



6 Incentives available for encouraging business

Introduction

There are small scale businesses in every country in the world. Small scale businesses play an important role in the economic development of Sri Lanka. Small scale business as make its contribution towards the economic development by the provision of employment opportunities, contributing to the national production, and utilization of local resources; creating opportunities for the people to earn income and assist the large scale businesses to exist in the market. Therefore the state, as well as the private sector has to focus their attention on encouragement of small scale businesses. So, there are state and the private sector institutions which involve in these activities of assistance to small scale businesses.



Business opportunities are created very often in the changing environment. Entrepreneurs turn towards such business opportunities to get the best of them. Various incentives are required for the entrepreneurs to carry out such business activities started by them, successfully. These assistance and incentives can be grouped into two. They are financial and non financial assistance. There are so many institutions which provide financial and non financial assistance in Sri Lanka. Various schemes have been introduced by these institutions to assist and help small and medium scale businesses granting financial and non financial assistance. These assistance or encouragements help the entrepreneurs to start and carry out business activities strongly and successfully. Some of the institutions carry out their activities of assistance and help on an island wide basis. Some other institutions limit and supply their services to a particular province or district. In the mean time, some of these institutions focus their attention to selected, targets and provide their services to unemployed young males and females, farmers and fishermen. Objective of this lesson is to give an understanding of the assistance which can be obtained by small and medium scale businesses, the names of such institutions which provide such services and the procedures to be followed by businesses in obtaining services from such institutions.

Incentive schemes for the encouraging of business

Entrepreneurs should be skilled and efficient to carry out the business activities successfully within a competitive business environment. Even a successful business can go bankrupt due to the changes in the business environment. Therefore, especially small scale businessmen should be provided with proper incentives to carry out their business activities successfully within a changing environment.

Incentives are the assistance given to the people for the purpose of starting and carrying out a business successfully.

These incentives contain financial and non financial services. The size of the business, which is also known as the scale of the business, and these incentives have a relationship. The size of the business would be decided by the capital invested in business, number of employees, annual turnover (sales) and the production capacity. Nevertheless, other businesses, except large scale businesses, would be classified into the following

- Small scale businesses
- Medium scale businesses

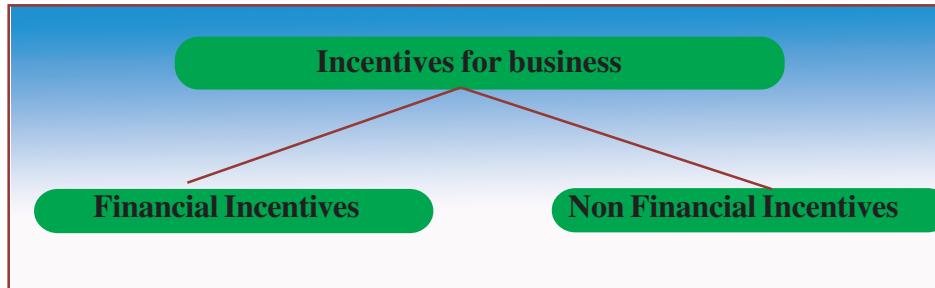
Small and Medium scale businesses

It is difficult to identify small scale businesses specifically even though such businesses exist in every country. That is because each and every country uses different criteria to identify such businesses. Even within countries it is defined in so many ways.

Various institutions which provide various types of assistance for the small and medium scale businesses define the scale of those businesses in different ways. However, they are with less capital, small number of employees, low production, and low turnover and cannot make an impact on the market condition when compared with large scale businesses. There is also micro type of businesses in Sri Lanka. There are some special features which we can see in micro level businesses. The proprietor would carry out all the activities, business would be done as a self employment and the family members would help in day to day business activities are some of the examples. Some of the examples for such micro level business activities are supply of personal services (tailoring/ barbershop) horticulture, (vegetables, fruits, flowers) retailing, cattle farming and repair works of electronic items etc.

Incentive of business

Provision of incentives for people to start and carry out business activities can be grouped into two.



Giving money for business activities is referred to as financial incentives. Technological, advisory, marketing and infrastructural assistance are referred to as non financial incentives.

State and private sector institutions work for the supply of these financial and non financial assistance. Let us consider the financial assistance first.

Financial assistance

Entrepreneurs require money to start and also to carry out the business activities. Most of the time, they have to obtain the necessary cash from the outsiders. They can obtain the required cash from banks. There are special financial incentive schemes for small and medium size businesses. This financial assistance is given at



concessionary terms. Concessionary terms mean low interest rate, longer repayment period and softened collateral security against the loans. Entrepreneurs may obtain funds at the beginning and in the course of business activities for the purposes such as purchase of land, machinery and stock of goods, import and export of goods, to obtain electricity, water and telephone connections and development of roads, packaging and labelling, to obtain new technology and modernization of business etc..

There are so many loan schemes in operation to provide financial assistance for entrepreneurs of small and medium scale. Some loan schemes are operating island wide. Other schemes are limited to certain areas and target groups.

Some of the examples for such loan schemes of financial assistance are New Sapiri Rural loan scheme. Incentive loan scheme for small and medium scale businesses (sumadi), small scale enterprise enhancement loan scheme (suwana), loan project for small farmers and landless, micro finance loan scheme for poverty alleviation, short term and medium term loan schemes for small and medium scale businesses. Micro finance loan schemes of all these schemes can be mentioned as a very special financial assistance scheme.

Special feature of micro finance loan scheme is that it lends money on very softened conditions or terms for micro level businesses.

The main purpose of this financial loan scheme is to encourage people to start employment and to motivate them to start small scale businesses. A loan can be obtained under the micro finance loan scheme with two guarantors one of whom may be from the family. Apart from that this micro finance is with a very low interest and concessions on repayment periods.

Non financial assistance

Apart from financial assistance non financial services are also required to start and carry out the business activities. Various institutions provide non financial assistance to small and medium scale businesses.

Non financial services include technology, advisory services, marketing and infrastructural facilities. Under the non financial schemes people can get entrepreneurial training, training of employees, provide new technological know-how, conduct marketing research, provide infrastructural facilities, supply market information, registration of business, preparation of feasibility reports, repairs of machines and legal advisory services.



Diagram 6.2

Operational stages of business activities and obtainable assistance

The financial assistance given as incentives and the stages of business activities has a relationship.

There are three stages of the operation of business activities. They are primarily pre opening stage, opening stage and post opening stage, of the business.

Requirements of the business would differ at each stage. Registration of the business, obtaining the licence and construction and develop activities are the examples of the requirements of the pre-opening stage. Considerable amount of capital is required to open a new business.

In the course of the business activities a business requires working capital. Therefore the entrepreneurs who are involved in self employment and look for financial assistance and non financial assistance will have to consider the operational stages of the business activities.

Activities 01



Consider that you hope to start a business.

1. Identify the business opportunities available for that purpose.
2. State the scale of each business. State the criteria which you use as the basis to classify the business.
3. State the required assistance for the potential (hope to start) business under the following topics:
 - Financial Services
 - Non Financial Services
4. Name the institutions from which you hope to obtain the assistance and services mentioned above.



Activity 02

Select a business you know well which is carried out as a self employment.

- 1) Explain that business
- 2) Explain the relationship between the owner and the business

- 3) What kind of information can you give on the location of that business?
- 4) Who will be the customers of that business?
- 5) If you think that the business you mentioned above can be expanded, explain how you can do it ?

Obtaining Assistance

It is important to identify and understand the systematic methods to be followed in to obtain financial and non financial assistance as incentives for small and medium scale businesses. It is useful to find information with regard to the relevant institutions which provide financial and non financial services to the entrepreneurs as per their business requirements. Then it is important to know the personnel to be contacted and the procedures to be followed to obtain the services. It is easy for the entrepreneur to obtain the services if he acts in this way.

First it is useful to focus the attention on the source documents which give the information about the institutions. It is an easy way to focus on the Government Information Bureau to obtain information on government institutions. The information can be obtained by calling 1919. Whether it is the information on government institutions or private sector institutions, such information can be obtained from the source documents such as news paper advertisements, web page of relevant institutions, yellow pages of the telephone directories and advisors of business. These are some of the examples.

Institutions which provide services for small and medium scale businesses

Various institutions in Sri Lanka provide financial and non financial services required by small and medium size businesses. Financial services are normally supplied by financial institutions known as banks.

Following are some of the leading financial institutions and various financial assistance schemes through which the funds are released to the businesses which are in need of them.

Financial Institution	Loan Schemes
Peoples' Bank	<p>Small and Medium scale industries incentive project (Sumadi). Small and Medium scale entrepreneurs enhancement primary loan project (Suvana).</p> <ul style="list-style-type: none"> - Food and Nutrition project loan scheme. - Small scale entrepreneurs and unemployed youth loan scheme. (For starting business) - Self employment development through Suvathura or small scale business loan scheme. - Samurdi development loan scheme (Sasana). Samurdi Entrepreneurial development loan scheme (Savana).
Bank of Ceylon	<p>Above mentioned Sumadi, Suvana and Sasana loan schemes.</p> <ul style="list-style-type: none"> - Small businesses development loan scheme. - Tea small holdings loan scheme. <p>Fisheries loan scheme.</p>
Commercial Bank Ltd.	<p>Sumadi, Suvana, New Rural modernization loan scheme.</p> <ul style="list-style-type: none"> - Farm loan, machinery loan scheme. - Multi seasonal crop development loan scheme. <p>Self employment project loans.</p>
National Development Bank	Sumadi and Suvana
DFCC Bank	Athahitha, Pramaga, Soba Surakum
HNB	<p>Agricultural crop production.</p> <ul style="list-style-type: none"> - Cattle farming development loan. - Agricultural machinery and equipment purchasing loan. <p>Gemi Pubudu loan.</p>

Financial Institutions	Loan Scheme
Seylan Bank	Suvana and Sumadi
Sampath Bank	Suvana and Sumadi. Loan for starting a business
Regional Rural Development Banks.-Rajarata RRDB- Ruhunu RRDB- Kandurata RRDB- Sabaragamu RRDB- Uva RRDB	Suvana and Sumadi Special loan schemes which are designed where the branches of RRDB are situated
Small and medium Enterprise (SME) Bank. National Entrepreneurs Bank.	- Loan scheme for Rice mills, Gem and Jewellery, High technology, Industrial services, Vocational Services, Food and food processing, Construction services, Fisheries and aquarium, Handloom textiles and Indigenous medicine (Ayurveda) services and production.

There are various institutions in Sri Lanka which provide necessary facilities for small and medium scale enterprises. Those facilities can be listed as advisory services on marketing, infrastructure and technological services. How to commence a new business, investment and development advisory services on operation and promotional activities would also be given under Advisory services. Under the technological services, Knowledge and skills of production, technological know-how on modernization, cost cutting, environment conservation and waste management techniques would be given. Under the assistance of research, assistance of advice and counseling would be given on market research and production techniques.

Under the infrastructural facilities, energy, water supply, transport facilities, communication and land development facilities would be provided.

Let us see some of the primary institutions in Sri Lanka which provide non financial assistance, mentioned above and the services they provide.

Institution	Services Supplied
Industrial Development Board	<p>Advice on investment opportunities.</p> <ul style="list-style-type: none"> - Supply industrial information. - Provide technical services. - Provide engineering services. - Provide initial facilities and vocational advice on industries. - Management knowledge and entrepreneurship development. - Marketing services. <p>Rubber products development.</p>
Sri Lanka Scientific and Industrial Research Institute.	<p>Provide industrial technological advisory services.</p> <ul style="list-style-type: none"> - Provide laboratory services and the industrial equipment. - Development of production and production process activities. - Set and provide laboratory measurements - Repairs of electronic items. - Inspection, analyse and quality control of industrial raw-materials and finished goods. - Technical training. <p>Identifying technical faults in the industries.</p>
Small Businesses Development Section of Ministry of Youth Affairs.	<p>Holding entrepreneur's orientation and training programmes</p> <ul style="list-style-type: none"> - Development of existing small businesses assistance to the people. <p>Information supplying service for the entrepreneurs.</p>
Sri Lanka Export Development Board	<p>Create a friendly / conducive environment for the export sector.</p>

Institution	Services Supplied
National Apprentiship and Vocational Training Authority.	<ul style="list-style-type: none"> - Designing proposals for on the job training methods. - Opening of vocational training centres. - Taking initiatives for the development of training programmes of training institutions. <p>Deciding the need for apprentices at different stages of training.</p>
Sri Lanka Standards Institution	<p>Setting National Standards.</p> <ul style="list-style-type: none"> - Certification of standards of products. - Certification of quality bases. - Testing of the quality of export items. - Import supervision - Laboratory services. - Advisory services on quality improvement. <p>Systemization of industrial and laboratory equipments.</p>
National Handicrafts Board.	<p>Conduct exhibitions in Sri Lanka and abroad.</p> <ul style="list-style-type: none"> - Improve the quality of raw materials finished goods of handicraft. <p>Assist the person in designing, production, marketing of handicrafts.</p> <ul style="list-style-type: none"> - Training of artists (who involve in handicraft making) - Provision of information and knowledge on craftsmanship. <p>Work for the betterment and protection of the traditional, national and culturally important handicraft.</p>

Institution	Services Supplied
Sri Lanka Handicrafts Board. (Laksala)	<p>Diversification of handicraft products and the improvement of quality of raw materials used in production of handicrafts.</p> <ul style="list-style-type: none"> - Conduct exhibitions of handicrafts and work for marketing them. - Help marketing handicraft products in Sri Lanka and abroad. <p>Training of craftsmen.</p>
Sri Lanka Design Centre	<p>Provide advisory services for creation of designs.</p> <ul style="list-style-type: none"> - Creation and exhibitions of new designs. - Provide technical assistance for creation of designs. - Training of designers and provide marketing facilities. - Motivate creations. - Supply information on creation of designs.
Sri Lanka Engineering Research and Development Centre.	<p>Propose solutions for the engineering problems of industries.</p> <ul style="list-style-type: none"> - Planning suitable technical methods for industrial development. - Improve the domestic and industrial equipment in the electronic engineering field. - Construct low cost housing facilities, Empowerment of new technologies through work shops and seminars.
Sri Lanka Vocational Training Authority	<p>Conduct programmes for enhancement of entrepreneurs.</p> <ul style="list-style-type: none"> - Conduct entrepreneurial enhancement programmes for those who are willing to start small and medium scale businesses. - Provide entrepreneurial training to vocational apprentices through training courses. - Coordination of banks to obtain bank loans. - Provide feed back services.

Personnel to be contacted and procedures to be followed to obtain assistance from the institutions mentioned above

After having an understanding about the institutions which provide financial and non-financial assistance, entrepreneurs should know whom to approach in those institutions and what are the procedures to be followed.

Let us focus our attention to financial assistance. Here the traders have to meet the bank manager or the credit officers of the bank. Apart from that, normally there are certain requirements to be fulfilled when financial assistance is required. Following are some of the basic requirements to be fulfilled.

- * Open a bank account.
- * Submit a completed loan application form.
- * Be prepared to submit relevant documents with regard to collateral securities, against the loans applied, movable or immovable assets if required.
- * Salary or income records should be forwarded for personal security or for family members.
- * Submit a business plan / project report.
- * Technical evaluation report on machines required.
- * Documents required for business registration.
- * Relevant documents with regard to the permission obtained from the Central Environment Authority.
- * The documents required if a special licence is needed.

First, the details of the institution is required if it is to obtain non financial assistance. Letters and telephone number can be used as a means to obtain them.

In obtaining non financial assistance too, traders or people have to meet relevant officials in each institution from where this assistance is supplied. Head of the institution, information officer, business advisors, or development officers have to be met for the purpose. There may not be particular requirements to be fulfilled when obtaining non financial assistance.



Summary

In Sri Lanka, various programmes of encouragement are in operation to motivate the entrepreneurs to conduct their business activities successfully. These assistance programmes can be classified into two, name financial assistance and non financial assistance. Financial assistance includes funds available for financial requirements. The assistance in technology, marketing, advisory and infrastructural facilities are known as non-financial assistance. The business activities can be carried out successfully if these business incentives of financial and non financial assistance are used correctly.



Activity 3

Identify a small scale business which you hope to start in the future.

- (1) Name that business?
- (2) Explain the business activities in brief.
- (3) Give the following information about the business.

Requirements to be fulfilled before you start the business.

Assistance you need to start the business.

- (4) Name the institutions from which you hope to obtain the assistance required.
- (5) Who are the persons in those institutions you need to consult?
- (6) Explain the details of work programmes you would perform to fulfill your requirements.