of planning, high failure rate, ineffective networks, and limited access to market.

High cost of finance due to high transaction cost is another issue that women-led SMEs face. Information and enforcement problems cause high transaction costs. Conventional commercial banks have not been a successful model in providing microfinance to SMEs because of high transaction costs (UN, 2011). This is an issue that must be addressed to create an enabling policy and business environment which requires policy level intervention to assist SMEs in overcoming information and enforcement problems.

According to Kulasinghe et al. (2018)[10], many SMEs in Sri Lanka lack funding for expansion such as upgrading, professionalization of management, expanding into international markets, enhancing skills. One challenge is that although many SMEs

[10] ADB South Asia Working Paper Series, Catalyzing small and medium-sized enterprise venture capital in Sri Lanka.

lack the equity capital to invest in expansion, they have been unwilling to seek partnerships due to fear of giving up control (Kulasinghe et al. 2018: 7). The failure of 'Kapruka[11]' programme is one clear example.

Programmes implemented by development agencies such as the World Bank, ADB, USAID, GIZ include various financial assistant packages to SMEs, particularly women-led SMEs. As noted above, women-led SMEs have more complex needs which go beyond financial assistance. This is a serious challenge for any development agencies that intend to support women-led SMEs.

Women-led SMEs must be integrated into the formal banking system in the country (Premaratna, 2006a, 2006b). However, the issue is that formal banks request hard conditions and terms of approval and claim that SMEs do not present financially viable projects. The outcome of the rigid behaviors is that SMEs are pushed to relay on costly and risky informal sources of finance. As the Central Bank of Sri Lanka (2019) points out '*the existence of a large number of unregulated money lending businesses could create issues in designing and implementing credit policies, particularly for small and medium scale enterprises*' (2019: 311). The issue is more serious for women-led SMEs since many of the women-led SMEs are informal. All of these challenges, many studies highlighted that female clients have higher propensity to save and typically women entrepreneurs are reliable re-payers of loans (ICSB, 2020).

Developing technology and innovation: A gap in commercialization and diffusion is that SMEs find it difficult to access new technology[12] (World Bank, 2015). Policy, institutional and infrastructural changes must be necessary to boost innovation. However, the study notices that donor participation in technological capability building and promoting commercialization[13]and diffusion has been limited. Therefore, SMEs are pushed mainly to depend on imported technology. Assistance programmes focus mainly on technology transfer. Technology providers are in Colombo. In addition, SMEs do not get informed of government initiatives on technology transfer. Linkages between universities and SMEs are at its minimum level or not at all. SMEs do not get opportunities to use the university infrastructure facilities and knowledge. Further, universities do not work SMEs in developing products.

Developing SME business services*:* There are business development services provided by the government as well as the private institutions available for SMEs.

[11] The program has been set up one that must be similar to the Shark program in the USA.
[12] World Bank (2015) in a study 2015 identified access to technology as the second biggest constraint by SMEs in Sri Lanka (the foremost was access to finance).
[13]According to WEF, Sri Lanka is in the 71st position in global ranking in 2019.

However, only a few SMEs seek their services. SMEs are reluctant to reach out these services as they are expensive and time consuming and information about where to obtain such services are not readily available (Attygalle et al. 2014). Many BDS providers provide conventional technical assistance to SMEs and promote traditional local products. BDS providers do not cater to the needs of the entrepreneurs, particularly women entrepreneurs (Attygalle et al. 2014) who contemplate to access such services due to the social norms that limit their mobility. On the other hand, BDS service providers have a supply driven service provision.

Abeyratne (2006) points out that BDS providers, particularly funded by the governments and NGOs, target the 'poor' and not the 'entrepreneurs.' Private BDS providers mainly target their services to large scale and well-established companies. BDS providers offer little or no services to graduate women-led micro enterprises from micro level to the SME level (World Bank, 2015).

Developing entrepreneurial networks: A lack of networks (network with supporting agencies, larger firms, and multinational companies) is another challenging area for SMEs (Premaratna, 2001a, 2002, Premaratna & Senanayake, 2006b). Overlapping services and lack of coordinators among supporting institutions (at least at the government level) result in ineffective allocation and utilization of public funds and resources, which create an inefficient and unfriendly business environment. Coordination among the supporting agencies is a key challenge. For example, SMEs have to apply for and obtain certain licenses, permits and approval from different places. Most of them must be renewed annually. Women entrepreneurs need more intensive one-on-one support (Women Entrepreneurship Knowledge Hub, 2020).

Conclusion and Recommendations

It appears that many issues and challenges confronting the SME sector originate from the supply side rather than the demand side. The following section outlines recommendations under seven broad intervention areas.

Enabling policy and regulatory environment: Policy and regulatory interventions may be helpful in establishing the appropriate one-stop-window institutional structure. Improvement of the policy environment together with a favorable enabling business environment is necessary for enhancing women's entrepreneurship. Simultaneously, a national level-centralized-online SME portal shall be set up to help SMEs to solve their issues.

Table 11: Identified Gaps vs Proposed Interventions Related to Enabling Policy Environment

Issue	stakeholder participation	Gap	Recommendation
Several stakeholders and no coordination	NDAP	Coordination gap remains	National level online SME portal SME authority (under the President's Secretariat) One-stop-window' at DSD level
Unfavorable policy environment	The Task Force for SME National Strategy for SME development	Nor implement properly No Policy for women-led SMEs	Properly implement the Policy paper Identify root causes
Informality	Registration	Complicated and costly procedures	Find innovate approached to formalization One-stop-window' at DSD level

A mechanism is required to absorb informal firms into the formal system. Policymakers may experiment with **innovative approaches** to encourage formalization. Several countries (China, Korea, Taiwan[14]) have introduced innovate approaches to encourage formalization. Conventional practices may not work for SME registration. One of the popular approaches is named '**stick versus carrot'** approach (ILO, 2019).

Large business firms are also influential stakeholders since empirical evidence from value chain studies shows that the most effective way for women-led SMEs to link with global markets through supply chain is though large-scale firms.

The government support subsidies must link to promote an enabling business environment rather than supporting and funding SMEs for the sake of supporting unless there is a disaster situation. A suitable risk management strategy for SMEs must be introduced.

A SME Authority must be established under the President's Secretariat and a National Advisory Council must be set up under the SME Authority. This must be linked with all the relevant stakeholders. This Advisory Council must link with the regional level SME steering committees. A centralized SME database must be set up at the SME Advisory Council. A representative for the SME Authority must be deployed at each DSD. A SME annual report may be published capturing SME situation, trends,

[14] Chain sets up SMEs as public institution and hand over to the private sector. (IFC, 2013, Closing the Credit Gap for Formal and Informal Micro, Small, and Medium Enterprises, http://documents1.worldbank.org › curated › pdf.

regional index, successful stories, opportunities and potential areas etc. An Impact Monitoring mechanism must be set up at the SME Authority.

Developing entrepreneurial and managerial skills and human resources: Women and youth entrepreneurship development must be encouraged by introducing a subject or subject unit at school level which leads to university and/or tertiary education. This will stimulate the entrepreneurial culture, SME development and women entrepreneurship.

Table 12: Identified Gaps vs Proposed Interventions Related to Managerial Skills & Human Resources

Issue	stakeholder participation	Gap	Recommendation
Lack of entrepreneurial culture	Education (entrepreneurship)	Limited impact on female entrepreneurs Isolated programs	Proper entrepreneurship models introduced to school/university education Introduce 'Enterprise Development Training package'.
Lack of managerial skills	Education (managerial skill development)	SMEs struggle to find best human resources	Proper entrepreneurship models introduced to school/university education

Providing business infrastructure: The Central Bank of Sri Lanka can create account types or credit scoring systems that enabled irregular income earners, self-employed workers or informal sector workers to have access to formal financial services. There are tremendous opportunities for women entrepreneurs (home-based SMEs) (particularly young mothers) in IT-PBM sector.

Table 13: Identified Gaps vs Proposed Interventions in Business Infrastructure

Issue	Stakeholder participation	Gap	Recommendation
Quality and affordable infrastructure	Several stakeholders, but mainly the government	Inefficient and costly infrastructure	Improve infrastructure facilities
		Online facilities	Provide formal financial facilities to home-based SMEs in IT-PBM sector

Improving access to finance: There may be a need for policy level interventions to assist SMEs in overcoming information and enforcement problems. SME Finance

Policy must be set up along with a Credit Guarantee Scheme (fund). In India, Small Industries Development Bank (SIDBI) is a good example. It has a credit guarantee scheme that facilitates SMEs financial and deferred payment guarantees. SIDBI has created a Credit Guarantee Fund Trust for SMEs to make available collateral free credit to SMEs . In Thailand, the Small Business Credit Guarantee Corporation (SBCG) has established the Small Industry Credit Guarantee Fund that provides credit guarantees for SME loans.

Table 14: Identified Gaps vs Proposed Interventions Related to Access to Finance

Issue	stakeholder participation	Gap	Recommendation
Access to finance	Banks, MFI, government programs - Donor funding	Required amount of finance	Public-private investment scheme New financial products for women Integrated with formal banks
		Collateral (women-led SMES)	Credit Guarantee Scheme
High cost of finance	Banks, MFIs	High transaction costs	A credit information system Improve the efficiency of the financial sector Facilitate the microfinance sector

A public-private-people investment scheme can be set up to support women-led SMEs. This can be developed as a profit-sharing scheme. The government can offer tax subsidies for private investors who become the partners of the scheme. Similar models are operated in the USA, New Zealand, and Europe (Durst and Gerstlberger, 2020). The government can be a partner as well as contribute funds to cover operational cost and capacity building. Business Partners Limited in sub-Saharan Africa, Small Enterprise Assistance Funds (SEAF) in USA and the Netherlands are a few examples.

Policymakers need to address the issues such as (a) financial sector ineffectiveness, (b) lack of collaterals, (c) lack of information on financing availability, (d) the lack of, (and access to) financial products, particularly with regard to female-owned SMEs. New products must not be burdened to the government budget since the government budget is already overcrowded. The government must intervene at the regulatory and supervisory level into microfinance, commercial loans, public credit guarantees, and SME specialized financial institutions. However, the government direct business involvement in these areas must be minimized. This might include the government microfinance ‘businesses’ and microcredit ‘write-off’ decisions.

Apart from the banking finance, new financial tools such as crowd-funding and peer-to-peer funding must be allowed as well as existing regulations must be revised to accommodate new financial tools. It is recommended that the government encourages the private sector to set up venture capital funds for SMEs.

Risk capital funds to finance new investments: the government should pool risks with the SME sector by investing in selected innovative high risk, but high-return activities. This requires either the creation of a public sector venture capital fund or the instruction to an existing development bank to play this role (details Kulasinghe et al. 2018). As direct intervention the government can also set up a people company with new entrepreneurs.

Developing technology and innovation*:* It is important to introduce technology policies as well as make institutional and infrastructural changes to boost innovation.

Table 15: Identified Gaps vs Proposed Interventions Related Enabling Policy Environment

Issue	stakeholder participation	Gap	Recommendation
Outdated technology	Vidatha under NASTEC	No policy to remove barriers	Technology policy
Lack of innovation	UBLs (Universities)	Weak university-industry collaboration	Improve YBL Cells

University-industry collaborations must be improved. Different business models must be introduced to facilitate collaborations. SMEs must be a part of such business models. Furthermore, business and innovation services must be established. Technology and innovation are the key areas for quality development. Quality is a concern in the international market and GVC. The demand for high quality value-added products comes from developed countries.

Developing SME business services: Since private BDSs are generally expensive, the government should take the lead in promoting SME BDSs. These services would be provided through **one-stop-windows** the one like in Moneragala. The proposed one-stop-window model must be lined with donors, and business and industry associations.

Table 16: Identified Gaps vs Proposed Interventions Related to BDSc

Issue	stakeholder participation	Gap	Recommendation
Not demand oriented	Government, private and NGOS	A few SMEs uses BDSs	One-stop-windows Partnership BDSs
Not targeted	Government, private and NGOS	Not targeted SMEs	Networking between BDSs and SMEs SME cluster approach

Developing entrepreneurial networks: Asymmetric information severely affects the performance of female entrepreneurs and SMEs. BDS providers can provide timely information about markets, funding, and technology to women entrepreneurs. However, it is necessary to set up and maintain a systematic information flow. Collaboration amongst supporting agencies has been poor and must be improved. Large joint projects must be encouraged for the effective use of money and other resources.

Table 17: Identified Gaps vs Proposed Interventions Related to Entrepreneurial Network

Issue	stakeholder participation	Gap	Recommendation
Networking	Government and NGOs	Lack of networking Over lapping services	Build collaboration amongst the supporting agencies SME cluster approach

It is evident that the majority of the issues related to SME development are towards the supply side. Furthermore, conventional monetary and fiscal policy can be used to counterbalance aggregate demand shocks. Hence, other policies such as sectorial policies may be more effective to address supply shocks.

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