

SESSION 3

A New Regime of MSME Financing for Economic Diversification in Asia and the Pacific

SRI LANKAN EXPERIENCE

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Outline

1	MSME Landscape of Sri Lanka
2	Definition of MSME
3	Key Challenges for MSME
4	Central Bank's Efforts to Enhance MSME Access to Finance
5	Government's Efforts to Enhance MSME Access to Finance
6	Development of Credit Markets & Alternative Financing Schemes
7	Strategic Focus Areas to Maximize the Impact of the New Financing Regime
8	Way Forward

MSME Landscape of Sri Lanka...



90%
of
all enterprises
in many
countries
consist
of MSMEs

The International Labour Organization (2019)



70%
of
employment
globally is in
MSMEs



99%
of non-
agricultural
establishments
in Sri Lanka
were found to
be MSMEs

Economic Census -
Department of Census
and Statistics (DCS) in
2013/14



45%
of
employment in
the country is
in the MSME
sector

Ministry of Industry and
Commerce (2016)



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Definition of MSME...

Size/ Sector	Criteria	Medium	Small	Micro
Manufacturing	Annual Turnover	Rs. 351 Mn – Rs. 1 Bn	Rs. 21 Mn – Rs. 350 Mn	Rs. 20 Mn or less than Rs. 20 Mn
	No. of Employees	51 – 200	10 – 50	Less than 10
Service Sector	Annual Turnover	Rs. 351 Mn – Rs. 1 Bn	Rs. 21 Mn – Rs. 350 Mn	Rs. 20 Mn or less than Rs. 20 Mn
	No. of Employees	51 – 200	5 – 50	Less than 5

- Approval of the Cabinet of Ministers was obtained on 19.02.2024 for the definition.
- In classifying enterprises as micro, small and medium scale, the greater number of employees or annual turnover is considered.
- Out of the total lending portfolio of the banking sector, MSME loans accounted for 16% as at end Q3 of 2024.

Key Challenges for MSME...

MSMEs in Sri Lanka face several challenges that impede their growth and contribution to the economy...



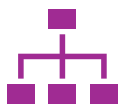
Limited Access to Finance: Traditional banking institutions often consider MSMEs high-risk, leading to stringent lending criteria, and collateral based lending limits the access to finance.



High Cost of Capital: The high interest rates on loans further burden MSMEs, making it difficult for them to expand or innovate.



Lack of Financial Literacy: Many MSME owners lack the necessary financial literacy to navigate the complexities of financing options and manage their businesses effectively.

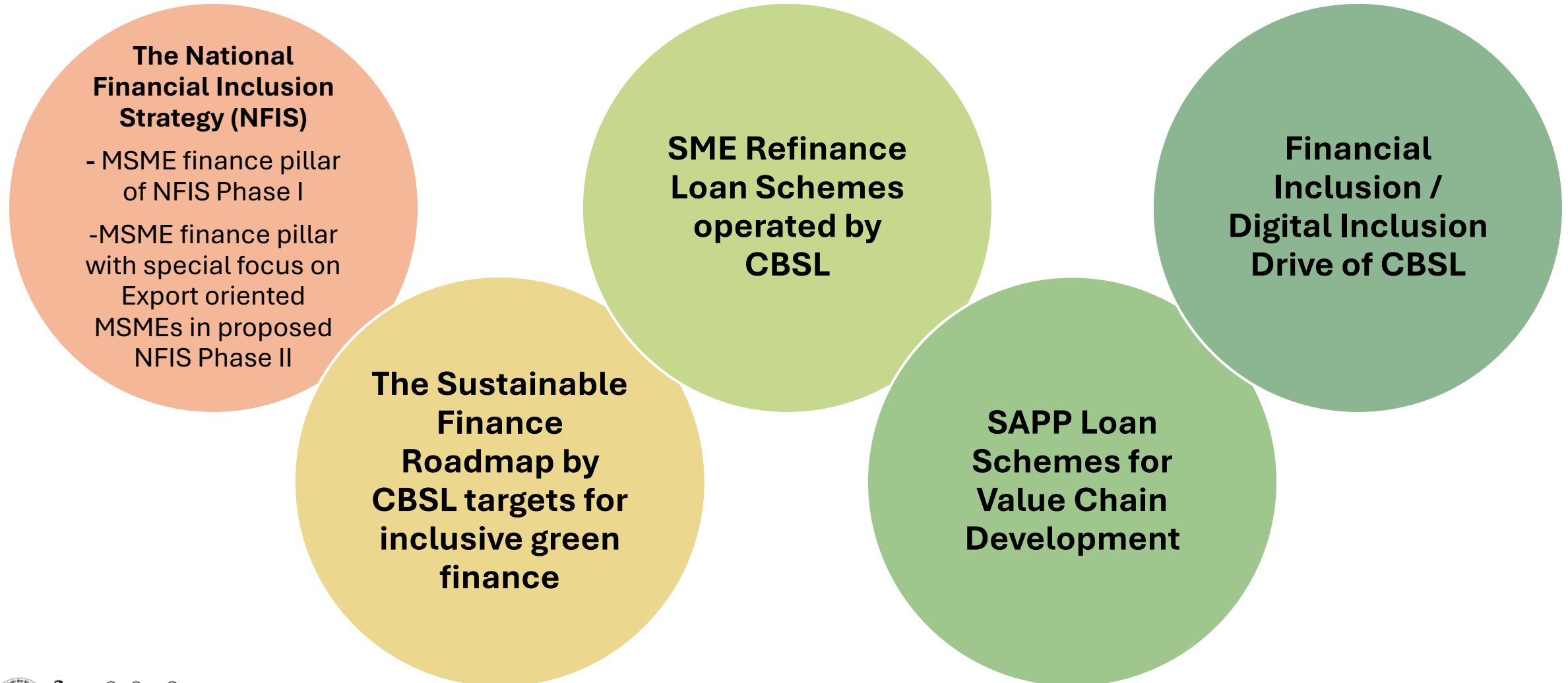


Insufficient Support Structures: There is a scarcity of support mechanisms such as advisory services, incubators, and accelerators to guide MSMEs through their growth stages.



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Central Bank's Efforts to Enhance MSME Access to Finance...



Central Bank's Efforts to Enhance MSME Access to Finance... (contd.)

Suspension of Recovery Actions

Instructions issued to licensed banks to suspend recovery actions against small and medium scale paddy millers for six months under the Government initiatives to support small and medium scale paddy millers amidst the pandemic.

Concessions for MSMEs

Concessions/moratoria were granted to COVID-19 affected businesses, including MSMEs.

Priority Sector Lending Targets

Licensed banks shall grant credit to individuals and businesses in MSME sector and ensure a growth rate of not less than 20% over the outstanding stock of lending to MSMEs at the end of the previous year.

Suspension of Parate Executions

Circular issued requesting licensed banks to suspend all types of recovery actions, including "Parate" execution and forced repossession of leased assets due to challenges faced by businesses and individuals due to COVID-19 pandemic.

Central Bank's Efforts to Enhance MSME Access to Finance... (contd.)

Collection of Data

A new quarterly FinNet return was introduced for MSME: "Classification of MSMEs Credit Facilities". All licensed banks are required to report the return on quarter basis.

Establishment of Business Revival Units

Guidelines were issued on establishing Business Revival Units in licensed banks, with a view to facilitating the sustainable economic revival of businesses affected by the extraordinary macroeconomic circumstances, and to ensure the proper handling of the increased impaired assets of licensed banks.

National Definition for Women-owned/led Business

New national definition for Women owned/led Business in Sri Lanka in line with international best practices was introduced in collaboration with the Ministry of Finance, Economic Stabilization and National Policies, in consultation with the relevant stakeholders.

Central Bank's Efforts to Enhance MSME Access to Finance... (contd.)

Licensing and regulating Deposit taking Micro-finance companies

Microfinance Act, No. 6 of 2016 was issued with a view to enhancing the stability of the deposit taking micro-finance companies to improve the confidence of MSMEs on accessing financial services provided by such licensed micro-finance companies.

Credit Support to Accelerate Economic Growth

A special credit support scheme was effective to eligible small and medium enterprise borrowers (DSNBFI Circular No. 1 of 2020).

Covid-19 Concessions

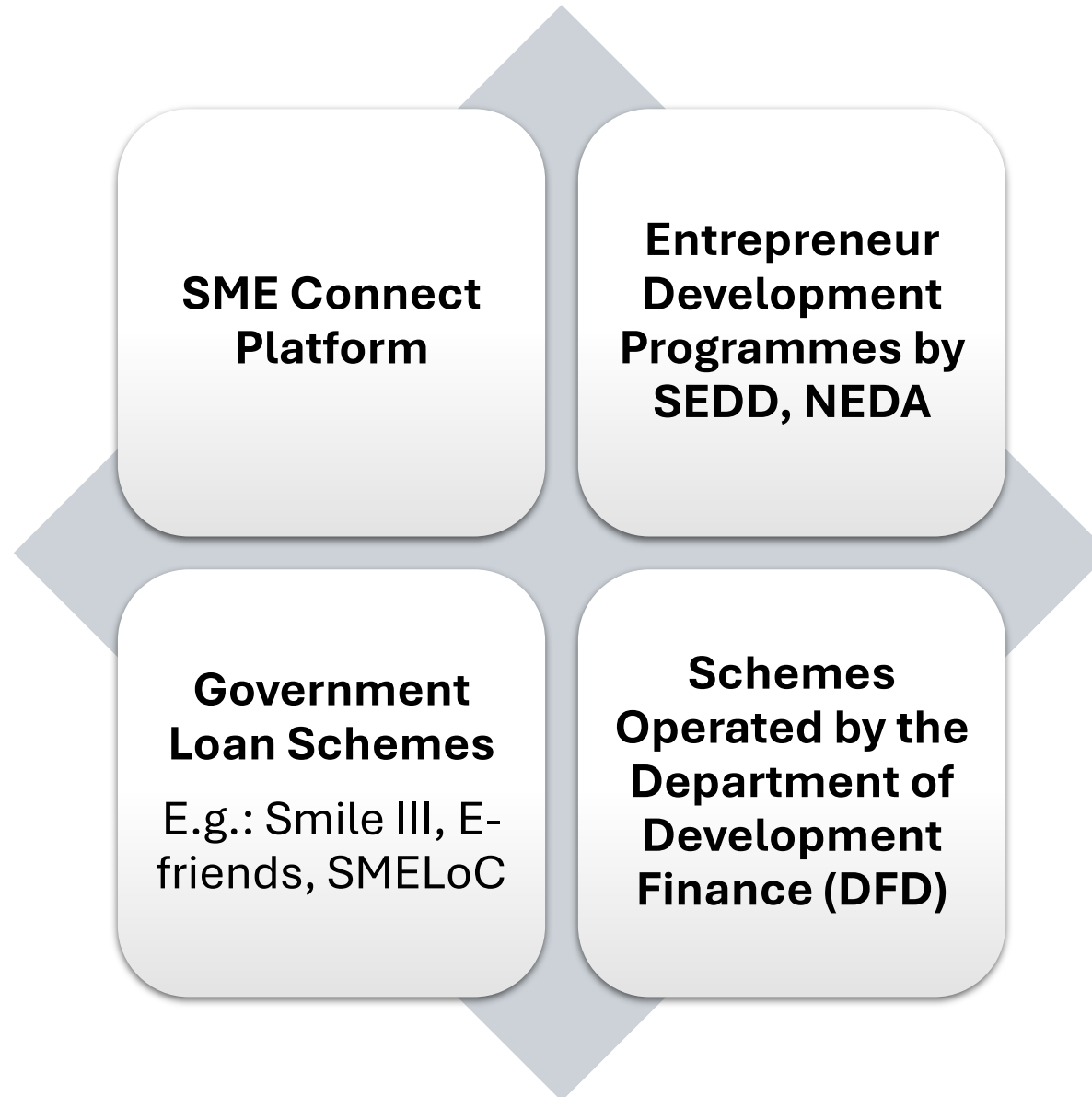
Circulars issued to provide relief measures to assist Covid-19 affected businesses and individuals.

Concessions during economic crisis

Circulars issued to provide concessions to affected borrowers amidst the extraordinary macroeconomic circumstances (DSNBFI Circular No. 01 of 2022).



Government's Efforts to Enhance MSME Access to Finance...



Development of Credit Markets & Alternative Financing Schemes...



The groundwork related to establishment of the **National Credit Guarantee Institute (NCGI)** of Sri Lanka is being done and the operations expected to commence soon. The NCGI will enhance the financial access to MSMEs.

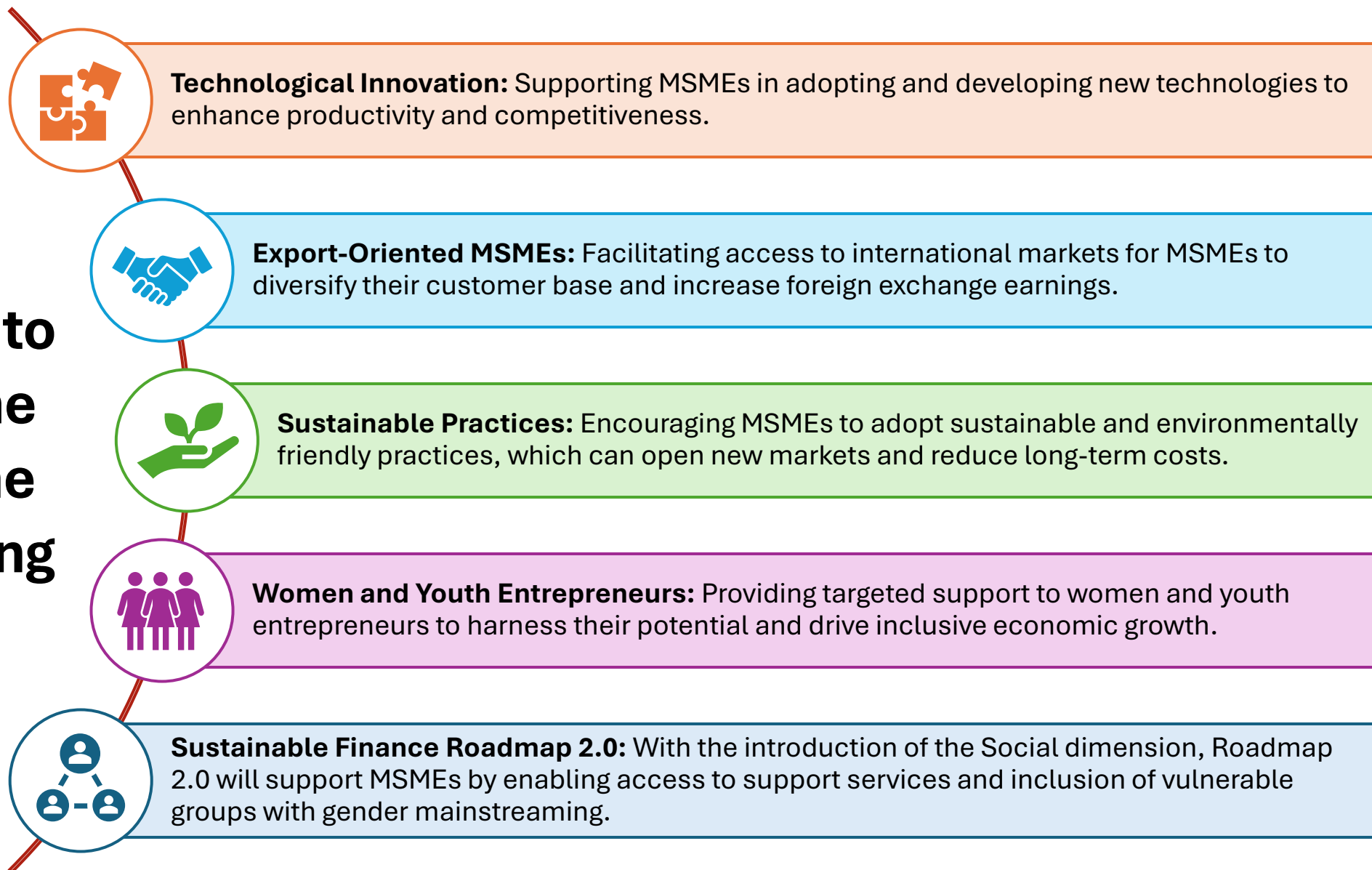


Introduction of the **Secured Transactions Registry (STR)** will facilitate the extension of credit secured on movables and intangible collaterals to address the issue of unduly constrained access to credit on commercial terms of SMEs in Sri Lanka.



Securities and Exchange Commission (SEC) has initiated developing a regulatory framework for **Equity Crowdfunding (ECF)**.

Strategic Focus Areas to Maximize the Impact of the New Financing Regime...



Way Forward...

To address these challenges and promote economic diversification, a comprehensive financing regime for MSMEs should encompass the following components:

1

Innovative Financing Instruments

- Microfinance and peer-to-peer lending
- Crowdfunding
- Venture capital and angel investors

2

Government and Development Bank Initiatives

- Credit guarantee schemes
- Subsidised loans and grants
- Development bank support

3

Capacity Building and Support Services

- Financial literacy programmes
- Business development services
- Incubators and accelerators

4

Regulatory Reforms

- Simplified procedures
- Credit information systems
- Credit council
- Financial consumer complaint handling

5

Digital Inclusion

- Access to digital infrastructure
- Digital lending platforms and fintech innovations
- Alternative credit scoring and data-driven insights

Thank You...

