TRADE WINDS OF CHANGE
WOMEN ENTREPRENEURS ON THE RISE IN SOUTH ASIA

Background country study-Sri Lanka
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By Sunimalee Madurawala, Dilani Hirimuthugodage, Dharshani Premaratne and Janaka Wijayasiri of Institute of Policy Studies of Sri Lanka (IPS)

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Any errors or omissions remain the responsibility of the authors.
Abbreviations and acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>DoC</td>
<td>Department of Commerce</td>
</tr>
<tr>
<td>EDB</td>
<td>Export Development Board</td>
</tr>
<tr>
<td>EDCM</td>
<td>Export Development Council of Ministers</td>
</tr>
<tr>
<td>FGD</td>
<td>Focus-group discussion</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GSP</td>
<td>Generalized System of Preference</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Cooperation</td>
</tr>
<tr>
<td>ISCO</td>
<td>International Standard Classification of Occupation</td>
</tr>
<tr>
<td>KII</td>
<td>key informant interview</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>MRA</td>
<td>Mutual Recognition Agreement</td>
</tr>
<tr>
<td>NEDC</td>
<td>National Enterprise Development Authority</td>
</tr>
<tr>
<td>NEDP</td>
<td>National Export Development Plan</td>
</tr>
<tr>
<td>NTB</td>
<td>non-tariff barrier</td>
</tr>
<tr>
<td>NTM</td>
<td>non-tariff measures</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>SAARC</td>
<td>South Asian Association for Regional Cooperation</td>
</tr>
<tr>
<td>SLSCO</td>
<td>Sri Lanka Standard Classification of Occupation</td>
</tr>
<tr>
<td>SLSI</td>
<td>Sri Lanka Standard Institute</td>
</tr>
<tr>
<td>SME</td>
<td>small and medium enterprises</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>WMSME</td>
<td>women-owned and led micro, small and medium enterprises</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>

Note: US$1 was equal to approximately 132.00 Sri Lankan Rupees (Rs.) as of 22 January 2015.
Map of Sri Lanka and locations of fieldwork

The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations or UNDP concerning the legal status of any country, territory, city or area or its authorities, or concerning the delimitation of its frontiers or boundaries.
Executive summary

While South Asia has made significant progress on several Millennium Development Goals (MDGs), the region still remains home to nearly 44 percent of the world’s poor. An important avenue to promote inclusive and sustainable development outcomes would be to accelerate gainful participation of women-owned and led micro, small and medium enterprises (WMSME) in South Asia. Micro, small and medium enterprises (MSME) are known to be an important source of employment and poverty reduction, especially for women across countries in South Asia. WMSME have been identified as the backbone of these economies and constitute a major source of formal and informal sector employment of women in most South Asian countries. Therefore, it is important to strengthen this sector and improve the participation of these enterprises in the local and regional markets. However, non-tariff barriers (NTBs) can be a significant hurdle to tap the existing and potential markets in South Asia. NTBs can give rise to unpredictable and time consuming processes, which can significantly increase the cost of trading across borders, and reduce the competitiveness of suppliers including MSME.

In Sri Lanka, spices and coir based industries are amongst the few sectors in the economy that have high female participation. Women are mostly engaged in activities in the lower end or upstream parts of the value chains of both sectors. Household responsibilities, lack of mobility and lack of enthusiasm were found to be the main reasons for women to concentrate in lower levels of the value chains. Most of the activities at the lower levels of value chains can be done as home-based businesses. This gives women the opportunity of staying at homes and the flexibility to attend household chores. Moving up the value chain requires greater mobility and interaction with other value chain actors. However, most women are reluctant to do so as it impedes their ability to attend to their household responsibilities.

WMSME use formal financial institutions such as public and private banks, other financial institutes and informal arrangements with buyers in fulfilling financial needs of their businesses. Most of the women entrepreneurs interviewed for the study were reluctant to access formal financial institutes. In fact, they preferred to access informal financial channels. High interest rates, difficulties in meeting loan application requirements (e.g. providing guarantors/ collaterals), and lengthy processing times involved in obtained a loan were the main difficulties in accessing financial institutions in the country. To overcome the low outreach of the formal financial institutions to women entrepreneurs, mobile services can be introduced to disseminate available loan programmes, particularly to those who reside in remote areas. Regarding the design of loan schemes, it is crucial to cater to the needs of WMSME or certain producers.

Lack of enthusiasm of women entrepreneurs is another main barrier for women in moving up the value chain. It was observed that most of the women entrepreneurs at the lowest level of value chains are satisfied with what they do at present and they do not have a clear understanding of their own growth potential as entrepreneurs.

Lack of information and networking, low participation in trainings and skill development programs and lack of role models to follow contribute to this indifferent attitude. Mobilizing Development Officers attached to Divisional Secretariat Offices as mediators of information in addition to better use of available information channels were recognized as effective means of addressing the information gap. It is also important to provide women entrepreneurs the opportunity to participate in regional trade fairs and exhibitions to see the potential for value addition and obtain direct experience in using new technologies. In addition, Industrial Technology Institute, NEDA and Chamber of Small and Medium Industries of Sri Lanka among others could be the drivers for introducing new technologies to WMSME by providing incentives or allowances to purchase new machines or adopt new techniques and
methods to upgrade their business activities. Introduction of modern technology and equipment would help increase their productivity and profitability.

**Given the importance of participation of women in SME and the export sector to the economy, the role of government is critical in developing and promoting the sectors where women entrepreneurship is concerned.** Successive governments in Sri Lanka have undertaken a gamut of policy initiatives to uplift the MSME and export sectors. Although certain policy measures have benefited the industries, critical issues such as inadequate testing capacity in Sri Lanka, lack of mutual recognition of testing and standards between countries, etc., still prevail across both the spice and coir industries. Export related barriers faced by WMSME were common to all exporters in Sri Lanka; they were not gender specific.

**There is a great need of training programmes at the village level as women found travelling to towns time-consuming and costly.** Opportunity costs for participating in the trainings or meetings outside of their communities are high particularly for married women or women with young children. Mobile technology can be also used to fulfill the distance gap. Forming collective groups at the village level was suggested as a possibility of enhancing networking among women entrepreneurs. To increase awareness of training programmes, information of the programmes could be shared with target groups via District Secretariat, welfare associations, District Chambers of Commerce, District level officers in Export Development Board among others. Programmes should target women entrepreneurs by organizing them at village level.

**Capacities and efficiency of testing laboratories need to be uplifted and reciprocal recognition of tests and standard certification should be put in place to overcome the standards related issues faced by exporters of these products to South Asia.** Domestic testing capacity of authorized laboratories in Sri Lanka needs to be upgraded to improve the efficiency of existing services. The study found that Sri Lankan tests and certificates are not recognized in importing countries. Therefore, a Mutual Recognition Agreement on standards testing and certification that benefits all South Asian countries needs to be negotiated and implemented as soon as possible.

**Various public and private institutions can provide the necessary assistance in terms of tax incentives, and support services such as specially designed marketing and promotional activities to improve the competitiveness as well as visibility of MSME.** Moreover, provision of different and more flexible criteria for MSME to qualify for tax-free imports of raw material would encourage investments into export-oriented industries. In order for WMSME to benefit from trade facilitation initiatives, a change of mindset among officers in key institutions in the trading process to accept and adapt to new ways of doing business is required. This would require continuous training at all levels in these organizations and create awareness about best practices in the world that can be easily adapted to their operations at work.
1. Introduction

Despite South Asia being one of the most dynamic regions in the world and its status as the second fastest growing region in the Asia-Pacific, it is one of the least economically integrated regions. Currently, intraregional trade between the eight South Asian countries accounts for only 5 percent of South Asian Association for Regional Cooperation (SAARC)’s total trade, compared to 25 percent in the Association of Southeast Asian Nations. There are a number of reasons why intraregional trade has remained low. The prevalence of non-tariff barriers (NTBs) being one of them.

Although the region has made significant progress on several Millennium Development Goals (MDGs), South Asia still remains home to nearly 44 percent of the world’s poor. An important means of promoting inclusive and sustainable development outcomes would be to accelerate gainful participation of women-owned and led micro, small and medium enterprises (WMSME) in South Asia. Micro, small and medium enterprises (MSME) are known to be an important source of employment generation and poverty reduction, especially for women across countries in the region. WMSME have been identified as the backbone of these economies and constitute a major source of formal and informal sector employment of women in most South Asian countries. Therefore, it is important to strengthen this sector and improve the participation of these enterprises in the regional markets. However, NTBs can be a significant barrier in tapping existing and potential markets in South Asia. NTBs can give rise to unpredictable and time consuming processes, which can significantly increase the cost of trading across borders, and reduce the competitiveness of suppliers including MSME.

Reliable and disaggregated data on women owned and led enterprises are poor – some studies estimate there are 8 million-10 million WMSME in emerging economies, representing 31-38 percent of all MSME (International Finance Corporation, 2011). The share of WMSME in South Asia is comparatively low to the figures from East Asia, Central Asia and Eastern Europe. In Sri Lanka, MSME account for 80-90 percent of the total number of enterprises in the country and contribute significantly to employment generation in agriculture, manufacturing and service sectors and value addition of the economy. However, women’s involvement in economic activities as entrepreneurs is far below their male counterparts in Sri Lanka. Gender biasness against women is common in the small and medium enterprise (SME) sector in the country. Some of the factors which contribute to low participation of women in Sri Lanka are: lack of access to finance, lack of adequate financial literacy, lack of access to networks and communication, an unequal share of family and household responsibilities etc. In this context, the study was carried out with two major objectives namely: (1) to identify constraints faced by WMSME in Sri Lanka in operating and expanding their businesses including issues related NTBs in the regional markets; and (2) to provide policy and programme recommendations to reduce the constraints.

The outline of the study is as follows. Section one provides an introduction to the study: it states the study objectives and sets the background for the study. The second section discusses the methodological approach of the study and describes the research tools used in carrying out the study. Section three consists of a literature review, which covers broad areas related to the study including MSME in Sri Lanka, female labour force participation in Sri Lanka, Sri Lanka’s trade patterns with South Asia, non-tariff measures (NTMs) and NTBs, and supply and demand-side bottlenecks which limit the full potential of the sector and its export capacities. Analysis of data is presented in detail in section four, followed by two case studies in section five. Key findings and recommendations are discussed in the section six.
2. Methodology

A qualitative research approach was adopted for the study because of the nature of the research questions, which require an analysis ‘that provide detail, process, richness and sensitivity to context (Tharenou, Donahue, & Cooper, 2007). As stated above, the objectives of the study are two-fold: to identify constraints faced by WMSME operating in Sri Lanka and focus on issues related to accessing regional markets; and to provide recommendations to address the constraints. These questions require a comprehensive analysis, which provides detail and rich descriptions as well as sensitivity to context. Towards this end, the study will focus on two products with high participation of WMSME in Sri Lanka and regional export potential to South Asia. This study does not seek to measure the impact or incidence of constraints faced by WMSME in Sri Lanka, which would have warranted a quantitative methodology.

Primary data as well as secondary data were collected for the purpose of the study (Figure 2.1). Focus-group discussions (FGDs), key informant interviews (KIIs), short survey and case studies were the main sources of primary data. Secondary data included a literature review which was done prior to the field work. Findings from the literature review were used in developing research tools for the primary data collection.

Figure 2.1 Overview of methodical approach
2.1. Secondary data

The main secondary data included a literature review, which was based on various types of documents – both published and unpublished materials. Documentation consisted of scientific reports, books, publications, journal articles, working papers, research reports, web based publications etc. This exercise was carried out prior to the fieldwork and was helpful for the purpose of triangulation of data from other sources (FGDs and KIIs). The literature review covered three broad areas: 1) the MSME sector’s role and its contribution to the Sri Lankan economy; 2) female labour force participation in Sri Lanka and 3) the country’s trade performance. Most of the literature was accessed online whilst the IPS library was referred for documents published by government institutes.

2.2. Primary data

2.2.1. Product selection

A four-staged approach was adopted in selecting the two products with regional trade potential for the study (figure 2.2).

After conducting an initial literature review, the National Enterprise Development Authority (NEDA) was consulted to identify the products/industries with a high involvement of women entrepreneurs. NEDA identified the following sectors, handlooms, crushed and reed products, coir based products, spices, cut flowers/foliage, ‘kithul’ trickle, processed food (jam, cordials, dehydrated fruits), handicrafts (coconut shell based, wood based, Palmyra) and ornamental fish. As the third stage of the product selection process, trade data were analysed to explore the potential of these identified products for export to South Asia (table 2.1).

Among the potential exports that were identified through the secondary data analysis, it was found that spices, which consists of pepper and capsicum (HS 0904), cloves (0907) and cinnamon (0906); and coir based products, namely coir floor mats (5702) and coir yarn (5308), met the expected criteria of the study. Both the sectors have high women entrepreneurship together with high export potential to the SAARC region.

---

1 NEDA facilitates and support the development, growth and competitiveness of Sri Lankan Enterprises especially MSME. Moreover, NEDA has an Island-wide network that registers and manages MSME.

2 Fishtail palm (Caryota urens).

3 South Asian countries include Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal and Pakistan.
Table 2.1 Sri Lanka’s indicative regional export potential with high participation of women

<table>
<thead>
<tr>
<th>HS code</th>
<th>Product description</th>
<th>Current exports to South Asia (SA), $</th>
<th>SA’s share of total exports, %</th>
<th>Indicative potential to export to SA, $³</th>
</tr>
</thead>
<tbody>
<tr>
<td>0904</td>
<td>Pepper and capsicum</td>
<td>43,104,000</td>
<td>33.6</td>
<td>27,361,000</td>
</tr>
<tr>
<td>0907</td>
<td>Cloves</td>
<td>12,659,000</td>
<td>25.7</td>
<td>5,676,000</td>
</tr>
<tr>
<td>0906</td>
<td>Cinnamon</td>
<td>3,586,000</td>
<td>2.7</td>
<td>3,207,000</td>
</tr>
<tr>
<td>5702</td>
<td>Coir floor coverings</td>
<td>30,000</td>
<td>0.6</td>
<td>504,000</td>
</tr>
<tr>
<td>5308</td>
<td>Coir yarn</td>
<td>354,000</td>
<td>25.0</td>
<td>226,000</td>
</tr>
<tr>
<td>5208</td>
<td>Handloom saree – less than 200gms</td>
<td>215,000</td>
<td>9.8</td>
<td>3,000</td>
</tr>
<tr>
<td>0603</td>
<td>Cut flowers</td>
<td>1,000</td>
<td>0.5</td>
<td>179,000</td>
</tr>
</tbody>
</table>


Table 2.1 indicates that spices such as pepper and capsicum, cloves, and cinnamon and coir products such as coir floor coverings/door mats and coir yarn have high potential to export to South Asia. For example, Sri Lanka is exporting pepper and capsicum worth of $43 million to South Asia; however, the country has the potential to export additional pepper and capsicum worth $27 million. If Sri Lanka can export up to a total of $70 million worth of pepper and capsicum to South Asia, the region’s share of total exports in that product will increase from 33 to 39 percent. However, both spices and coir products currently face a number of NTMs, such as sanitary and phytosanitary measures, technical barriers to trade, contingent trade protective measures, price control measures including additional taxes and charges, trade-related investment measures.⁵

In the final stage of the product selection, the selected products – spices and coir products – were presented to the Advisory Committee consisting of key stakeholders, which was set up for the purpose of the study to obtain their feedback.⁶ Consequently, with endorsement from the Advisory Committee, spices and coir products were selected for this study given the high involvement of women in the production process and the export potential to the South Asian region.

2.2.2. Site Selection

Based on the feedback of the Advisory Committee and the assistance of NEDA, the main growing areas of the selected products/industries were identified for data collection (table 2.2).

Table 2.2 Site selection

<table>
<thead>
<tr>
<th>Product</th>
<th>District</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cinnamon</td>
<td>Galle</td>
<td>Ahungalle</td>
</tr>
<tr>
<td>Pepper</td>
<td>Matale</td>
<td>Ukuwela</td>
</tr>
<tr>
<td>Clove</td>
<td>Kegalle</td>
<td>Galigamuwua</td>
</tr>
<tr>
<td>Coir</td>
<td>Kurunegala</td>
<td>Kurunegala</td>
</tr>
<tr>
<td></td>
<td>Galle</td>
<td>Habaraduwa</td>
</tr>
</tbody>
</table>

¹ Indicative Export Potential data were obtained from Trademap. Indicative Potential is defined as the lower of the value between a selected country’s exports to the world or the value the partner country imports from the world minus the current trade between the two countries under review. The trade potential is indicative only and serves as a departure point for further research. It gives an overview of the complementarities of the two economies.  
² Data were extracted from ITC’s Market Access Map.  
³ See Section 2.4 for details of the Advisory Committee.
2.2.3. Data collection

The data for the study were mainly drawn from primary sources, which included FGDs, KIIIs, short survey, and case studies of two women entrepreneurs. Primary data revealed a wealth of detailed information and deep insight about the nature of problems faced by WMSME in Sri Lanka and facilitated in providing recommendations for the study. Fieldwork was conducted over three months (November 2014-January 2015), inclusive of pilot testing the FGD and KII guidelines, which were developed for the purpose of the study (Annex 1).

In total, seven FGDs were carried out, including the pilot FGD at seven different locations in the country with the participation of 86 WMSME, until a point of saturation was reached. On average, 12 WMSME participated in each FGD. Participants were selected with the support of NEDA. In this regard, the District Coordinators as well as the Divisional Field Officers of NEDA were contacted. Department of Export Agriculture and local level trade associations were also contacted in finding the suitable participants. Number of employees, annual turnover and asset value, which are the main criteria for NEDA to determine the size of the enterprise7, was used in the study to identify the eligible FGD participants.

In addition, fourteen KIIIs were held with different stakeholders including government officers, members of trade associations, exporters and researchers. To complement the FGDs and KIIIs, a short survey was carried out among the FGDs participants. Demographic and business details of the FGD participants were collected by the survey (Annex 2).

Case studies were used to provide in-depth and illustrative information on the challenges faced by WMSME in operating and expanding their businesses. Two case studies featured two women, one from the spice sector and one from the coir sector, who were interviewed in-depth at their own working places. One was identified at a FGD; the other was identified through a consultation with Coir Exporters Association.

FDGs and KIIIs were digitally audio recorded with the permission of the participants in order to be able to revisit the information and obtain an accurate rendition. All voice recorded interviews were transcribed, and translated from Sinhala to English. During FGDs and KIIIs, notes were taken in the event that recording equipment failed.

(Left to Right) FGD held at Galigamuwa DS office, Kegalle, Ukuwela DS office, Matale, Galle DS office, Habaraduwa

2.3. Data analysis

Qualitative data collected from the field were analyzed by using Content Analysis. Content analysis of qualitative data (primary and secondary) consist of several steps, including preparing the data for analysis, reading through all the data, coding data, coding to generate themes, and narration of findings from the analysis (Creswell, 2003).

7 Enterprise classification in Sri Lanka is discussed in details in the Section 3.1 below.
In this regard, the study utilized NVivo programme, a software widely used for qualitative data analysis. NVivo is a powerful way to undertake sophisticated data coding and it supports several ways to build theories, either local or more general. NVivo is also very helpful in easily organizing different data types and sources used in the study (Ozkan, 2004).

2.4. Quality of research

In conducting the study, several steps were taken in order to assure the quality of the research. Quality of research was assured by a number of ways, including triangulating through multiple methods of data collection (FGDs, KIIIs, and documentation) and multiple sources (conducting more than one FGDs and KIIIs), member checking (relevant sections of the study were sent to some of the key informants to obtain their feedback), spending a prolong time period in the field (to develop an in-depth understanding of the situation on the ground), conducting national consultation meeting with representatives from the private sectors, officials from relevant ministries and experts to discuss the findings; and providing a rich, thick description of the findings to provide a better understanding of the setting/context.

At the inception of the study, an Advisory Committee, consisting six members was set up in order to ensure the policy relevance and the quality of research outputs generated by the study. The Advisory Committee composed of government officials and members from the trade associations. The committee provided guidance and technical inputs to the research team for the duration of the study. The committee met twice during the study and its members were consulted individually to get information and contact details of the women exporters as well as for validating and crosschecking purposes.

A National Consultation Meeting was held after data collection and analysis. The main objective of this consultation meeting was to present the initial findings of the study to the main stakeholders and get their feedback. Government officers, members of the trade associations, chambers, private sector representatives and community members participated in the National Consultation Meeting. Comments and suggestions made by the participants were taken into consideration when finalizing the report.
3. Literature review

A literature review was undertaken at the beginning of the study to gather available information with regard to WMSME in Sri Lanka. Toward this end, the literature review covered the following areas: MSME in Sri Lanka, female labour force participation and WMSME in the country, Sri Lanka’s trade performance, the use of the broad definition of NTMs and non-tariff barriers (NTBs) in the study, and supply-side bottlenecks.

3.1. MSME in Sri Lanka

MSME play a pivotal role in an economy generating employment, contributing to GDP, alleviating poverty etc. (Bouri, et al., 2011). This sector has being identified as the backbone of both developed and developing nations (Organization for Economic Cooperation and Development, 2004). A survey on MSME conducted in 132 countries in 2010 highlighted that there are 125 million formal MSME in operation; further, East Asia and the Pacific have the highest ratio of MSME employment to total employment (Kushnir, Mirmustain, & Ramalho, 2010). This is mainly due to China, where formal MSME account for 80 percent of total employment. However, South Asia recorded the lowest formal MSME employment to total employment in South Asia (Kushnir et al., 2010).

Nevertheless, this sector is important in countries like Sri Lanka where poverty and unemployment are persistent problems (Samaratunga, 2013). This section provides definitions of MSME used in Sri Lanka, contribution to the economy and policies and programmes related to SME.

3.1.1. Definition of MSME

SME cover a wide range of definitions and measures varying from country to country and between sources reporting SME statistics (Ayyagari & Beck, 2005). Some of the commonly used criteria are: the number of employees, total net assets, sales and investment levels. Of these, the most widely used definition is the number of employed; yet, there is variation in defining the upper and lower size limit of SME (Dalberg, 2011).

Sri Lanka also does not have a clear agreed definition although there have been several policy drafts presented to date. Currently, several ministries, departments and institutions use different definitions to identify SME (table 3.1).

According to the draft National Policy framework for SME development in Sri Lanka (2013), “the term SME is used to denote micro, small and medium enterprises in Sri Lanka.” It defines enterprises based on number of employees – micro enterprises with less than 10 employees and annual turnover less than Rs.15 million, while small enterprises have 11-50 employees and turnover of Rs.16 million-250 million (Ministry of Traditional Industries and Small Enterprise Development, 2013).

NEDA together with the Ministry of Traditional Industries has developed its own definition for MSME (table 3.2). Although this definition is not finalized, NEDA uses this definition when categorizing firms for its programmes. NEDA considers all three criteria (number of employees, annual turnover and asset value) when categorizing a firm, but when all the information is not available classification is done based on the existing information where available. For this study, this definition is used in the selection of MSME.
<table>
<thead>
<tr>
<th>Institution</th>
<th>Criterion</th>
<th>Medium Scale</th>
<th>Small Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Enterprise Development Authority (NEDA)</td>
<td>Number of Employees</td>
<td>20-50</td>
<td>5-19</td>
</tr>
<tr>
<td></td>
<td>Annual Turnover</td>
<td>Rs.1 million-5 million</td>
<td>Rs.200,000-1,000,000</td>
</tr>
<tr>
<td></td>
<td>Asset Value (excluding land and building)</td>
<td>Less than 20 million</td>
<td>Less than 10 million</td>
</tr>
<tr>
<td>Ministry of Industry, Tourism and Investment Promotion</td>
<td>Value of fixed assets other than land and buildings</td>
<td>Up to Rs.16 million</td>
<td>Less than Rs.16 million</td>
</tr>
<tr>
<td>Federation of Chambers of Commerce and Industry of Sri Lanka</td>
<td>Capital employed</td>
<td>Rs.2 million-20 million</td>
<td>Less than Rs.2 million</td>
</tr>
<tr>
<td>Ministry of Small and Rural Industries</td>
<td>Total Investment</td>
<td>Rs.20 million-50 million</td>
<td>Rs.1 million-20 million</td>
</tr>
<tr>
<td>Ceylon National Chamber of Industries (Gamage, 2003)</td>
<td>Value of assets other than buildings and lands</td>
<td>Rs.4 million-20 million</td>
<td>Less than Rs.4 million</td>
</tr>
<tr>
<td></td>
<td>No. of employees</td>
<td>10-50</td>
<td>Less than 10</td>
</tr>
<tr>
<td>Sri Lanka Export Development Board (EDB)</td>
<td>Capital investment excluding lands and building</td>
<td>More than Rs.40 million</td>
<td>Less than Rs.20 million</td>
</tr>
<tr>
<td></td>
<td>Annual export turnover</td>
<td>More than Rs.100 million</td>
<td>Less than Rs.100 million</td>
</tr>
<tr>
<td>World Bank (for Sri Lankan country studies and loan programmes)</td>
<td>No. of employees</td>
<td>50-99</td>
<td>1-49</td>
</tr>
<tr>
<td>Department of Census and Statistics</td>
<td>No. of employees</td>
<td>More than 25 (Year 2000)</td>
<td>More than 10 (Year 2003/04)</td>
</tr>
<tr>
<td></td>
<td>Asset Value excluding land and buildings value</td>
<td>Not exceeding more than Rs.50 million</td>
<td>Not exceeding more than Rs.20 million</td>
</tr>
<tr>
<td>Task Force for SME Development in Sri Lanka (2002)</td>
<td>Export value</td>
<td>Rs.101 million-250 million</td>
<td>Rs.250,000-100 million</td>
</tr>
<tr>
<td></td>
<td>No. of Employees</td>
<td>101 – 250</td>
<td>1 – 100</td>
</tr>
<tr>
<td>Sri Lankan Apparel Industry, Task force on five year strategy (2002)</td>
<td>Capital investment</td>
<td>Rs.5 million-25 million</td>
<td>Less than Rs.5 million</td>
</tr>
<tr>
<td></td>
<td>No. of Employees</td>
<td>50-100</td>
<td>Less than 50</td>
</tr>
</tbody>
</table>

Source: (Dasanayaka, 2009)
Table 3.2 Definition of MSME used by NEDA

<table>
<thead>
<tr>
<th>Sectors/Size</th>
<th>Primary Agriculture</th>
<th>Manufacturing</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of Employees</td>
<td>Less than 5</td>
<td>Less than 5</td>
<td>Less than 5</td>
</tr>
<tr>
<td>Annual turnover</td>
<td>Less than Rs. 200,000</td>
<td>Less than Rs. 250,000</td>
<td>Less than Rs. 200,000</td>
</tr>
<tr>
<td>Asset Value (excluding land and building)</td>
<td>Less than Rs. 5 million</td>
<td>Less than Rs. 10 million</td>
<td>Less than Rs. 5 million</td>
</tr>
<tr>
<td><strong>Small</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of Employees</td>
<td>5-19</td>
<td>5-50</td>
<td>5-19</td>
</tr>
<tr>
<td>Annual Turnover</td>
<td>Rs. 200,000-1,000,000</td>
<td>Rs. 250,000-10 million</td>
<td>Rs. 200,000-1,000,000</td>
</tr>
<tr>
<td>Asset Value (excluding land and building)</td>
<td>Less than Rs. 10 million</td>
<td>Less than Rs. 20 million</td>
<td>Less than Rs. 10 million</td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of Employees</td>
<td>20-50</td>
<td>51-150</td>
<td>20-50</td>
</tr>
<tr>
<td>Annual Turnover</td>
<td>Rs. 1 million-5 million</td>
<td>Rs. 10 million-25 million</td>
<td>Rs. 1 million-5 million</td>
</tr>
<tr>
<td>Asset Value</td>
<td>Less than Rs. 20 million</td>
<td>Less than Rs. 50 million</td>
<td>Less than Rs. 20 million</td>
</tr>
</tbody>
</table>

Source: NEDA (2009).

### 3.1.2. Contribution to the economy

The SME sector in Sri Lanka accounts for 52 percent of the GDP, 45 percent of the total employment and more than 75 percent of the total number of enterprises (Ministry of Traditional Industries and Small Enterprise Development, 2013). Moreover, SME accounts for 30 percent in terms of value added as well as 32.7 percent of the employment in agriculture, 26.3 percent in manufacturing, and 41 percent in services (NEDA, 2009).

MSME are present in agriculture, manufacturing and service sectors of the country. However, reliable data is only available for the manufacturing and service sector (Task force for SME sector Development, 2002). According to the Non-Agricultural Economic Activities in Sri Lanka Economic Census done, 90 percent of the establishments in manufacturing are micro enterprises (Department of Census and Statistics, 2013/14). The service sector has higher share of SME; for instance, 42 percent of the establishments in the trade sector are micro enterprises. Nearly a quarter of the micro-sized establishments, a half of 50 medium-sized establishments and 61 percent of large scale establishments are located in the urban areas (Department of Census and Statistics, 2013/14). Western province being the main industrial and economic hub of the country with better access to roads, rail, port and airport infrastructure, banking and other commercial services attracts large establishments (table 3.3).
Table 3.3 Distribution of industrial establishments by size and province

<table>
<thead>
<tr>
<th>Industry Size/Province</th>
<th>Small Industries (less than 10 employees), 2003, %</th>
<th>Medium &amp; Large Industries (more than 10 employees), 2003, %</th>
<th>Total, %</th>
<th>Establishments with 5 or more persons employed, 2009, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western</td>
<td>28.1</td>
<td>44.4</td>
<td>29.3</td>
<td>40.9</td>
</tr>
<tr>
<td>North-Western</td>
<td>18.8</td>
<td>16.2</td>
<td>18.6</td>
<td>18.8</td>
</tr>
<tr>
<td>Southern</td>
<td>12.0</td>
<td>8.0</td>
<td>11.7</td>
<td>9.3</td>
</tr>
<tr>
<td>Central</td>
<td>10.8</td>
<td>10.8</td>
<td>10.8</td>
<td>12.0</td>
</tr>
<tr>
<td>Sabaragamuwa</td>
<td>10.4</td>
<td>8.0</td>
<td>10.2</td>
<td>7.8</td>
</tr>
<tr>
<td>North-Central</td>
<td>5.8</td>
<td>4.3</td>
<td>5.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Eastern</td>
<td>5.8</td>
<td>3.3</td>
<td>5.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Uva</td>
<td>4.4</td>
<td>2.6</td>
<td>4.3</td>
<td>2.5</td>
</tr>
<tr>
<td>Northern</td>
<td>3.8</td>
<td>2.3</td>
<td>3.7</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Note: a and b as classified in Department of Census and Statistics (2003/2004); c as classified in Department of Census and Statistics (2010).


3.1.3. National schemes and policies to improve MSME

In Sri Lanka, nearly 84.9 percent of the population are in the rural sector (World Bank, 2012). The main employment of rural population in Sri Lanka is agriculture, particularly in food production for both subsistence and market. Small industries are the major source of employment and food production and therefore, the main livelihood of Sri Lankan villagers. Consequently, almost all the governments that came to power since independence in 1948 recognised the need for developing this vital sector and introduced various support programmes to facilitate the growth and expansion of SME in different sub-sectors of the economy. Small scale industries play an important role in a country’s economic development through creation of employment opportunities, mobilization of domestic savings, poverty alleviation, income distribution, regional development, training of workers and entrepreneurs, creating an economic environment in which large firms flourish and contribute to export earnings (Gamage, 2003).

The Strategy for SME Development in Sri Lanka: White Paper prepared by the Task Force for Small and Medium Enterprise Sector Development in 2002 is one of the most important and detailed documents on Sri Lanka’s SME sector to date. It highlighted the need for an enabling environment for the SME sector to be internationally competitive and also presented the policies and programs to further develop and integrate SME with various sub-sectors of the economy (Wijesinghe & Perera, 2013). Even though there were several strategies to improve the sector, the White Paper states that SME are less dynamic and less developed and that the growth and the expansion of the sector is hindered by the problems related to product and factor markets. The White Paper provides several strategies to overcome identified constraints. Policy inertia was identified as one of the main constraints for growth and development of the SME. High interest rates and the emphasis on collateral, low level of technology and absence of technical and managerial skills, lack of market information and marketing skills, lack of adequate infrastructure facilities, labour legislation, competition from sub-standard goods, and regulatory role of the government were the other constraints identified in the White Paper.

In 2009, NEDA drafted the Small and Medium Enterprise Policy, which highlights the importance of SME policies for entrepreneurship development, competitiveness of SME, promotion of regional economy,
enabling business environment, micro enterprise developments etc. The SME policy was further expanded in the ‘Mahinda Chintana’ Vision for the Future (2010);

“The micro industries sector and the SME sector have been identified as important strategic sectors for promoting regional growth and social development. SMEs nurture entrepreneurial talents and form a good ground for training employees. Entrepreneurship development programmes will be conducted island-wide to create an entrepreneurial business climate. The sector will be stimulated by improving market opportunities through promoting backward and forward linkages between large scale enterprises and foreign enterprises. Development of subcontracting arrangements will form these linkages and will facilitate SMEs to expand their operations. Financial assistance will be given to SMEs through formal institutions” (p.70).

In addition to these two documents, the Ministry of Traditional Industries and Small Industry Development and the Ministry of Finance and Planning recently drafted a National Policy Framework for SME Development in Sri Lanka in 2013. The main objective of this document is to create significant number of globally competitive, dynamic, innovative, technologically driven, eco-friendly and sustainable SME, which contribute significantly to the national economic development.

Towards this end, government budgets have provided several incentives to promote SME sector in the country, including tax concessions, subsidized rates for SME loans, and import duty tax exemptions for raw material imports. For example, in the 2013 budget, it was proposed to promote 25 women entrepreneurs from household economies in each district in terms of enterprise development. Special SME bank branches were established to support SME by providing guidance on marketing and financial management. Further, corporate income tax rate on SME was reduced to concessionary rates of 10 to 12 percent.

The 2014 budget proposed a low cost fund, which is around Rs.16 billion, to provide credit facilities at an interest rate not exceeding 8 percent for manufacturing and SME industries to modernize their factories with energy efficient technology and to improve their international competitiveness (Ministry of Finance and Planning, 2014). It also proposed a special interest rate for SME in the diary sector and for women who are engaged in SME.

### 3.1.4. Female labour force participation in Sri Lanka

Sri Lanka has made significant progress in meeting MDGs such as poverty reduction, increasing literacy rate, decreasing infant mortality rate, decreasing maternal mortality rate and access to safe drinking water and sanitation (UNDP, 2015). Sri Lanka has been successful in maintaining an annual GDP growth rate of 6.1 percent for 2007-2012 (table 3.4). This growth rate is the second highest in South Asia for that particular time period. Likewise, Sri Lanka is performing well in education and health related gender equality indicators. Sri Lanka has been successful in achieving gender parity in all levels of education, and antenatal care coverage is almost 100 percent. However, the success in the education and health is not visible in the economic participation of Sri Lankan women. Gender parity in labour force participation rate is 0.46 for Sri Lanka, which is the second lowest in the region after India (table 3.4). The female labour force participation rate is not par with the country’s socio-economic development indicators.

A country’s working age population\(^8\) consists of two components; the economically active population, also known as the labour force and the economically inactive population.\(^9\) There are four major categories

\(^8\) All persons of age 10 years and above are considered to be in the working age population.

\(^9\) All persons who were employed or unemployed during the reference period of the survey are referred to as economically active. All persons who were neither work nor available or looking for work are referred as to as economically inactive population.
in the economically inactive population: full-time students, those who are engaged in household work, retired and elderly persons and people with disability. Female labour force participation rate was 35.6 percent vis-à-vis 74.9 percent for males (Department of Census and Statistics, 2013). Of the economically inactive males, nearly 60 percent were engaged in studies whereas only 25 percent of such females were engaged in studies (figure 3.1). The majority of females who were economically inactive were engaged in household work.

When considering the currently employed persons by sex, the percentage of females in the categories of employee, own account worker, and employer is comparatively less than for males (figure 3.2). Female representation is much higher than males in the category of contributing family workers; that is, those “who make their contribution to the economic activities carried out by their own household, without wages/salaries” (Department of Census and Statistics, 2012, p. 71). It is quite clear that the opportunities for getting paid for their work and becoming economically empowered are less for those who are in this category.

Table 3.4 Selected indicators for economic growth, employment and gender equality and opportunity

<table>
<thead>
<tr>
<th>Country</th>
<th>Annual growth rate of GDP per capita, a 2007-2012</th>
<th>Employment-to-population ratio, aged 15 years and over, 2012</th>
<th>Gender parity in education, b latest year available</th>
<th>Antenatal care coverage at least one visit, % of live births, latest year available</th>
<th>Gender parity in labour force participation, aged 15 years and over, c 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maldives</td>
<td>3.6</td>
<td>40.3 69.5</td>
<td>0.97 1.13 1.13</td>
<td>99.1 0.73</td>
<td>0.73</td>
</tr>
<tr>
<td>India</td>
<td>5.9</td>
<td>26.1 76.1</td>
<td>1.02 0.94 0.78</td>
<td>74.2 0.36</td>
<td>0.36</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>5.1</td>
<td>27.1 83.9</td>
<td>1.06 1.14 0.69</td>
<td>54.6 0.68</td>
<td>0.68</td>
</tr>
<tr>
<td>Nepal</td>
<td>3.3</td>
<td>93.0 90.0 d</td>
<td>1.08 1.05 0.64</td>
<td>58.3 0.92</td>
<td>0.92</td>
</tr>
<tr>
<td>Bhutan</td>
<td>7.0</td>
<td>61.8 64.4</td>
<td>1.02 1.06 0.69</td>
<td>97.3 0.86</td>
<td>0.86</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>6.1</td>
<td>30.9 72.8</td>
<td>1.00 1.06 1.66</td>
<td>99.4 0.46</td>
<td>0.46</td>
</tr>
</tbody>
</table>

Note: a at Constant 2011 purchasing power parity $ for 2007-2012
b Measured as the ratio of females gross enrolment ratio to male gross enrolment ratio
c Gender parity is measured as the ratio of female labour force participation rate to male labour force participation rate
d 2003


Figure 3.1 Reasons of being economically inactive, 2012

Source: Department of Census and Statistics, 2013.
The economy of Sri Lanka has remained heavily dependent on women throughout the modern history (Lakshman, 1998) and women have played an important role in the Sri Lanka's labour force from the very beginning. Until the late-1970s, female labour force participation rose mainly due to supply factors such as rising literacy and educational attainment and expansion of the service sector and professions such as teaching, health care, clerical and finance related occupations, which were perceived as acceptable for women (Kiribanda, 1997). In the second half of the 1970s, with the liberalization of the Sri Lankan economy, there was a significant increase in female labour force participation with the establishment of new manufacturing and service businesses and expansion of existing employment opportunities for females in teaching and health care (figure 3.3). Apart from the traditional occupations in which females dominated; new job avenues opened up in new areas, namely, in export-oriented garment industries, foreign employments, tourism, information technology related services and banking and finance (Lakshman, 1998). However, the female labour force participation remained low. Most women were employed in occupations at the bottom of the hierarchy such as machine operators or helpers in garment factories and domestic workers in overseas jobs (Jayaweera, 2007). Consequently, women are not getting a reasonable pay for their work (Lakshman, 1998).

**Figure 3.3 Female labour force participation rates in Sri Lanka**

Female labour force participation is lower than the male participation rate at any age group (figure 3.4). The gender gap increases with age, and declines slightly at 40 years old and older, as more men than women leave the labour force.

There is not much disparity in terms of level of education between the sexes. In fact, the percentage of females in the highest education level group is significantly more than males in the same education group (figure 3.5).

More than two-thirds of the country’s employed population is concentrated in four occupation categories, namely skilled agriculture and fishery workers, elementary occupations, craft and related workers, and sale and service workers (table 3.5). Distribution of such occupations among men and women is similar. The percentage contribution of females to the total employment is quite high for professionals compared to other categories. Professional occupations include teachers, nurses, and doctors.10

Females are facing difficulties in finding suitable jobs during their reproductive age as job opportunities for women are limited to a few sectors, whereas males have a wider range of jobs to choose from including the rapidly growing sectors such as construction and trade. These difficulties are aggravated by issues related to transport, social attitudes, personal safety and housing (Gunatilaka, 2013).

Gender wage gap 11 has been found to be a reason hindering female labour force participation (Gunatilaka, 2013). Women’s wages typically represent 70-90 percent of men’s wages. Entry level wages for women tend to be lower than for men as well. There appears to be a persistent pay gap between men and women engaged in similar work, even in professional and executive-level jobs and skilled trades in Sri Lanka (International Labour Organization, 2008, p. 29; Rodrigo, 2000; Ajwad and Kurukulasuriya, 2002). The magnitude of this disparity varies depending on the ethnicity of the worker. Much of the gender disparity is not explained by productive characteristics, implying that discrimination against women may be playing a role (Ajwad and Kurukulasuriya, 2002).

10 From 2013 onward, Sri Lanka Labour Force Survey uses Sri Lanka Standard Classification of Occupation (SLSCO–08), based on International Standard Classification of Occupation 2008 (ISCO–08) for occupation classification. ISCO-08 has four sub- categories under the occupation group of professionals namely; 1) physical, mathematical and engineering science professionals, 2) life science and health professionals, 3) teaching professionals, and 4) other professionals.

11 On average, women are paid less than men, even when they share the same productive characteristics.
Further, it has been observed that average opportunities available for females in the labour force and distribution of opportunities have deteriorated from 2006/2007 to 2009/2010 while females in the poorest income decile are more vulnerable to this unfavorable change (Madurawala, 2014). Unavailability of employment opportunities, reduction in poverty level, and higher cost of child care and house-keeping were recognized as possible contributory factors for this decline (ibid.).

### 3.1.5. Importance of WMSME

Fostering and promoting women entrepreneurship is an important policy measure that can be taken in addressing the issue of the relatively low labour force participation of Sri Lankan females. Women’s economic development through enterprise promotion can have a positive impact in a number of areas. It can enhance economic growth and provide employment opportunities. It can also improve the social, educational and health status of women and their families as women invest more in education, health and well-being of the family (Attygalle et al., 2014). Women entrepreneurs are seen as ‘the new engines for growth’ and ‘the rising stars of the economies in developing countries’ improving prosperity and welfare (Vossenberg, 2013).

Micro, small and medium enterprises are considered as an important means for women, especially in rural areas, to be actively involved in economic activities, as either hired workers or entrepreneurs. MSME can provide an avenue for testing and developing women’s ability as entrepreneurs (Tambunan, 2010). Osmani and Chandrasiri (2002) also argue that SME can make a positive contribution towards lowering poverty in Sri Lanka by reducing open unemployment among the less educated segment of the labour force and unemployment among women. SME have the ability to prosper even in the most poverty stricken areas and to provide employment for the country’s unemployed sector which broadly includes women and the rural communities (ibid.). Easing the obstacles faced by female entrepreneurs and investing in existing opportunities to further encourage female entrepreneurship in SME sector are important given that the high

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The poverty head count ratio - the percentage of population below the poverty line - has declined from 15.2 percent in 2006/2007 to 8.9 percent in 2009/2010 (Department of Census and Statistics, various years). A drop in female labour force participation could be observed given the negative relationship between the income level and female labour force participation.
contribution by the SME sector to the country’s economy and the potential the sector has in increasing gender equality through employment generation for women (Attygalle et al. 2014).

However, in the Sri Lankan context, the women’s involvement in economic activities as entrepreneurs is far below their male counterparts (figure 3.6). Only 8.8 percent of the firms in the country have a female top manager, and only 26.1 percent of the firms are owned by women. More disaggregated data indicate that the percentage of firms with female top manager decreases as the size of the firm becomes larger. On the contrary, the percentage of female ownership increases as the size of the firm becomes larger. This relationship however, should be investigated further as it goes against what is usually expected and is not reflected in the aggregate data.

Figure 3.6 Female participation in enterprises, 2011

![Bar chart showing female participation in enterprises by firm size and ownership.]


3.1.6. Barriers and constraints faced by WMSME

Women-led businesses remain a much neglected sector. Women face significant barriers to setting up businesses and funding due to various barriers. Lack of land ownership or collateral, a heavier burden of household responsibilities, and difficulties of breaking into male-dominated business networks and practices are some of the barriers. Institutional barriers to female entrepreneurship include credit constraints, property rules, and adverse social norms (Klapper and Parker, 2011). In many developing countries and transitional economies, women cite finance as a major challenge in starting and expanding their businesses (ibid.) Women also face greater obstacles in accessing training, networks and information, as well as legal and policy constraints (Niethammer, 2013). Main constraints faced by women-owned SME in South Asia and in developing countries are summarized in table 3.6.

Tambunan (2010) points out that the main problems faced by WMSME are low access to credit and marketing networks, lack of access to land and property and reduced risk-taking capacity, lack of access to modern technology, lack of personal security and risk of sexual harassment, severe competition from organized units both in the domestic as well as the international markets, low level of self-confidence, and social and cultural barriers such as exclusive responsibility for household work and restrictions on mobility.
Table 3.6 Main constraints faced by women-owned SME in South Asia and developing countries

<table>
<thead>
<tr>
<th>Aspect of business</th>
<th>Main constraints</th>
</tr>
</thead>
</table>
| Access to finance | • Discriminatory national laws  
                     • Prejudice against women and women-owned business  
                     • Difficulty in providing collateral (women do not own assets in their own right)  
                     • Lack of credit/ banking history (due to past, informal nature of businesses)  
                     • Need for credit plus business planning and advisory services  
                     • Weak creditors’ rights and a lack of credit information  
                     • Financial institutions are usually reluctant to lend money to early-stage enterprises and start-ups because of the high risks due to the reality or perception of women’s lower education, skill level, and work experience |
| Access to markets | • Prejudice against women  
                     • Difficulty in travelling to make contacts  
                     • Sexual harassment |
| Access to training | • Training needs are often overlooked  
                     • When identified, women’s needs may not be met (for example time of training, content, method of delivery) |
| Access to infrastructure | • Bias against women’s business  
                             • Few or no contacts in bureaucracy  
                             • Poor conditions of the infrastructure |
| Access to technology | • Older women and women with low levels of education and literacy are particularly disadvantaged  
                        • Lack of English language skills  
                        • Bias against women’s involvement in technical matters. |
| Legal restrictions | • Women may be constrained to enter contracts in their own name, to control property within marriage, or to receive an equal share of assets on divorce or in inheritance |
| Other | • Personal characteristics  
         • Low education level  
         • Low level of experience as entrepreneurs  
         • Cultural barriers |


In Sri Lanka too, gender biasness against women is common in the SME sector, in which women should ideally be able to start up their careers as entrepreneurs. Some of the factors that contribute to the low levels of participation by women are: 1) lack of access to finance, 2) lack of adequate financial literacy, 3) negative norms and attitudes towards entrepreneurship as a career option, 4) limited mobility, 5) lack of access to networks and communication, 5) an unequal share of family and household responsibilities, and 6) no maternity protection (Staermose, 2009).

Receiving financial support from banks, marketing, technology, and issues with company registration are the main issues faced by the women entrepreneurs when starting a business in Sri Lanka (Attygalle et al., 2014). However, these constraints are not limited only to female entrepreneurs but affect the SME sector as a whole. SME face these challenges in operating and building their businesses (Wijesinha, Perera, and Weerasekera, 2012).

13 The National Policy on Human Resource and Employment observes “…there is a gender bias in SME employment. Workers employed in SME are predominantly men. Good equal employment practices are needed to correct the above bias” (Secretariat for Senior Ministers, 2012, p. 50)
Apart from these challenges women in the SME sector are further disadvantaged due to poor networking and social linkages. Attygalle et al. (2014) found that 41 percent of women entrepreneurs do not belong to any business association and as a result, they miss the opportunity of receiving information, getting to know other entrepreneurs and other business opportunities like trainings, visits and technical advice. The most demanded Business Development Services\(^{14}\) by the female entrepreneurs in the SME are marketing services, new technologies, information on banking services, efficient machineries and market opportunities, taxation and updates on changes in the business environment (ibid.).

Most of the women-owned micro enterprises earn lower profits than male-owned micro enterprises (De Mel et al. (2009) and Dayananda (1995) as cited in Niranjala (2011)). The major reasons behind the low profitability for women-owned micro enterprises are found to be the high market competition, limited number of customers and market size due to close proximity of competitors and inability to engage in their business countinually thoughout the day because of their familial obligations (Niranjala, 2011).

Women in SME in Sri Lanka have become side-lined from development agendas due to the fact that their growth in doing business is not explicitly evident. For instance, most women in SME thrive to fulfill the basic necessities of their families such as educating and feeding their children rather than enhancing their entrepreneurial skills and expanding their business. Sexual harassments are also prevalent and act as a hindrance to growth and development (Wijeyeratnam & Travis, 2013). Despite of all these barriers faced by the women entrepreneurs, the Global Gender Gap Report for 2014 shows that the ability of women to rise to positions of enterprise leadership is 5.7\(^{15}\) in Sri Lanka. This is encouraging when compared with the other South Asian counterparts\(^{16}\) (World Economic Forum, 2014).

Most of women entrepreneurs are in micro-enterprises, a large number of which operate in the informal economy, and they tend to be grouped in particular sectors such as food processing and textile (Staermose, 2009). Food processing, manufacturing, beautician, and textiles were found to be the most common micro enterprises among women in Anuradhapura district of Sri Lanka (Niranjala, 2011).

### 3.2. Sri Lanka’s trade performance

In spite of external shocks and domestic challenges, Sri Lanka has shown resilience in its external trade performances during the past two decades (Institute of Policy Studies, 2013). Although the country’s exports and imports slowed down during the global financial meltdown, trade regained with imports, accelerating at a faster rate than exports (figure 3.7). As a result, the trade balance has deteriorated. Sri Lanka’s export performance as a percentage of the GDP has been declining since 2000.\(^{17}\) Sri Lanka’s share in global exports has also been declining.

---

\(^{14}\) “Business Development Services are services that improve the performance of the enterprise, its access to markets, and its ability to compete. The definition of “business development services” in these guiding principles includes a wide array of business services, both strategic and operational. BDS are designed to serve individual businesses, as opposed to the larger business community (Committee of Donor Agencies for Small Enterprise Development, 2001, p. 11).”

\(^{15}\) Survey data, responses on a 1-to-7 scale (1 = worst score, 7 = best score).

\(^{16}\) India scores 3.9, Pakistan scores 4.9, Nepal scores 4.0, Bangladesh scores 3.9 and Bhutan scores 5.5 for the same indicator.

\(^{17}\) Calculated based on the data from Central Bank of Sri Lanka (various years) and International Monetary Fund (various years).
3.2.1. **Trade direction**

Despite attempts to diversify Sri Lanka’s export products and markets, diversification remains limited both in terms of products and markets throughout the past two decades. The EU and the United States remain as major export destinations, accounting for over 50 percent of Sri Lankan exports (figure 3.8).

Sri Lanka’s exports to South Asia also remain low in spite of a South Asia Free Trade Area currently in place as well as the Indo-Lanka Free Trade Agreement and Pakistan-Sri Lanka Free Trade Agreement. Exports to South Asia are only about 8 percent of Sri Lanka’s total world exports; of which 70 percent of the exports are channeled to India (figure 3.8).

Sri Lanka’s imports are largely dominated by China and India that account for a total of 35 percent of Sri Lanka’s world imports (figure 3.9). Imports from the EU, the third largest import partner, was about 10 percent of the total world imports of Sri Lanka in 2013. Sri Lanka’s imports from SAARC countries have gradually grown since 2002 but nearly 90 percent of them come from India (figure 3.9). Sri Lanka’s imports from India have accelerated from about $600,000 in 2001 to over $3 million in 2013 with the Indo-Lanka Free Trade Agreement.

**Figure 3.8 Destination of Sri Lanka’s exports, 2013**

Source: Central Bank of Sri Lanka, various issues, and International Monetary Fund, Various Years
3.2.2. Trade composition

Sri Lanka’s export basket comprises of textiles and clothing, petroleum-based products, tea, rubber, coconut and fisheries products. Ready-made garments and textiles have the largest share of over 40 percent of total exports, followed by tea exports of around 15 percent. Major export destinations of textiles and garments have been the United States and EU.

Sri Lanka’s major exports to South Asia include spices (pepper, capsicum and cloves), cargo vessels, insulated wires/cables, animal feed, rubber products, areca nuts, woven cotton fabrics, waste & scrap of paper (Table 3.7). The bulk of these exports go to India, and Bangladesh. Almost all the top exports to South Asia from Sri Lanka are dominated by one or two destinations in the region.

Table 3.7 Sri Lanka’s top 10 SAARC exports

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
<th>Exports in thousand $</th>
<th>% of total SAARC exports, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>0904</td>
<td>Pepper and capsicum</td>
<td>21,423 43,104 60,753</td>
<td>8.0</td>
</tr>
<tr>
<td>8901</td>
<td>Cruise ship, cargo ship, barges</td>
<td>19,009 26,421 51,162</td>
<td>6.7</td>
</tr>
<tr>
<td>8544</td>
<td>Insulated wire/cable</td>
<td>42,825 42,604 39,112</td>
<td>5.1</td>
</tr>
<tr>
<td>2309</td>
<td>Animal feed preparations, nes</td>
<td>36,266 46,566 38,262</td>
<td>5.0</td>
</tr>
<tr>
<td>0907</td>
<td>Cloves (whole fruit, cloves and stems)</td>
<td>31,415 12,659 35,490</td>
<td>4.7</td>
</tr>
<tr>
<td>5209</td>
<td>Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2</td>
<td>14,629 29,184 28,807</td>
<td>3.8</td>
</tr>
<tr>
<td>4707</td>
<td>Waste and scrap of paper or paperboard</td>
<td>27,805 24,050 25,887</td>
<td>3.4</td>
</tr>
<tr>
<td>4001</td>
<td>Natural rubber, balata, gutta-percha etc.</td>
<td>50,035 41,043 19,542</td>
<td>2.6</td>
</tr>
<tr>
<td>4411</td>
<td>Fibre-board of wood or other ligneous materials</td>
<td>20,379 19,735 18,476</td>
<td>2.4</td>
</tr>
<tr>
<td>0802</td>
<td>Other nuts, fresh or dried, whether or not shelled</td>
<td>2,261 3,100 16,492</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: ITC Trademap, various years
Sri Lanka has the potential to expand exports to the SAARC region, given the sheer size of the market and also the geographic proximity. When analyzing Sri Lanka’s potential exports to South Asia at Harmonized System (HS) 6-digit level, it becomes evident that Sri Lanka has the potential to export mainly tea, precious stones, apparel, spices, and rubber products to South Asia (table 3.8).

Sri Lanka already exports significant amount of spices such as pepper and capsicum to neighbouring countries. But Sri Lanka has the potential to increase spice exports to South Asia by nearly 50 percent. Similarly, Sri Lanka currently exports only $70,000 worth of coir floor mats and $307,000 of coir yarn to South Asia, but it has the potential to increase exports of coir floor mats by 79 percent and coir yarn by 26 percent to South Asia (International Trade Centre, 2014).

Table 3.8 Sri Lanka’s top 20 products with potential to exports to SAARC in 2013

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
<th>Current exports, in US$ ’000</th>
<th>Potential exports, in US$ ’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>090240</td>
<td>Black tea (fermented) &amp; partly fermented tea in packages exceeding 3 kg</td>
<td>5,700</td>
<td>394,361</td>
</tr>
<tr>
<td>710239</td>
<td>Diamonds non-industrial nes excluding mounted or set diamonds</td>
<td>107</td>
<td>238,103</td>
</tr>
<tr>
<td>710391</td>
<td>Rubies, sapphires and emeralds further worked than sawn or rough shaped</td>
<td>624</td>
<td>80,891</td>
</tr>
<tr>
<td>620342</td>
<td>Mens/boys trousers and shorts, of cotton, not knitted</td>
<td>2,623</td>
<td>76,651</td>
</tr>
<tr>
<td>710231</td>
<td>Diamonds non-industrial unworked or simply sawn, cleaved or bruted</td>
<td>192</td>
<td>74,861</td>
</tr>
<tr>
<td>090411</td>
<td>Pepper of the genus piper, ex cubeb pepper, neither crushed nor ground</td>
<td>61,351</td>
<td>58,047</td>
</tr>
<tr>
<td>401699</td>
<td>Articles of vulcanised rubber nes, other than hard rubber</td>
<td>289</td>
<td>55,262</td>
</tr>
<tr>
<td>620520</td>
<td>Mens/boys shirts, of cotton, not knitted</td>
<td>1,533</td>
<td>51,951</td>
</tr>
<tr>
<td>401199</td>
<td>Pneumatic tires new of rubber nes</td>
<td>390</td>
<td>46,586</td>
</tr>
<tr>
<td>380210</td>
<td>Activated carbon</td>
<td>683</td>
<td>42,967</td>
</tr>
<tr>
<td>240120</td>
<td>Tobacco, unmanufactured, partly or wholly stemmed or stripped</td>
<td>93</td>
<td>36,965</td>
</tr>
<tr>
<td>610990</td>
<td>T-shirts, singlets and other vests, of other textile materials, knitted</td>
<td>1,641</td>
<td>36,513</td>
</tr>
<tr>
<td>110100</td>
<td>Wheat or meslin flour</td>
<td>2,416</td>
<td>33,248</td>
</tr>
<tr>
<td>400129</td>
<td>Natural rubber in other forms nes</td>
<td>5,003</td>
<td>32,659</td>
</tr>
<tr>
<td>610910</td>
<td>T-shirts, singlets and other vests, of cotton, knitted</td>
<td>1,508</td>
<td>30,844</td>
</tr>
<tr>
<td>621210</td>
<td>Brassieres and parts thereof, of textile materials</td>
<td>3,674</td>
<td>30,622</td>
</tr>
<tr>
<td>401511</td>
<td>Gloves surgical of rubber</td>
<td>3,674</td>
<td>30,622</td>
</tr>
<tr>
<td>850431</td>
<td>Transformers electric power handling capacity not exceeding 1 KVA, nes</td>
<td>137</td>
<td>28,280</td>
</tr>
<tr>
<td>400599</td>
<td>Compounded rubber, unvulcanised in primary forms nes</td>
<td>8</td>
<td>28,121</td>
</tr>
<tr>
<td>710813</td>
<td>Gold in other semi-manufactured form n-monetary (inc gold plated w platinum)</td>
<td>-</td>
<td>28,088</td>
</tr>
<tr>
<td>890190</td>
<td>Cargo vessels nes &amp; other vessels for the transport of both persons &amp; goods</td>
<td>51,808</td>
<td>27,882</td>
</tr>
</tbody>
</table>


3.2.4. Spices

Spices are Sri Lanka’s main agricultural exports to South Asia and accounted for 16 percent of Sri Lanka’s total exports to South Asia in 2013. Sri Lanka’s share of spice exports to South Asia was about 25 percent out
of Sri Lanka’s total world exports of spices in 2013 (figure 3.10). Moreover, the bulk of Sri Lanka’s spice exports is channeled to India, which accounted for over 80 percent of total exports of spices to the SAARC region in 2013 (figure 3.11). Sri Lanka produces and exports a range of spices; the major ones are cinnamon, pepper, cloves, nutmeg, and ginger, saffron, turmeric, thyme, bay leaves and curry. Among spices, pepper and capsicum have the largest share in exports, accounting for over 55 percent of the total spice exports to the SAARC region in 2013, followed by cloves and nutmeg (figure 3.12).

**Figure 3.10 Sri Lanka’s total spice exports, 2002-2013**

Source: ITC Trademap, various years.

**Figure 3.11 Direction of spice exports of Sri Lanka to South Asia, 2001-2013**

Source: ITC Trademap, various years.

**Figure 3.12 Composition of Sri Lanka’s spice exports to SAARC region, 2013**

3.2.5. Coir

Sri Lanka’s coir exports have shown significant signs of diversification in terms of products while market diversification has been limited over the past decade. However, Sri Lanka’s coir exports to the world and South Asia are low as a percentage of country’s total exports and exports to the region. For instance, coir yarn exports account for less than 1 per cent of Sri Lanka’s total world exports and total exports to SAARC in 2013. Similarly, coir doormats exports are less than 1 percent of Sri Lanka’s total world exports and exports to SAARC (figure 3.13).

Figure 3.13 Sri Lanka’s total coir exports, 2001-2013

Sri Lanka produces and exports a range of coir based products; the major ones are coir fibre, coir yarn and coir doormats. While 22 percent of the coir doormat exports of Sri Lanka are channeled to Pakistan, only 1 percent of coir yarn exports are directed to India (figure 3.14).

Figure 3.14 Sri Lanka’s export destinations of coir yarn and coir doormats, 2013

Source: ITC Trademap, various years.

Sri Lanka produces and exports a range of coir based products; the major ones are coir fibre, coir yarn and coir doormats. While 22 percent of the coir doormat exports of Sri Lanka are channeled to Pakistan, only 1 percent of coir yarn exports are directed to India (figure 3.14).

3.3. Non-tariff measures and non-tariff barriers

World Trade Organization (WTO) defines NTMs as “policy measures other than tariffs that can impact trade flows” and if the NTMs are imposed by countries excessively beyond the specified measures to restrict imports from other countries then they are considered NTBs (WTO, 2012).

The United Nations Conference on Trade and Development (UNCTAD) has explicitly classified NTMs according to a customized Coding System of Trade Control Measures which is shown in the following table (Table 3.9). For this study, the UNCTAD classification on NTMs is referred for secondary data analysis on NTMs for the selected products.

Table 3.9 Non-tariff measures classification by chapter

<table>
<thead>
<tr>
<th>Imports</th>
<th></th>
</tr>
</thead>
</table>
| Technical Measures | A - Sanitary and Phytosanitary Measures  
|                  | B - Technical Barriers to Trade  
|                  | C - Pre-shipment Inspection and Other Formalities  
| Non-Technical Measure | D - Contingent Trade-Protective measures  
|                   | E - Non-automatic Licensing, Quotas, Prohibitions and Quantity Control Measures other than for SPS or TBT Reasons  
|                   | F - Price-control Measures, including Additional Taxes and Charges  
|                   | G - Finance Measures  
|                   | H - Measures Affecting Competition  
|                   | I - Trade-Related Investment Measures  
|                   | J - Distribution Restrictions  
|                   | K - Restrictions on Post-Sales Services  
|                   | L - Subsidies (excluding export subsidies Under p7)  
|                   | M - Government Procurement Restrictions  
|                   | N - Intellectual Property  
|                   | O - Rules of Origin  

<table>
<thead>
<tr>
<th>Exports</th>
<th></th>
</tr>
</thead>
</table>
| P - Export-Related Measures  


Sri Lanka imposes several NTMs for the selected products (spices and coir products) of the study. Sri Lanka currently has 18 NTMs in place for pepper and capsicum, and cinnamon (Annex 3). Moreover, 17 NTMs are in place for cloves (World Bank World Integrated Trade Solutions, 2015). Most of the NTMs are technical measures relating to Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT). SPS measures include conformity assessment related to SPS registration requirements, restricted use of certain substances, labelling requirements, packaging requirements, testing requirements, certification requirements, inspection requirements, and quarantine requirements; while technical barriers to trade include product registration requirements and certification requirements.

With regard to coir based products, there are nine NTMs for coir yarn and eight NTMs for coir doormats in Sri Lanka (World Bank World Integrated Trade Solutions, 2015). NTMs include mainly technical measures relating to TBT, such as certification requirements, marketing requirements and licensing requirements. At the same time there are additional charges such as customs surcharges that are applied to coir-based exports from Sri Lanka.

The International Trade Centre (2011) uncovered burdensome NTMs, procedural obstacles and problems with the trade-related business environment faced by Sri Lankan exporters and importers. The study covered 512 exporters and importers belonging to five broad sectors such as tea, other agriculture
and agro-based products, clothing and textile, chemicals, plastics, and rubber-based products and other manufacturing products. The study findings reveal that raw and processed agricultural commodities tend to be more affected than manufacturing goods (International Trade Center, 2011). Spice exporters found technical requirements and conformity assessments were the most burdensome NTMs while the coconut-based products find the additional charges and para-tariffs as most problematic. Firms have also reported difficulties and inadequacies in domestic testing facilities in Sri Lanka, which have resulted not only in undue delays but also non-recognition of test reports/certificates, reflecting the need to enhance the testing capacities and their efficiency (International Trade Center, 2011). The study also highlights the need to simplify the tax regime, efforts to streamline administrative procedures and awareness building to boost the export sector in Sri Lanka (International Trade Center, 2011).

Raihan, Khan and Quoreshi (2014) identifies that Sri Lanka’s national policies and regulatory regime related to trade, industry, and economy are predominantly focused on promoting domestic industries and exports thereof, protection of local industries, safeguarding against hazards to public health, and the environment. Sri Lanka’s trade regime features taxes, levies, and surcharges on exports, rare regulatory measures in the SAARC region (Raihan, Khan and Quoreshi, 2014). The salient features of NTMs in Sri Lanka highlighted in this study are: 38 categories of plants or plant materials are banned and/or restricted for imports; animals and animal products from ruminant origin from 22 countries are banned for imports; 9 categories of food items require test certificates for radiation level within the allowable range before they are permitted for export or import; Imports of a number of products are subject to quality standards; 15 categories of food items that contain colours not permitted under regulatory measures are prohibited from import, sale, and distribution in Sri Lanka; four species of fish are banned for exports; selected products, such as tea, gemstones, etc. are subject to prior approval for prequalification by respective product-specific sectoral regulatory bodies (Tea Board, for example) before export; food items containing genetically modified organism are subject to restricted import and sale in the domestic market (Raihan, Khan and Quoreshi, 2014).

Main recommendations made by the study to reduce barriers to and promote trade in South Asia include developing a lobby and advocacy agenda for reducing and eliminating NTMs, establishing a benchmark for NTMs to be carried out by NTM-desks that are soon to be set up as the basis of advocacy agenda, harmonizing TBT/SPS standards, creating a forum for regular interactions between the key government officials and trade bodies on NTM issues, particularly the procedural ones, and initiating a study in near future to review the priority products identified in the context of ‘SAFTA Sensitive List’ in order to achieve a deeper understanding of each country’s defensive and offensive trade and economic interests, a prerequisite for reaching regional economic integration (Raihan, Khan and Quoreshi, 2014).

3.4. Supply-side constraints to exports

Supply-side constraints adversely affect the competitiveness of Sri Lankan exports. The Export Development Board (EDB) (2014) identified increasing cost of production, low productivity and lack of production capacity to meet the demand and quality standards as main supply-side constraints faced by the export sector in Sri Lanka.

More specifically, it identified the sector-wise barriers faced by Sri Lankan exporters of spice products and coconut-based products (table 3.11). Some of the associated supply-side bottlenecks in these sectors include: lack of quality of supplies for exports, lack of investments in value addition, gaps in technology transfers, lack of awareness programmes about markets and standards etc., lack of technically skilled labour, high prices of raw material, and complex trade procedures.
<table>
<thead>
<tr>
<th>Barrier</th>
<th>Actions</th>
</tr>
</thead>
</table>
| Lack of quality supplies for exports             | • Encourage regional plantation companies to cultivate spices in their plantations.  
• Introduce high yielding varieties and other good agricultural practices in collaboration with the relevant government authorities. |
| Lack of investment for value addition process    | • Assist in improving value chain efficiency through upgrading the production process to meet international quality standards.             |
| Lack of technology transfer to the industrialists| • Conduct awareness programmes on Good Agricultural Practices.  
• Introduce new farm technology to the industry.                                                                                      |
| Lack of quality improvement programmes           | • Assist in obtaining quality certification.  
• Conduct awareness programmes in collaboration with SLSI and DEA.  
• Launch technical exposure programmes for industrialists.  
• Encourage the industry to maintain quality throughout the supply chain.  
• Create awareness programmes international Quality Standards.                                                                       |
| Lack of technically skilled labour               | • Organize skill development programmes to improve technical knowledge of the work force in collaboration with relevant institutions.  |

**Coconut and Coconut-based Sector**

| High prices of coconut husks                     | • Create awareness on productive usage of coconut husks in identified non-fibre producing areas.  
• Encourage exporters to establish husks chip manufacturing industries in selected areas. |
| Non-availability of simplified export procedures | • Conduct discussions with relevant stakeholders to streamline export procedures and reduce export CESS for value added coconut based products. |

Source: EDB (2014).
4. Findings

The study was carried out with two major objectives namely; (1) to identify constraints faced by WMSME in Sri Lanka in operating and expanding their businesses including issues related NTBs/ trade facilitation in the regional markets, and (2) to provide policy and programme recommendations to reduce the identified constraints. This section presents an analysis of data collected from the FGDs, KII, two case studies and a survey.

4.1. Demographic and business background

A small survey was carried out amongst the FGD participants in the spices and coir sectors to gather information with regard to their socio-economic status. Out of 86 FGD participants, 74 women responded to the survey questionnaire.

The age distribution of the respondents shows that most of the women engaged in producing the selected two products are 35 years or older (Figure 4.1). Eighty-one percent of the participants are married and 83 per cent of the participants have children. Twenty-seven per cent of the participants have at least one child who is 10 years old or younger, given that most of the surveyed women are in the higher age category. More than 50 per cent of them have passed secondary or higher level of education. Although most of the participants are from the lowest levels of the product value chains, their educational achievements appear to be fairly high in comparison to their status in the value chain performing simple tasks. This also indicates that there is a greater potential of making better use of their education in uplifting their position in the chain.

Figure 4.1 Demographic information
Nearly 40 percent of the surveyed were doing business alone, while 45 percent of them were doing their businesses together with a family member (figure 4.2). Overall, women surveyed were in business for a number of years. Forty-two percent were engaged in current business for more than 15 years and 37 percent of them were in their business for 6-15 years.

‘Financial needs’ was the main reason for starting the business (57 percent) while ‘utilizing free time’ and ‘desire to achieve/independency’ were the other most important reasons to start up a business, echoing the findings by Attygalle et al. (2014). Forty-four percent of the surveyed claimed that they were self-motivated to start the business while nearly half of them were motivated by her family members.

**Figure 4.2 Business background**

*Business Ownership*

- **Self-Owned Partnership:** 28%
- **Partnership with family with others:** 57%
- **Taken on lease/rent from others:** 5%

*Duration in the business*

- **Less than 1 year:** 3%
- **1-5 years:** 6%
- **6-10 years:** 13%
- **11-15 years:** 17%
- **more than 15 years:** 28%

*Reasons to take up the business*

- **Utilize free time:** 21%
- **Financial needs:** 13%
- **Desire to achieve/independency:** 2%
- **Capture available market opportunities:** 2%
- **Social Status:** 5%
- **Threat of losing job:** 2%

*Motivation to Start the Business*

- **Self Motivation:** 44%
- **Spouse:** 17%
- **In-Law:** 6%
- **Other Entrepreneurs:** 3%
- **Others:** 2%

When considering the monthly income from the businesses, a clear difference could be observed between the spice and the coir entrepreneurs (figure 4.3). More than half of the spice entrepreneurs earn between Rs. 10,000-20,000. While less than 30 percent of the spice entrepreneurs earn less than Rs. 10,000 per month, 80 percent of the coir entrepreneurs fall into this category. Though the sample size is too small to determine the factors behind this income difference, it can be assumed that the main reason for this
income difference is due to the product they produced. Spices have a higher market price than the coir products. At the FGDs, it was stated that the cinnamon producers could earn around Rs. 1,200 per kilo of cinnamon. The coir yarn producers earn around Rs. 2.50 per a role of coir yarn with a length of eight feet.

**Figure 4.3 Income per month on average from the business**

Fifty-seven percent of the entrepreneurs have no employees working under them (figure 4.3). Based on NEDA definition, 88 percent of the surveyed have less than 5 employees; that is, they can be categorized as microenterprises in manufacturing.

**Figure 4.4 Number of employees**

4.2. **Value chain mapping**

Value Chains, “capture a sequence of related and dependent activities that are needed to bring a product or service from conception, through the different phases of production, to delivery to final consumers and after sales services, and finally to disposal or recycling” (United Nations Industrial Development Organization, 2004, p. 5).

Women are more disadvantaged than men in value chain operations (Riisgaard, Fibla, & Ponte, 2010). In general, women tend to be less integrated in value chains than men (GIZ, 2013). It has been observed that women are often excluded in horizontal linkages - relationships within one stage of the chain and within one organization, group of producers or self-helping groups - as well as in vertical linkages - relationships with actors of the value chain stages below and above such as buyers and suppliers (ibid.).

The same observations could be made when analysing spice and coir value chains in Sri Lanka (figures 4.5-4.8), which were developed by using the information drawn from KIs and FGDs. Women are highly concentrated in the lower levels of the value chain. The higher levels of the value chains are mainly male-
dominated. Household responsibilities, lack of mobility and lack of enthusiasm were found to be the main reasons for women to concentrate in lower levels of the value chain. Most of the activities of the lower levels of value chains can be done as home-based businesses, which gives women the opportunity of staying at homes for a longer time and flexibility to attend household chores. Moving up the value chain requires greater mobility and interaction with other value chain actors. However, most women are reluctant to do so as it impedes their ability to attend to their household responsibilities.

Lack of enthusiasm of women entrepreneurs is another main barrier for women in moving up the value chain. It could be observed that most of the women entrepreneurs at the lowest level of value chains are satisfied with what they do at present and they do not have clear understanding of their own potential to grow as an entrepreneur. Lack of information and networking, low participation in trainings and skills development programs and lack of role models to follow also contribute to this indifferent attitude. Furthermore, the nature of some business activities also prevents women from moving up the chain. For example, certain activities need greater physical strength, and women find it difficult to handle these activities compared to men. Such work includes carrying heavy loads of cinnamon leaves and steaming them to produce cinnamon oil.

In the pepper industry, women are highly concentrated at the lower levels of the value chain, mainly in farming, harvesting, sorting berries and drying stages. They do not participate in trading and other activities in the downstream parts of the chain. Normally women get family members support in farming and harvesting of pepper.

“We get together, share the work and do it by ourselves.”
FGD participant, pepper producer, Matale

In the clove value chain, women are mostly involved in the farming and drying process. During the farming stage, they use family labour as well. However, unlike the other three products, clove harvesting can only be done by males, as clove trees grow very tall and one needs to climb the trees for harvesting. In producing cloves, women mainly participate in separating and drying berries. After that they do not participate in other activities of the value chain. From collecting to selling, all value chain activities are carried out by males.

The lower levels of the value chain activities in cinnamon consist of harvesting, selecting, removing knots, scrapping, rubbing, peeling, formation of quills, drying and then bundling. Women participation can be seen throughout this process. However, their involvement is relatively low in harvesting and selecting as well as transporting cinnamon. Cinnamon quills processing and packaging are also carried out by females. After cinnamon quills are processed and packed, women participation is limited in other activities of the value chain. They very rarely participate at the collection level. At the higher stages of the value chain such as buying, selling and exporting, women participation is very minimal.

“All the collectors are males, there aren’t any women.”
“Buyers, yes, all are males. There are no women”
FDG participant, cinnamon quill producer, Galle

Coir value chain activities are different from spices. Coconut is a plantation crop and grows in estates. In most cases women work as day labourers during the growing stage of coconuts. Women are also involved in separating husk from nuts at the lower levels of the value chain. And those who are involved in these activities do not produce coir based products. Coir yarn and mat are produced by a different set of women.
Coir based producers find raw materials from coir mills. In several instances coir yarn producers sell their products to nearby boutiques, while some of are involved in collecting yarns.

Women’s involvement in coir value chain activities are mostly concentrated in middle levels of the value chain. A very few of them retail coir yarn and mats in their own shops. Furthermore, a handful of women are involved in manufacturing and exporting coir based products.

**Figure 4.5 Pepper value chain**

![Pepper Value Chain Diagram]

**Figure 4.6 Clove value chain**

![Clove Value Chain Diagram]

**Figure 4.7 Cinnamon value chain**

![Cinnamon Value Chain Diagram]
4.3. Challenges facing WMSME

FDGs were the main source of information in identifying business management and operational challenges faced by the selected WMSME in the spice and coir sectors. The FDG guideline was structured in a way that information on businesses, value chain and business management and operational challenges could be extracted. Figure 4.9 summarizes the main obstacles faced by WMSME in doing business.

4.3.1. Access to finance

Confirming the findings of many studies on WMSME (Klapper and Parker, 2011; Tambunan, 2010; Attygalle et al., 2014), access to finance was reported to be one of the major barriers faced by the WMSME. Among the FGD participants, 53 percent of them ranked ‘liquidity and financial problems’ as the most important obstacle that they face in running their businesses (Figure 4.9). Eighteen percent of the respondents reported they have not encountered any obstacles in doing business.
WMSME use formal financial institutions such as government and private banks and other financial institutes, as well as informal financing mechanisms including private money lenders, seettu and loan arrangements with buyers in fulfilling financial needs of their businesses. It was observed that most FGD participants were reluctant to access formal financial institutes. In fact, they preferred to access informal financial mechanisms. High interest rates of the financial institutions, difficulties in meeting formal financial institutes’ loan application requirements (e.g. providing guarantors/ collaterals), and lengthy loan processing time were highlighted as the main difficulties in accessing financial institutions.

“Finding guarantors and collateral are the biggest barriers we face. Also one of the guarantors has to be a government agent.”

FGD participant, pepper producer from Ukuwela

“I decided to buy a boiler from the Cinnamon Oil Producers’ Association in our area. I told them that I had requested a loan from the Bank of Ceylon (a state own bank) and was waiting till the loan was finalized. Since I wanted the boiler immediately, I paid a small down payment and got the boiler hoping that by the end of the week I would get the money from the bank. But I didn’t even get it even after two weeks. At the end I had to get a loan from a private money lender.”

FGD participant, cinnamon oil producer from Ambalangada

Affordability of loans, and difficulties in paying back the loans were also highlighted as a concern of the women entrepreneurs participating in the FGDs. Given the small scale of their businesses, low income generated from the businesses, and seasonality of their incomes, they find it challenging to afford a loan.

“We do our business on a small scale. We bring 10kg of coir on our heads, and make yarns out of it. That is the nature of our business. We have to take loans if we are to buy a machine. But generally we don’t go for it, as we can’t afford to pay back.”

FGD participant, coir producer from Galle

“Cinnamon growing and processing takes less than six months of the year, and [for] the rest of the year we have to find some other work. Therefore, it is a very big risk to take a loan. We have to somehow make sure that the income we earn from processing cinnamon lasts the rest of the year.”

FGD participant, cinnamon producer from Ahungalle

“Most of us have children. There are obligations towards them as well. We have to buy books, pay for medical emergencies etc. Therefore, it is difficult to pay back loans with interest when we have to cover other expenditures.”

FGD participant Cinnamon producer from Ahungalle

Low outreach of the financial institutions and unavailability of product-specific or targeted loan schemes for growers were also noted as concerns related to access to finance. However, it should be mentioned that the women entrepreneurs who participated in the FGDs stated that there is no gender discrimination in obtaining loans from the financial institutions. In fact, it was observed that women are at a more favorable position when dealing with financial institutions, and obtaining loans, mainly because the

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18 Seettu is a Rotating Savings and Credit Association also known as ROSCA. This is a group of individuals who agree to meet for a defined period in order to save and borrow together.
repayment rate of women is higher than of men, confirming several other study findings (Esty, 2014; Cheston and Kuhn, 2002).

“Loans are just loans [they are given] regardless of the gender.”

FGD participant, pepper producer from Ukuwela

“The bank officials do not discriminate because we are women. I think most officials go out of their way to help us get loans as they feel that they should encourage more female entrepreneurs and empower them. That has been my own experience so far.”

FGD participant, pepper from Ukuwela

“The woman is the one who takes most of the responsibility in the household even in finding ways to pay back the loan.”

FGD participant, Pepper producer from Ukuwela

4.3.2. Skills, expertise and technology

Almost all who participated in the FGDs stated that the knowledge, skills and the expertise they need for their work were acquired from their parents. Women in the selected sites have been producing the products for generations and the traditional knowledge and techniques they use have been passed down from generation to generation. Therefore, the equipment and machineries used by these women are basic. The usage of automated machines was rare.

“Cinnamon processing and trading have been passed down to us from generation to generation. We have gained experience and knowledge of the industry from our parents. We have not received training from any formal training institute.”

FGD participant, Cinnamon producer from Ahungalla

“The cinnamon growers in this area do not use new technology for growing or harvesting. We use traditional methods to cultivate and process cinnamon products. This has been handed over from generation to generation. This trade is basically what we have been exposed to from the time we were born. So, we have also eventually followed the same path and become cinnamon growers.”

FGD participant, Cinnamon producer from Ahungalla

One important observation that was evident from the FGDs is the low participation of women in available training programmes, and their lack of awareness of services available to them – both financial and non-financial services. For example, the ‘Vidatha’ (Transfer of Technology to Villages) programme, implemented by the Ministry of Technology and Research offers many technical training programmes, focusing on developing home-based small industries. This programme offers technology introductions and skills building training, provides technical advice and coordinates with other relevant government as well as non-government organizations. ‘Vidatha’ centres are located in every Divisional Secretary. Yet, most of the FGD participants were not aware of these services and opportunities available for them.

Even when women knew about these programmes, they did not participate in them due to difficulty in finding time amidst their busy life of attending to the business activities and familial responsibilities. Other
concerns highlighted by the FGD participants include lack of advertising of the programmes, difficulties in finding transport to travel from remote areas to training sites in the main cities, poor outreach of the programmes, lack of targeted programmes for small scale industries/ producers, and lack of facilities at the existing training centres.

“We have lots of household work. Therefore, we don’t have time to attend such programmes.”

FGD participant, coir producer from Habaraduwa

“We don’t have time to go out and learn. Our time is precious and cannot be wasted. If someone comes to the village and give us training, then we are willing to learn.”

FGD participant, coir producer from Habaraduwa

“Matara training center has a five-day training workshop. It’s a residential workshop where everything is provided for the participants. However, this workshop programme is still not well known, due to lack of advertising and awareness. Also, these programmes are not conducted at the village level. This training has been given according to the new technological methods, and not the traditional methods that we use here in the village… it has been about two years since they have started this training programme. As they don’t have proper hostel facilities at the moment, only people who live close by attend it.”

FGD participant, cinnamon producer from Ahungalle

“We think that product specific training programmes are important. Yet we haven’t received or heard about any such programme. Even in the newspapers, TV, radio we have never come across a programme on clove. Of course they have programmes on pepper, tea, but not on cloves. If there is such a programme, we can get involved.”

FGD participants, clove producer from Galigamuwa

However, there were few women who were very knowledgeable about the services and the training programmes available to them. Those who actively participated in these services/programmes acknowledged their usefulness in developing their businesses. Government agencies and trade associations are the main providers of training programmes. In some cases private companies were reported to have provided training to their suppliers.

“Through the Divisional Secretariat Office I received entrepreneurship training in 2014. I also received a certificate for participating at this workshop programme. Thirty people were chosen from this area and were directed to the Hikkaduwa Divisional Secretariat Office where the training programme was conducted. We were taught financial management, labour management etc. I feel that I gained a lot of knowledge after going for this programme… I am also a member of the ‘Grama Sanwardena Samithiya (village development society)’ in Bataduwa. That is how I got to know about this programme. They asked me if I was interested and submitted my name as a participant. I try to participate in everything as much as I can. I actually gained a lot of knowledge through the programme. Business management is something I lacked previously. I used to rent out my distillery unit to outsiders also for a while, as I was not fully aware of properly managing a business. We didn’t have any profit at all by renting it out. Later, after participating in the programme, I felt that I was capable of..."
managing it. Now I am able to manage both the house work as well as the business together very efficiently.”

FGD participant, cinnamon oil producer from Ambalangoda

“When we go for training programmes organized by the Ministry, we are given information of the domestic and world market. They sometime also bring foreign buyers to these training programmes. However, these training programmes are aimed at large scale entrepreneurs and not small scale growers like us.”

FGD participant, cinnamon producer from Ahungalle

As mentioned earlier, use of new technology is minimal among WMSME in general. Some producers were knowledgeable about new technologies that they can adopt, yet financial constraints and unavailability of persons/ places where they can get proper information and instructions hindered their usage of new technology.

“I have seen these instruments (modern cinnamon processing machines). However, it is difficult for small scale entrepreneurs to use such instruments. We have to be trained through a formal training center in order to properly make use of these new methods and instruments”.

FGD participant, cinnamon producer from Ahungalle

“We dry and sell pepper. When the fruit is ripe, we take off the outer skin and it is white inside. We usually rub it on the floor and clean the fruit, by taking off its outer skin. We do everything by hand. However, people who do it on a much larger scale use some other method or machine. They are able to get white pepper easily. White pepper is of higher value than black pepper. It is impossible for us to achieve the market standard of white pepper. How much we try we can never get the pepper to be white as the white pepper produced by larger scale pepper growers. We don’t know or have proper knowledge of producing quality white pepper at home.”

FGD participant, pepper producer from Ukuwela

“There may be methods to get a good harvest, which we don’t know yet. The way of plucking can also affect the amount of harvest. Generally, we pluck the clove buds with the adjoining two leaves”.

FGD participant, clove producer from Galigamuwa

4.3.3. Marketing

Not getting a satisfactory price for their products is another challenge women entrepreneurs face. The intermediaries set prices and the supplier has a very little or no bargaining power in negotiating the price. The negotiating ability of women at the lowest level of the value chains of the selected products is very minimal; they often just accept the price quoted by their buyers. The FGD participants think that intermediaries are earning unreasonable high profits, while they the producers make little or no profit. According to them, there are no channels to know about the current market prices.

“The biggest problem is the price. We have no reasonable price for the cinnamon we produce.”

FGD participant, cinnamon producer from Ahungalle
“As we sell it to an intermediary, we are not able to sell cinnamon at a price on par with the existing world prices, but at a price discussed and pre-determined by the intermediary. We do not have a say in the pricing of the cinnamon we grow. For example, if the price for cinnamon is Rs. 1,200 [per kg] today, we discuss among ourselves and the intermediaries, and agree to sell for Rs. 1,150 [per kg]. Typically, the intermediaries (collectors) benefit and get a good price for this cinnamon while the growers who put so much effort to cultivate and to process the cinnamon do not get a good price.”

FGD participant, cinnamon producer from Ahungalle

“Most shops take it for at least Rs. 5 less than the market price. We go to all the shops and sell it to trader who offers the highest price. It is difficult for one person to go to these traders as it is impossible for one person to carry the processed pepper. At least two people need to go. Also we have to keep walking from shop to shop to find out prices, and pick the best shop with the highest prices. If you go to the town alone this is not possible, you would have to give it to the first trader you come across.”

FGD participant, pepper producer from Ukuwela

While there is an established mechanism to disseminate market prices of spices through the Agrarian Extension Officers, information does not seem to reach the intended beneficiaries, as some of the WMSME interviewed were unaware of this mechanism.

Consequently, products are sold either to a regular buyer or to the buyer who offers the highest price. These buyers/collectors/intermediaries are from the same village, or from nearby villages. Pepper and clove producers sell their produce to the traders in the nearest town areas. Women entrepreneurs do not have direct contacts with the exporters. Thus, all the transactions are done through the intermediaries. FGD participants proposed the government to intervene, either by establishing collection centers at the village level or directly buy the produce from the MSME to ensure a better price for their goods.

“What we as growers need is facilitation for trade and transactions so that there is no need to go through an intermediary but to be able to give the cinnamon that we cultivate to a direct exporter so that we are able to get a good price for the cinnamon.”

FGD participant, cinnamon producer from Ahungalle

“What we need is a good market place that gives us a good price. If there is a place as such, either government or non-government, we can avoid all the village and town vendors and sell the whole product directly.”

FGD participant, clove producer from Galigamuwa

“In our area, there is no vendor. There is no one to buy our products. We sell to village boutiques. Our business is not continuous. We have to wait till the previous stock is sold out in order to sell the new stock. As some boutiques buy from multiple sellers, the problem worsens.”

FGD participant, coir producer from Habaraduwa

“We cannot supply our produce directly to an exporter, so we rely on middle men. They are the ones with the necessary contacts that have the capacity to sell it directly to exporters, or export it themselves.”

FGD participant, cinnamon oil producer Ambalangoda
Quality of a product is a key element of retaining its existing markets as well as in accessing new markets. Certain standards have to be maintained in producing a good quality product. But most of the FGD participants were not aware of standard techniques of determining the quality of the products they produce. The buyers/intermediaries decide on the quality, they grade the products and pay the producers accordingly. It was stated that even the buyers do not follow a standard method of checking the quality of the products.

“We don’t know how the grading is done. The trader decides the quality after inspecting it closely.”

FGD participant, pepper producer Ukuwela

“I don’t know about quality standards of my products as well. Once I requested a training programme with a group of people. After that the officer who was responsible for it got transferred. I made this request four years ago. But still I didn’t get any reply. Finally, I did the job myself.”

FGD participant, coir producer from Kurunegala

“We don’t have many facilities that make this venture easier, or achieve high quality standards. We have very little or almost no access to new techniques. We need to have racks in order lay the trimmings out to dry. When making cinnamon sticks we cannot achieve high quality standards as we have very limited space in our homes. Day to day activities performed within the space hinders proper processing of high quality cinnamon sticks. It would be very beneficial for us to have a separate area to process the cinnamon. People who have land spanning over 10 acres are able to have separate rooms for this but people like us don’t have that space.”

FGD participant, cinnamon producer from Ahungalle

4.3.4. Networking and information

How do women entrepreneurs obtain business and market information, information on new standards, government programmes, and training? And how do they engage with business associations? These were some of the questions asked during the FGDs. The survey findings highlighted that a very few number of females were actively involved with business associations, while most of them do have membership in village level welfare associations. FGD participants from the Galle district mentioned that they have membership in business associations, and the Department of Export Agriculture organize and operate them.

“We have death benevolence association and farmer organization. They don’t deal with cloves. They only deal with tea, vegetables, paddy and other crops.”

FGD participant, clove producer from Kegalle

“We have membership village development society, Samurdhi society, women’s society, welfare society and many more. But we do not have trade societies.”

FGD participant, coir producer from Galle
“Even if we are not members, some associations such as commercial associations and the
Coconut Development Board contact us for their programmes, because we have sent our
addresses to them. I have participated for some training programmes as well.”

FGD participant, coir producer from Galle

“We are not members of any cinnamon related society. But there is a cinnamon cultivator’s
society at our village. Our husbands and sons are members of this association.”

FGD participant, cinnamon peeler from Galle

“We have the Cinnamon Cultivator’s Society, which comes under Department of Export
Agriculture, Labuduwa, in Galle district. All of us are members of that society.”

FGD participant, cinnamon producer from Galle

Since most of the FGD participants are not members of business associations, they obtain market
information from their suppliers or from village level agriculture associations. They obtain information on
trainings and government programmes from ministries or departments. Very few of them have learnt new
techniques and methods through mass media.

“There are cinnamon traders in the village as well. Whatever information we need, we get from
them.”

FGD participant, cinnamon producer from Galle

“We mostly get this information from Govi Sanvidana (farmer’s association). Mostly people
involved in paddy farming are involved in these Govi Sanvidana. They mainly get fertilizer
from the Govi Sanvidana. I am not aware of any other associations like that. The Govi
Sanvidana specifically targets only agricultural farming, not minor export crops.”

FGD participant, pepper producer from Matale

“I mostly watch programmes that are on the television about agriculture. I have learnt a lot by
watching these programmes. The programme ‘Pibidena Arunella’ (Rising Dawn) airs on
Sundays. This programme has been very useful. I even learnt that when growing Albeesia you
have to cut the top branches at least three times a year. This has proven to be very successful.
Earlier we did not cut the branches as much, and let it grow to use it as firewood later. But we
learnt that the crops beneath the Albeesia need sun light, and it is important that we cut the
top branches regularly”.

FGD participant, pepper producer from Matale

4.3.5. Infrastructure facilities

In terms of infrastructure, FGD participants had mixed views on this issue and constraints they face when
using transport, and accessing water, power, telecommunication and roads. The responses of the
participants differed according to their geographical locations. Participants from the southern part of the
country who engage mainly in cinnamon cultivation, processing, and selling are satisfied with the available
infrastructure facilities. Clove growers in the Kegalle district are also satisfied with the existing infrastructure
facilities. However, WMSME who live up-country and are engaged in pepper cultivation had some concerns with the existing infrastructure facilities, especially on transportation. This was mainly due to poor road conditions and higher transport cost.

“We have no problem related to infrastructure. Roads are well constructed.”
FGD participant, cinnamon oil producer from Ambalangada

“We hire a tractor to bring cinnamon, which costs us Rs. 200-300 according to the distance.”
FGD participant, cinnamon oil producer from Ambalangada

“Infrastructure is not a problem. We take the help from all family members to arrange transport.”
FGD participant, clove producer from Kegalle

“I think transportation is the main issue. If roads from the village to the town could be improved, then our transportation cost would also be reduced. Transport cost is about Rs. 40 to go to Matale in a bus. Also we don’t live by the side of roads, so even if come by bus we have to spend extra to go to the interior. Therefore, we need about Rs. 100 to Rs. 150 to travel to town.”
FGD participant, pepper producer from Matale

Furthermore, female cinnamon peelers, processors and oil processors expressed gender-specific obstacles in relation to infrastructure. For example, women need the support of a man in transporting cinnamon sticks and cinnamon leaves to processing centers. They also hire tractors, three-wheelers, and bicycles to transport raw material, as most of the women producers do not own such vehicles. At times, they have to wait two to three days until they find a male driver to transport the raw material.

4.3.6. Social constraints

The FGDs also inquired about social barriers and/or restrictions faced by women entrepreneurs, social recognition, and the support they receive from their families in carrying out the business. When compared with the coir and pepper entrepreneurs, a higher number of female cinnamon entrepreneurs are not satisfied with the social recognition they receive for their jobs. According to coir and pepper entrepreneurs, they get fair recognition from the society. However, when considering the overall context, social acceptance was not a main obstacle for WMSME to engage in their businesses.

“Chopping cinnamon is not a well reputed job in the society. But it is our only source of income and therefore worthy for our economic status.”
FGD participant, cinnamon producer from Galle

“Cinnamon processing is a very harsh job. Society also doesn’t accept this as a well reputed job. We are always coated with an astringent and strong smell of cinnamon. But we know that this is the way we can get an income.”
FGD participant, cinnamon producer from Galle
“There is no recognition in society even though we work hard. The recognition is only among us. But we know how much we dedicate to this. Society accepts only the processed cinnamon quill, and not the person who processes it.”

FGD participant, cinnamon producer from Galle

“I have gained respect through this job. I never faced any difficulties/discomfort. My business was shown on television as well.”

FGD participant, coir producer from Kurunegala

“We are happy of our status. This job is enjoyable. We have chit chats while working. There is no mental stress. We can take care of our children as well.”

FGD participant, coir producer from Galle

“I think we have more respect in society. There are many officials and institutions that encourage emerging entrepreneurs, especially if they are female entrepreneurs.”

FGD participant, pepper producer from Matale

Some of the women entrepreneurs stated that they need physical strength for carrying out certain elements of the production process and to do these tasks they seek the support of men. Carrying heavy loads of goods/ cinnamon leaves, and plucking cloves and pepper are some of the tasks that need greater physical strength and therefore these activities are performed by men. Some FDG participants also get help from men to bargain and get higher prices for their products as they believe that men are in a better position to bargain.

“The only thing I can think of is carrying heavy bags full of pepper is a bit difficult for me as a woman. Also we usually do not bargain. We just take any price that traders quote. I remember when my husband was around he would bargain and the traders usually agreed to give a higher price. However, I feel that I don’t have much of a bargaining power.”

FGD participant, pepper producer from Matale

Almost all participants are facing the challenging task of balancing home and business work. According to the survey results, nearly 53 percent of women have identified balancing house and business work as one of the main obstacles in carrying out their businesses. Women enterpreneurs however, demonstrated various ways to balance it.

“We wake up early in the morning and do all the household work, including cooking and preparing children for schooling. When our husbands come [home] with the cinnamon sticks that were harvested, we have finished all our household work. If we go outside, we come home at around 2 o’clock for lunch because children also come back home at that time. So we have to wake up at least 5 o’clock early in the morning. That is also not enough. If we work at home, we continue until 12 o’clock at night. And if we work outside we should finish the work at least 7 p.m. because of children’s work.”

FGD participant, cinnamon peeler from Galle
“We balance everything. We manage time. After we send our children to school, we start making yarns. At about 11 a.m. we stop working and start cooking. Then we bring children home from school. Again at about 1.30 p.m. we restart the work. We can manage time because we can be independent in this business”.

FGD participant, coir producer from Galle

“There is no time table for me. First I finish household work and daughter’s work such as home work. And I have no exact time for the business. Even if it is late night I work. And I never waste time. When I’m washing cloths by washing machine, I cut at least two coconut husks. Sometimes my daughter also helps me with not only business work, but also household work”.

FGD participant, Coir producer from Kurunegala

4.3.7. Trade barriers

Since none of the WMSME surveyed were direct exporters of the respective products, KIIs were conducted with exporters of spices and coir-based products, and with the relevant government and private institutions to capture the barriers faced by these sectors. While some of the barriers identified are domestic, others are imposed by the partner countries. Nevertheless, according to the respondents, these barriers are common to all exporters in Sri Lanka and are not specific to a sector, and gender. NTBs that hinder the smooth flow of exports from Sri Lanka to South Asia are summarized below.

**Inadequate testing capacity in Sri Lanka**

Key informants reported undue delays in the exporting process, because of lack of capacity to handle a large number of testing requests by the Sri Lanka Standards Institute (SLSI). According to them, it sometimes takes up to 2-3 weeks for a certificate to be issued. Also, some of the local labs are not equipped to issue international certificates demanded by buyers for certain products such as coir and cinnamon oil. In such instances, exporters have to obtain reports from importing countries; this not only adds to the costs but prolongs the time taken to ship the good.

“We take the SLSI certificate for geotextiles. Geotextiles is a scientific product. For certain certifications, we send the sample to USA or Germany to get the test report. To test erosion, you have to simulate the environment. Our customers do not accept the certificate produced by a Sri Lankan testing agency as they do not believe in our testing method. So they want specialized institutes to certify. That is why we have to send the sample to USA or Germany.”

KII participant, coir fibre exporter from Colombo

**Lack of mutual recognition of testing and standards between countries**

Some importing countries require certain testing and health certification be carried out in their country, rather than in the exporting country. It was mentioned in the KIIIs that some countries accept the fumigation certificates issued by their own authorities, and not by Sri Lanka.

“We generally adhere to international standards. But there is an issue with the fumigation procedure in some countries. They want to fumigate the container within their countries and that incurs high costs.”
Existence of export subsidies in partner countries
Exporters mentioned that the prevailing export subsidies in partner countries have hurt the competitiveness of Sri Lankan exports. For instance, Indian government offers one percent of the total export value as an incentive to the exporter, allowing them to reduce their costs and become competitive in the world market. This leads to a deterioration of market share of other exporters in the world market.

“India has 15 billion coconuts compared to our [Sri Lanka’s] 2.5 billion [coconuts]. Their scale is much bigger and they are very competitive. The government support is there. For every export consignment they give one percent as an incentive. Their technology is improving. All together we are [coir products] less competitive in South Asia.”

KII participant, coir fibre exporter from Colombo

Political instability in partner countries
Sri Lankan exporters face difficulty in dealing with political instability and security in certain South Asian countries. For instance, in Pakistan, multiple checks, both scanning and physical, make trading difficult. Having to deal with red tape to clear goods in partner countries is another barrier Sri Lankan exporters face abroad.

“Our trade manager went to Pakistan for a trade show. They were escorted from airport to hotel, from hotel to the exhibition venue, and similarly on the way back. They could not visit anywhere else for trade promotions. You cannot really focus and have a business strategy for that market due to this situation.”

KII participant, coir fibre exporter from Colombo

Difficulty of SME to qualify for tax-free raw material imports for manufacturing exports
Unlike large players in the industry, SME find it difficult to meet the necessary requirements to qualify for tax-free imports to manufacture exports. The minimum investment threshold for small scale enterprises is Rs. 25 million-30 million and for the medium scale enterprises the threshold is Rs. 50 million and above to qualify for the tax incentives (Board of Investment, 2012).

Inefficiency and bureaucratic bottlenecks among agencies
Inefficiencies in certain government authorities cause long delays and traders incur additional costs due to delays in issuing certificates and approving certain products. Also, officials, who are responsible in providing the required services, lack a trader-friendly attitude. At the same time, some respondents mentioned that there is a lack of transparency when there are changes in fees/charges and procedures.

“I can remember CDA (coconut development authority) took 20 days to issue a certificate that could have been issued within 10 days. And the container has already arrived in Australia and the customer could not clear the container because of the certification. Then he had to contact officials at higher levels. That is not user-friendly. That is also creating a problem to the growth of this industry.”

KII participant, coir fibre exporter from Colombo
Unfavourable domestic regulations in Sri Lanka
Ad hoc regulatory measures imposed by government authorities have raised concerns among traders. It was mentioned that some coir yarn mill owners, who have been operating for over 100 years, are now faced with the prospects of complying with new environment laws that were brought about due to the localities becoming residential areas. They stated that such regulations are unfair as they have been there before houses were built. They hold the municipality and housing development authority responsible for allowing houses to being built in the said areas. They also mentioned the need for regulations to specify distance between the mills and houses.

Lack of investment in value addition
Moving up the value chain and adding value to the products are essential to diversifying both the spices and coir exports of Sri Lanka. Currently, bulk of spice exports from Sri Lanka is shipped in raw form with little or no value addition. Exporters find it difficult to upgrade the product/process due to lack of capital. Exporters and trade associations believe that industries require government assistance in export development including shifting to value added product and production processes.

“Value added products are the highest income earners. There are lot of value added products that we can produce out of spices and it will generate a much higher income than our current export earnings. But this [value addition] needs a heavy capital investment to upgrade production processes. This is where we need the government support.”

KII participants, spice exporters from Colombo
5. Case Studies

Two women entrepreneurs were selected to illustrate the challenges faced by them as women entrepreneurs in detail and the strategies they use in facing those challenges. W.K. Indrani, a cinnamon oil producer was identified at one of the FGDs and Sepalika Anjalee, a coir exporter was identified through the Ceylon Coir Fiber Exporters Association.

5.1. Spice

Ms. W.K. Indrani, cinnamon oil producer

Ms. W.K Indrani is a 41-year-old cinnamon oil producer living in Meetiyagoda, Ambalangoda in the Galle district. She owns a cinnamon oil distillery unit. The story of Indrani is an inspiration to womankind, as she operates and manages a business, which is considered a man’s job. “I got involved in this work because of my father. I received the knowledge and know-how of distilling cinnamon oil from my father.”

At the beginning of her career she had worked as a day worker at distillery units belonging to others. “When we work as day workers we are like labourers, we have to stick to a fixed time. It was a difficult task for me to handle household work and work at distilleries as a day worker.”

Then, in 2003, her husband passed away because of a tragic accident, leaving Indrani and their two little kids behind. Thereafter, she went abroad to earn money. After returning in 2008, she started her own cinnamon distillery unit, with funds partly raised from her savings.

“Setting up a distillery unit is very costly. A single boiler costs Rs.100,000, and my savings from employment abroad was insufficient. I borrowed a percentage of the equipment cost from a private money lender in my village. I finally established my own distillery unit in my home garden.”

Cinnamon sticks need to be chopped and crushed. This job is mainly done by males. Indrani hires male labourers to do this work. “If you have a male at your home then it’s easy. I have to hire three to four men to do this job. A cinnamon leaf bundle weighs about 350kg. To carry and transport cinnamon leaf bundles Indrani also hires three to four male labourers.

Cinnamon oil producers need to travel from place to place to find their inputs - cinnamon leaves. They get information on cinnamon lands and time of cinnamon chopping from their neighbours. They visit cinnamon lands and offers to rent the entire land. In general, one acre cinnamon land costs nearly Rs.10,000. The owner will rent it to the highest bidder.

Since Indrani does her business alone, sometimes it is difficult for her to travel from place to place searching for cinnamon land. “Sometimes it’s very difficult for me to find cinnamon land. On such days I rent my distillery to others. I get a half of the final output. Normally, we produce five cinnamon oil bottles from one bundle of cinnamon leaves. Therefore, I get 2.5 bottles. I have to manage all my operational expenses (electricity bill, water bill) from the money I receive.”

She sells her products to the nearby cinnamon oil collector. “I have selected one person to sell my products. My father has also used to sell his products to him. I normally get Rs.1,200 per bottle of 750ml. Another buyer may buy a bottle for Rs.1,300-1,400. However, I deal with one person, as I get other benefits from him. For example, he will lend me money at any time when I want to rent a cinnamon land and can pay-back that amount by selling my products.”
The cinnamon oil collector exports cinnamon oil via a private company established in Colombo. He has the bargaining power when buying cinnamon oil from Indrani. He decides the price of a bottle based on the quality of the product. There are no special mechanisms or techniques in testing quality; experience is used in the testing process. Sometimes it is doubtful whether the cinnamon collectors quote a real value for a bottle, as they have a fixed number of buyers and are confident that their buyers are going to a new collector.

Operating a cinnamon oil distillery unit is not easy. Owners need to get permission and approvals from the Central Environment Authority, Divisional Secretariat among others. Furthermore, they need to pay annual taxes as well. “We have to pay income tax every year and Rs.750 to Divisional Secretariat, as environment levy per annum”.

According to Indrani, cinnamon oil producers earn an income for half a year as cinnamon trees are chopped during a selected time period of a year. The other six months of the year they have to look for other work. Therefore, they are reluctant to obtain loans from banks. “When we do not have work, it is difficult to pay interests during that period.” Once, when she failed to settle a loan, she decided to go abroad as a housemaid again. “I went abroad in 2008 to settle my bank loans and returned in 2011.”

In 2011, she re-established her cinnamon oil distillery unit. “I can manage my household work, children’s work with my business, that’s why I started it again.” Then she became a member of the cinnamon oil producer’s association in Meetiyagoda where she has received advice, knowledge, training, support and exposure to conduct her business. “It provides us good support and knowledge. Also, it is possible to obtain loans from the association. Repayment is only Rs.2,000 per month, which I can bear.” Indrani is thinking of obtaining a loan from bank. “We can repay any amount but we need support during off season, when we do not earn from our business.”

Although she is in her business on her own, she is happy as she is able to balance her housework while working at the distillery. “I can look after my family while working in my hut. Sometimes, I keep the boiler on and go to school to pick-up my children. My expectations are to upgrade and expand my business and be a good mother to my children, and a caring daughter to my old age parents. I’m sure I can fulfill my responsibilities as a mother and as a daughter while doing my business.”
5.2. Coir

Ms. Sepalika Anjalee, Managing Directress, EarthScape (Pvt.) Ltd

“Motivation to start something of your own and courage do it right is important. If you want everything to be perfect you can’t get anything done. Taking the first step is hard but it’s rewarding; Make that step and move forward” claims Ms. Sepalika Anjalee.

Sepalika, from Negombo, is married to a Canadian citizen and started the coir exporting business back in 1999 as a sole proprietor. Before she entered the coir industry, she was working for about nine years in the hospitality industry. “After I got married, I was supposed to go to the USA, because my husband was living there. With this plan in my mind I had given up my job. In the meantime, some of my friends who owned businesses wanted me to promote their products in the USA, and I started doing some promotion work. Just a month before my scheduled trip to the USA, a customer from Japan contacted me to buy coir”. She realized that unlike other products such as garments, coir business cannot be done from a remote location. So, she decided to stay in Sri Lanka and start a business. Her husband was very supportive and gave her the freedom in making her own choices.

Sepalika did not want to take a huge risk in starting her business. So, she invested only $500 at the beginning. For two years she did not have her own factory, and she ran her business by outsourcing orders. But soon she realized that it was very difficult to maintain the quality standards when outsourced. So, she built a small factory. Though it was rather small, Sepalika made maximum use of it. When the business was gradually expanding, it was converted to a private limited company. In 2006, new land was purchased and a factory was built on it.

EarthScape has experienced a steady growth of business over the last 10 years, and today, it is one of Sri Lanka’s largest exporters of coir-based horticultural products. Earthscape exports products such as grow bags, 5kg blocks, husk chips, 25kg blocks, briquettes, disks, and coir geo textiles, to Europe, North America, and Asian countries such as Japan and South Korea. Currently the company exports about 350 containers a year. It is planning to double the export volume in the near future. Earthscape sources all its inputs locally and the company now has a network of nearly 450 raw material suppliers. Sepalika claims that her company is very quality conscious. They check for the moisture and sand content particularly when they buy from their suppliers.

Sepalika has done a management training programme from the London Institute of Business Management. Further, she was fortunate to go for a training programme in Japan, which focused mostly on
practical issues on total management system. Sepalika states that these trainings programmes were helpful for her in business.

The company is now focusing on further expansion of the business. However, finding capital is the main barrier. “Product enhancement is needed for expansion and for that we need more space and land. But finding the capital has become an obstacle for us.”

The coir industry is very much weather dependent so it is difficult to implement certain types of management practices. A large stock has to be maintained in order to make sure the continuous operation of the factory despite the weather condition. Currently, the company maintains a stock of 2,000 metric tons of coir worth about Rs. 30 million. Cash flow management is also an issue due to stock maintenance requirement. Certain environmental laws and regulations also place an additional burden on the industry, affecting the expansion.

Out of 110 employees, 75 of them are permanent employees, and many of them are women. Sepalika intended to have a mix of older and younger employees as it gives the chance to youngsters to learn from elders’ experiences. “We have many women workers, too, not because I am a woman. Women in Sri Lanka are hard-working.”

Sepalika considers networks and social connections as very important elements in doing business. It was a bit difficult for her to build her networks and social connections even though she had previous working experience in the hospitality industry. This was mainly because the people in the coir sector have a different mindset. But eventually she was able to build her networks, and her staff has supported her a lot in doing so. The company is now a member of the Ceylon Coir Fibre Exporters’ Association, and has fairly good relationship with other coir exporting companies.

Speaking on the issues affecting the industry, Sepalika pointed out that certain ad hoc policies discourage exports. For instance, an additional Rs. 5,000 per each container exported has been charged since September 2014, but the reason for this fee is still unknown. Likewise, she still doesn’t know the reasons for why the Coconut Development Board increased its fee for issuing certificate from Rs. 4,500 to Rs. 20,200, when the services provided by the Board has remained the same. She is concerned that these additional charges will make Sri Lankan products less competitive in the global market, as exporters have to increase the price of the goods to take into account these additional charges.

Certain government officers should change their attitudes towards exporters, claimed Sepalika. “Inefficiencies in certain government authorities cause long delays in issuing certificates and approving certain products, which in turn incur costs to traders. Further they lack a trader-friendly attitude in providing the required services.” As an exporter who brings a lot of money to the country, Sepalika calls for more government attention and assistance in developing the industry. She recommends that the government should give incentives to all industries especially to MSME and increases its efforts to disseminate information.

Reflecting on her journey, Sepalika says that it was not an easy one but her family has been very supportive to her throughout all these years. She does not think that being a woman is a disadvantage to being an entrepreneur. She says that she had never experienced any kind of discrimination.
6. Summary of Key Findings and Recommendations

The primary objectives of carrying out this study were to identify constraints faced by WMSME in Sri Lanka in operating and expanding their businesses including issues related NTBs in the regional markets, and to provide policy & programme recommendations to reduce the identified constraints. In this section, key findings of the study and recommendations are given in a summary form.

6.1. Summary of key findings

Financial Concerns: More than half of women surveyed ranked financial concerns as the biggest barrier they face in operating their businesses. The main reasons behind the hesitation on the part of WMSME in accessing formal financial institutes include: high interest rates, uncertainty of making repayments due to seasonality of income, difficulty in meeting loan requirements such as providing suitable guarantors and collaterals, and lengthy loan processing time. Sometimes informal money lenders were preferred over the formal financial institutes, despite the higher interest rates, mainly because of the flexibility and speedy loan disbursements without much formal paper work.

Low value addition and low access to new technology: Both spices and coir industries are traditional industries with a long history. Knowledge and expertise in these industries have been transferred from generation to generation. Access to new technology is poor and most of the women entrepreneurs continue to use only the traditional knowledge and techniques in the production processes. Low value addition observed among the WMSME is a result of low access to new technology.

Most WMSME are not linked to end markets and lack a good knowledge of market potential: Many of the participants admitted that they just sell their products to the traders in the nearest town or those who visit the villages due to their limited mobility. That is, they do not bother to find new markets. Moreover, they do not have a clear idea of the value chain in which they operate. However, they were aware that the products that they produce have a good demand both in the local and foreign markets. Yet, WMSME do not have direct contacts with either with the retailers or the exporters.

Limited participation in training and skill development programmes: Limited participation in training and skill development programmes was found to be another major barrier faced by WMSME in operating and expanding their businesses. Time constraints and unavailability of such programmes in remote areas were highlighted as main reasons for this.

Information Gap: Information gap was identified as one of the main barriers in spice and coir WMSME. Most of women entrepreneurs interviewed were not aware of the market price of their products, their end buyers and input suppliers, available financial and non-financial services offered by the government, business associations, NGOs or private sectors. In most occasions they rely on a single buyer; thus, women entrepreneurs are price takers and lack bargaining power over the buyer. Even though they know that they can sell their products at a higher price to some other buyer/s, choosing one buyer gives them other benefits including provision of raw materials and loans.

Poor Networking: Poor networking amongst WMSME were highlighted in the FGDs and KIIs. WMSME are members of welfare associations in their villages, but not of business or trade associations. However, it was
found that cinnamon producers are actively involved in business associations as they are promoted by the Government department.

**Poor knowledge of product quality standards and difficulties in meeting required quality:** The FGDs revealed a poor knowledge of WMSME about the quality standards, because the buyers and traders undertake grading and rating subsequent to purchase. The women producers only have a vague idea of these standards and processes. A few women entrepreneurs who were aware of quality standards were facing difficulties in meeting these standards. They lack investment in purchasing advanced machinery needed for quality assurance, and those who operate their businesses from home have difficulties in following the required quality measurements.

**Social Concerns:** Social concerns or acceptance of WMSME was one of the main aspects discussed during FGDs. Social recognition that women producers have received were different for the two selected products, spices and coir. Cinnamon peelers highlighted the lack of recognition that they receive from the society, whereas coir producers were happy about it. Coir producers mentioned that they were able to maintain this status because of their businesses. It was also mentioned that both spices and coir businesses are not very attractive to younger generation and it is difficult to find manual labour for business activities.

**WMSME lack understanding of their own capabilities of growing as successful businesswomen:** It was evident that most women who participated in the FGDs do not have the understanding of their own capabilities. Most of them have inherited their businesses from their parents, and they use traditional technology, which has been transferred over generations. Therefore, value addition and use of innovative practices in both production and marketing are limited. It seems that most women were satisfied with their present status and lack the enthusiasm of improving their business capabilities, expanding their businesses or moving up the value chain.

**No significant gender related barriers and challenges for women entrepreneurs:** During the FGDs, KIIs and consultation meetings it was mentioned repeatedly that women entrepreneurs are disadvantaged in most cases not because of their gender but because of underlying industry and infrastructure related barriers. For example, transportation difficulties in remote areas affect women entrepreneurs severely, whereas male entrepreneurs overcome the problem as more men than women own transportation such as motorcycles. Familial responsibilities and other household chores were also identified as one of the gender specific barrier for women entrepreneurs but most of them were able to manage this situation by using various coping strategies (e.g. getting help of the elders to look after the children). In some instances, such as in financing, a preference could be observed for women entrepreneurs. There is a well-perceived notion that the formal financial institutions prefer women entrepreneurs to male counterparts because of their higher loan repayment rates. Therefore, women entrepreneurs’ limited access to loans is not due to bias against women; rather it is due to lack of flexibility in financial packages or lending policies that meet the needs of WMSME. In such context where there are no significant gender specific barriers for women entrepreneurs, there is a huge potential of promoting women entrepreneurship in Sri Lanka and gaining various benefits out of it (e.g. creating employment opportunities especially for women, improving the social, educational and health status of women and their families, poverty reduction, and etc.).

**Inadequate testing capacities and difficulty of obtaining standard certificates:** It was reported that there are undue delays in obtaining standard certificates due to lack of capacity of the SLSI to handle a large number of testing requests. Also, some of the local labs are not equipped to issue international certificates required by buyers for certain products, which are hindering export potential to the region,
Export subsidies in other countries. Indian government offers one percent of the total export value as an incentive to the exporters to reduce their price. This, in turn, makes Sri Lankan products relatively more expensive and reduces the market share of Sri Lanka in the world market.

Political instability in South Asian countries: Sri Lankan exporters face difficulties due to political instabilities in some trading partner countries in South Asia. Domestic security concerns including terrorist attacks, multiple check points for both scanning and physical checks, red tape to clear goods in receiving countries are some examples.

Difficulty of MSME to meet government policies that encourage trade: The existing government policies, such as tax-free raw material imports for manufacturing exports tend to benefit larger enterprises which can meet the necessary requirements. Another example highlighted was a new environmental law imposed by the Government recently. Although the changes might be important for the country, coir producers found it difficult to meet the requirements within a short-period of time.

6.2. Recommendations
Recommendations for each of the identified barriers are summarized in the table 6.1 below.

Table 6.1 Summary of recommendations

<table>
<thead>
<tr>
<th>Identified Barriers</th>
<th>Recommendations</th>
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<tbody>
<tr>
<td>Financial Concerns</td>
<td>• Use of mobile network to disseminate available services</td>
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<td></td>
<td>• Shared commitment to help WMSME in the financial institutions</td>
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<td></td>
<td>including development of the financial packages that cater needs of WMSME</td>
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<td></td>
<td>• Provision of training on financial management to WMSME</td>
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<td>Low value addition and low access to new technology</td>
<td>• Help women entrepreneurs participate in regional trade shows and exhibitions</td>
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<td></td>
<td>• Incentivizing the use of new technology among WMSME</td>
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<tr>
<td>Limited participation in trainings and skill development programmes</td>
<td>• Awareness creation and outreach through various government and community organizations</td>
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<td></td>
<td>• Trainings at village level during the hours convenient for women entrepreneurs</td>
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<td></td>
<td>• Provide incentives for women to join various training and skills development programs; for example, by providing a public child-care services.</td>
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<tr>
<td>Information Gap</td>
<td>• Strengthening the existing information channels (e.g. effective use of Development Officers)</td>
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<td></td>
<td>• Using available information channels such as TV programmes effectively</td>
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<tr>
<td></td>
<td>• Effective use of Information and Communication Technology for dissemination of information to remote areas</td>
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<tr>
<td></td>
<td>• Extension programs and meetings at village level</td>
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<td>Category</td>
<td>Suggested Actions</td>
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<td>--------------------------------</td>
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<tr>
<td>Poor Networking</td>
<td>• Forming collective groups for women producers at village level</td>
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</table>
| Social Concerns                | • Setting up better work environment to encourage younger generation  
• Building better social recognition and public image for those who are in the lowest levels of the value chain                                                                                                                                                                                                                                              |
| Inadequate testing capacities | • Enhance domestic testing capacity and improve the efficiency of existing services.  
• Reciprocal Recognition of Tests and Standard Certification                                                                                                                                                                                                                                                                                                      |
| Export subsidies in other countries | • Necessary assistance (tax incentives, marketing etc.) of public and private organizations for SME to improve competitiveness.                                                                                                                                                                                                                                               |
| Special provisions to MSME    | • Tax incentives and support services to MSME; different or more flexible criteria for MSME to qualify for tax-free imports of raw material  
• Change in mindset and culture at key related agencies  
• Flexibility in domestic regulations for industries with good records in doing business.                                                                                                                                                                                                                                                                             |

**Better Access to Finance:** To overcome a low outreach of the formal financial institutions to women entrepreneurs, mobile services can be introduced to disseminate available loan programmes, particularly for those who reside in remote areas. Eventually, mobile banking would be useful for repayment of loans.

Regarding the design of loan schemes, it is crucial to cater to the needs of WMSME or certain producers. In this study, both products identified with high potentials for regional trade and women’s economic participation are agro-processed goods. Due to seasonality in harvesting and processing, the loan schemes should be shortened from one year to several months to reduce entrepreneurs’ burden in repayment.

Commitment of assisting WMSME should be shared among all branches of the financial institutions. While the services such as SME banking are set up at the central office, if the branch managers of financial institution found the lending to MSME is not profitable, they serve other customers such as large corporations and private investors. Such situations can be avoided by close monitoring and supervision to assess the progress of special programmes targeting micro and small enterprises. In addition, there is a need of incentivizing the lending to WMSME. For small amount that MSME seek, the administrative procedures including paper work can be reduced as compared to larger deals. The formal financial institutions try to reduce lending risks by securing collateral or guarantor, which itself is a big hurdle for WMSME. Alternative ways to allow WMSME to build credit within the institution are needed, e.g., gradually increase the amount of small loans as proved in microfinance. Participants of the Advisory Meetings also suggested providing trainings for women entrepreneurs on financial management to build confidence among them.

**Better access to new technology for value addition:** It is important to provide women entrepreneurs an opportunity to participate in regional trade fairs and exhibitions to see the potential for value addition and obtain direct experience in using new technologies. In addition, Industrial Technology Institute, NEDA and Chamber of Small and Medium Industries of Sri Lanka among others should be the drivers for introducing new technologies to WMSME by providing incentives or allowances to purchase new machineries or adopt new techniques and methods to upgrade their business activities.

**Increased opportunity in trainings and skill development programmes:** To increase awareness of training programmes, announcement of the programmes should be shared with target groups via District Secretariat, welfare associations, District Chambers of Commerce, District level officers in Export Development Board among others.
Programmes should target women entrepreneurs by organizing them at village level. Thereafter, institutes can encourage trained group of entrepreneurs to provide training to others in their respective villages. Presently, Development Officers of various Ministries and Agriculture In-service Advisers attached to the Ministry of Agriculture visit villages to conduct training programmes. However, more of these services need to target women by considering the working hours convenient to them.

**Overcoming Information Gap:** There are several steps that can be taken to overcome the information gap identified by women entrepreneurs. One of the actions is to make the best use of Development Officers attached to Divisional Secretariat Offices as effective mediators in information sharing. These officers have a good rapport with the community and this relationship can be used effectively in disseminating information. At present, there is a mechanism to disseminate the market prices for spices through the Agrarian Extension Officers but due to weaknesses in the system, including lack of resources and poor commitment of the officers, information does not reach to the intended beneficiaries. Cross-ministerial/sectoral coordination can be strengthened through utilization of Development officers.

Effective use of available information channels is another step to overcome the information gap. Some women entrepreneurs found that using prime-time slots to telecast informative and educational TV programs useful to obtain knowledge. Inspiring stories of women entrepreneurs can be used in producing TV dramas and other entertainment programmes, so that the budding entrepreneurial women can have access to best practices.

Use of Information and Communication Technology (ICT) can be explored as an innovative solution. The latest MDG report for Sri Lanka revealed that mobile cellular subscriptions per 100 inhabitants was 117 in 2012 (UNDP, 2015). Almost all the women entrepreneurs who participated in FGDs possessed mobile phones and these were used extensively and effectively in contacting them. High mobile subscription can be used as an effective medium to communicate with women entrepreneurs in remote areas, as opposed to traditional methods like posters and banners.

There is a great need of training programmes at village level as women found travelling to towns time-consuming and costly. Opportunity costs for participating in the trainings or meetings outside of their communities are also high particularly for married women or women with child care responsibilities. Mobile technology can be also used to fulfil the distance gap.

**Business Networking:** Forming collective groups at the village level was suggested as a possibility of enhancing networking among women micro and small entrepreneurs. Cinnamon Cultivators Association from Ahungalle, a community based organization focusing on matters related to cinnamon cultivation and production, is an example of such collective groups. It was mentioned that the Spice Council of Sri Lanka is currently encouraging and facilitating in forming such groups at the village level.

**Creating Social Recognition:** Related to the above, introduction of modern technology and equipment would help increase productivity and thus profitability and may help attract younger generation to take up the traditional business of spice and coir production. Together with media, Industrial Technology Institute, NEDA, Chamber of Small and Medium Industries of Sri Lanka, and Women's Chamber of Industry and Commerce among others could help improve social recognition of many of traditional industries including cinnamon. Featuring WMSME’ work through media interviews, exhibitions, and workshops is some examples for improving the social recognition of the traditional industries.

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19 Development Officers are University graduates report to Divisional Secretariat Offices. They are attached to a government body including Ministries.
Enhance Capacities and Efficiency of Testing Laboratories and Reciprocal Recognition of Tests and Standard Certification. Domestic testing capacity of the SLSI and other authorized laboratories need to be uplifted to improve the efficiency of existing services and recognition of Sri Lankan tests and certificates in importing countries. A Mutual Recognition Agreement on standards testing and certification that benefits all South Asian countries needs to be negotiated and implemented between the respective countries to overcome such issues. In order to improve testing equipment and enhance the capacity of human resources in Sri Lanka, technical support from India or other South Asian countries would be helpful to ensure that the country meets the standards required in such markets.

Special Provisions for MSME: Various public and private institutions including Ministry of Finance, BOI, EDB, CCC, Spice Council, and Coir Fibre Exporters’ Association can provide the necessary assistance in terms of tax incentives, and support services such as specially designed marketing and promotional activities to SME to calibrate their competitiveness as well as their visibility. Moreover, provision of different and more flexible criteria for SME to be qualified for tax-free imports of raw materials would encourage investments into export-oriented industries.

In order for the WMSME to benefit from trade facilitation initiatives, a change of mindset among officers in key institutions such as the SLSI, Sri Lanka Customs, Plant and Animal Quarantine Department, Sri Lanka Ports Authority to accept and adapt to new ways of conducting business is vital. This would require continuous training at all levels in the organization structures and also create awareness among these institutions about best practices in the world that can be easily adapted to their operations.

While new laws and regulations may apply to all the industries irrespective of their history of doing business, flexibilities for MSME such as permitting grace periods to adhere to them and adjust accordingly would be important given their limited capacity to adopt them immediately.
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http://www.ifc.org/wps/wcm/connect/9ae1dd80495860d6a482b519583b6d16/MSME-CI-AnalysisNote.pdf?MOD=AJPERES


Annex 1. Focus Group Discussion Guideline

South Asian Country Study on Products with Regional Trade Potential and Associated Non-Tariff Barriers, with special focus on Women Owned and Led Micro, Small, and Medium Enterprises (WMSME) - A Case of Sri Lanka

Date:
Time:
Venue:
Number of participants:
Moderator:
Facilitator:
Record Keepers:

Introduction:

Self-Introduction (Moderator and Facilitator):

Project Introduction: This study is on “Asian Country Study on Products with Regional Trade Potential and Associated Non-Tariff Barriers, with special focus on Women-owned and led Micro, Small, and Medium Enterprises (WMSME) - A Case of Sri Lanka” which is funded by the UNDP.

The main intention of this study is to identify non-tariff barriers in WMSME in spice and coir products in Sri Lanka. This study is carried out by the Institute of Policy Studies of Sri Lanka.

Anonymity of the participants and confidentiality of the information will be protected.

No right or wrong answers, only differing points of view. Permission for using the tape recorder.

Warm up
Please introduce yourself briefly. Where do you live, few details about your family

1. About the business
   1.1 Type of business activities
   1.2 How many employees are involved in the business?
   1.3 Is your business registered under your name? (Do you have the legal ownership of your business? If not, who has it?)
   1.4 Who is the main decision maker of your business?
   1.5 What is your main task in doing the business?
1.6 How long have you been in the business?

2. Identifying the Value Chain
   2.1 Who are the main input suppliers? / From where do you find inputs?
   2.2 How easy/difficult is it to find raw material?
   2.3 Who are your buyers?
   2.4 What are your buyer’s main requirements?
   2.5 How easy/difficult is it to meet these requirements?
   2.6 Do you know what the end/final market is or consumers are?

3. Business Management and Operational Challenges

Access to Finance
   3.1.1 Did you have to take credit/loan at any point of your business?
   3.1.2 If so, from where did you seek for and obtain the credit/loan facilities? (Formal-public/private bank/cooperatives/financial institutes and Informal -relatives/ friends/ money lenders etc )
   3.1.3 Were there any difficulties in obtaining credit/loan facilities?
   3.1.4 If there were any difficulties /barriers in obtaining credit, what were they and how did you overcome those barriers? (Collateral /legal ownership of the business/finding guarantors/assuring business credibility/poor financial literacy …. etc.)
   3.1.5 Do you think women are more subjected to any of those barriers/difficulties? If yes, what are they, please explain.
   3.1.6 Were there any special credit/loan schemes exclusively for women entrepreneurs?

Skills and Expertise
   3.1.7 Have you received any kind of formal business-related training at any point?
   3.1.8 If yes, what were those? Who provided them?
   3.1.9 Do you think that the knowledge and skills that you received from those programs were helpful to you in managing and /or expanding your business?
   3.1.10 Do you have any training needs at present? If so, what are them?

Marketing and Technology
   3.1.11 How do you get market information: product/supplier/customer? (Trade associations/own observations/other traders/government/private bodies/media)
   3.1.12 Can you briefly explain your experience in getting market information?
   3.1.13 What type of machines/tools/methods do you use in your production process?
   3.1.14 How do you get/get to know about these machines/tools/methods?

Infrastructure (Transport, water/ Power/ Telecommunication/ Road connectivity ETC.)
   3.1.15 Do you encounter any infrastructure: related problems/issues when carrying out your business? (Transport/water/power/telecommunication/road connectivity etc.), If so can you please briefly explain those issues?

Networking and information
   3.1.16 Do you have a membership of a trade/ business association?
   3.1.17 If yes, can you please tell more about them and the benefits that you receive from being a member of these associations?
3.1.18 If not, why didn’t you get a membership of such an association/what prevents you; please describe
3.1.19 How do you get the business related information (about customers/new markets/new suppliers etc.)? please describe
3.1.20 Are you satisfied with the information available for you at present? (New markets/new standards/government policies/special programmes/trade exhibitions)?

**Identifying trade barriers (domestic / international) - For Exporters only**

3.1.21 What type of quality standards that you have to meet?
3.1.22 From where do you get information about standards and from where do you get the certificates?
3.1.23 Are there any difficulties in complying with standards? (Sample testing/documentation/ labour standards etc.)
3.1.24 Are there any product specific requirements, like labeling, that you have to meet when exporting?
3.1.25 Are there any difficulties in getting the standard certificates?
3.1.26 Do you have to obtain a permit/license to export spices/coir? From where do you get the permit/license?
3.1.27 Have you ever had to bear any export taxes or faced with export prohibitions when trying to export spices/coir products?
3.1.28 If yes, do you know the reason why this/these (export taxes/ prohibitions) was/were imposed?
3.1.29 Are the customs surcharges, seasonal duties and additional taxes hindering your capacity to export?
3.1.30 What are your sources of obtaining information on export procedure and potential export market?
3.1.31 What are the institutions that provide services related to export (government/ private)? Are you satisfied with the service they provide at present? If not, why? Do you have any suggestions to improve the quality of their service?
3.1.32 To which countries do you export your products (please name three major countries)?
3.1.33 Do you export to any of the countries in the South Asian Region (India, Pakistan, Bangladesh, Nepal, Bhutan, Maldives, Afghanistan)
   3.1.33.1 If yes, can you please explain your experience in exporting to SA countries? Are you facing any kind of issues when exporting to SA countries, if so what are they?
   3.1.33.2 If no, why? Please explain

**Government Policies, Regulations and Programmes**

3.1.34 In your opinion, are there any government policies, regulations or programmes that encourage / facilitate your business activities? If so, what are they?
3.1.35 In your opinion, are there any government policies, regulations and programmes that discourage/hinder your business activities? If so, what are they? Please describe (coir–environment policies/waste management/ Cinnamon/clove/pepper – deforestation and environment conservation issues etc.

**Social constraints**

3.1.36 In your opinion, are there any kinds of social barriers/restrictions to you when performing as a ‘woman entrepreneur’?
3.1.37 Can you tell us about your experience as a ‘woman entrepreneur’ in socializing with the others?
3.1.38 In your opinion, do you think that you get enough recognition as a ‘woman entrepreneur’? If not, why is that?

3.1.39 Is anybody helping you in child caring/cooking and cleaning and other household activities? If so, who is that (Parents/spouse/other relations/paid domestic workers/ etc.)? Are you satisfied with the level of support you get from them in balancing your work and family life?

3.1.40 Have you ever encountered any form of harassment while doing your business? (physical harassments/sexual harassment)

**Overall Constraints**

3.1.41 Are there any other constraints that you may face as a women entrepreneur?

3.1.42 Of the constraints that we have discussed, which one do you think is the most important constraint which is hindering the expansion of women owned business in the country?
Annex 2. Short Survey Questionnaire

South Asian Country Study on Products with Regional Trade Potential and Associated Non-tariff Barriers, with Special Focus on WMSME- A case of Sri Lanka 2014

Short Survey Questionnaire for Focus Group Discussion Participants
(Women Micro, Small and Medium Entrepreneurs)

<table>
<thead>
<tr>
<th>Date</th>
<th>District</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Product</th>
<th>1. Coir</th>
<th>1.1 Coir Door mats</th>
<th>1.2 Coir Yarn</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. Spices</td>
<td>2.1 Cinnamon</td>
<td>2.2 Pepper</td>
</tr>
</tbody>
</table>

1. Personal Details

1.1 Name:

1.2 Address:

1.3 Contact details (phone number)

1.4 Date of birth:

1.5 Age:

1. 15-24
2. 25-34
3. 35-45
4. 45-54
5. 55 and above

1.6 Marital Status:

1. Married
2. Unmarried
3. Widow
4. Divorced
5. Separated

1.7 No. of household members

1.8 No. of children in household

1.9 Age of children (in years):

1. First child
2. Second child
3. Third child
4. Fourth child
5. Fifth child
| 1.10 | Education qualifications | 1. Passed Grade 1 | 10. Passed Grade 10 |
|      |                            | 2. Passed Grade 2 | 11. Passed G.C.E. (O/L) or equivalent |
|      |                            | 3. Passed Grade 3 | 12. Passed Grade 12 |
|      |                            | 4. Passed Grade 4 | 13. Passed G.C.E (A/L) or equivalent |
|      |                            | 5. Passed Grade 5 | 14. Passed GAQ/ GSQ |
|      |                            | 6. Passed Grade 6 | 15. Passed Degree |
|      |                            | 7. Passed Grade 7 | 16. Passed Post Graduate Degree/ Diploma |
|      |                            | 8. Passed Grade 8 | 17. Special Education Unit |
|      |                            | 9. Passed Grade 9 | 18. No Schooling |

| 1.11 | Any particular reason for taking up this business | 1. I wanted to utilize my free time |
|      | 2. I had to make an income for my family /Financial needs / making money |
|      | 3. My desire to achieve something and be independent |
|      | 4. I wanted to capture the available market opportunities |
|      | 5. Easily available resources and labour |
|      | 6. Social status |
|      | 7. Threat of losing my job |
|      | 8. Other (specify).....................................................

2. Business Details

| 2.1 | The ownership of your business | 1. Self-owned |
|     |                                | 2. Partnership with family (Specify husband, father, mother etc… _______________ ) |
|     |                                | 3. Partnership with others (specify the relationship with co-partners ________________ ) |
|     |                                | 4. Cooperative |
|     |                                | 5. Taken on lease/rent from others |

| 2.2 | How long have you been doing this business? |
| 1. | |

| 2.3 | What were you doing before starting this business? | 1. Studying |
| 2. | Household work |
| 3. | Job – please specify (..................................................) |

| 2.4 | Who motivated you to take up this business? | 1. Self-motivation |
| 2. | Parents or Father ______ or Mother ________ |
| 3. | Spouse |
| 4. | In-law specify _________________ |
| 5. | Other entrepreneurs |
| 6. | Others (e.g., children, friends etc… ______________) |

| 2.5 | Name of your business/Company/organization: |
| 2.6 | Your Designation |

| 2.7 | Income (Revenue per month) : | 1. Less than Rs. 10, 000 |
|     | 2. Rs. 10, 000 - less than Rs. 20,000 |
|     | 3. Rs. 20,000 - less than Rs. 30,000 |
|     | 4. Rs. 30,000 - less than Rs. 40,000 |
|     | 5. Rs. 40,000 - less than Rs. 50,000 |
|     | 6. Rs. 50,000 or more |
| 2.8 | At present how many employees are engaged in your business? | 1. No employees  
2. 1 or 2 employees  
3. 2> and >=5 employees  
4. 5> and >=10 employees  
5. More than 10 employees |
| 2.9 | What are the main obstacles/problems you are facing now in the running of your business? (Please rank them according to the severity) | □ No obstacles  
□ Liquidity and other financial problems  
□ Getting training/upgrading skills  
□ Marketing issues  
□ Accessing new technology  
□ Gaining the acceptance/respect of people  
□ Being a woman/Gender discrimination (Please specify if you tick this)  
□ Combining family and work life  
□ Infrastructure (please specify)……………………………  
□ Other (please specify):…………………………… |
| 2.10 | Does your business export? | 1. Yes (if yes, answer to 3.4, 3.5, and 3.6)  
2. No (If no, go to 3.7 and 3.8) |
| 2.11 | If yes, which countries do you export to? (Name the top three countries) | 1. …………………………………  
2. …………………………………  
3. ………………………………… |
| 2.12 | Who exports your products? | 1. You export it yourself  
2. Through a representative  
3. Through an intermediary  
4. Other (Specify): ………………… |
| 2.13 | What are the main obstacles/problems you are facing now in exporting your products (you can check more than one answer) | 1. No obstacles  
2. Low production capacity  
3. Lack of financial resources to export  
4. Difficulty to meet the relevant standard requirements  
5. Lack of information and finding local partners and distribution channels  
6. Other (Specify): ………………… |
| 2.14 | To whom do you sell your products? |  
| 2.15 | Why don’t you export your product by yourselves? | 1. Low production capacity  
2. Lack of financial resources to export  
3. Difficulty to meet the relevant standard requirements  
4. Lack of information and finding local partners and distribution channels  
5. Other (Specify): ……………………………… |
### Annex 3. List of NTMs in Sri Lanka for the selected spices and coir Products, 2013

<table>
<thead>
<tr>
<th>NTM Code</th>
<th>NTM Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>0904 - Pepper and Capsicum</strong></td>
<td></td>
</tr>
<tr>
<td>A220</td>
<td>Restricted use of certain substances in foods and feeds and their contact materials</td>
</tr>
<tr>
<td>A310</td>
<td>A31 - Labelling requirements</td>
</tr>
<tr>
<td>A830</td>
<td>A83 - Certification requirement</td>
</tr>
<tr>
<td>A890</td>
<td>A89 - Conformity assessment related to SPS n.e.s.</td>
</tr>
<tr>
<td>B140</td>
<td>B14 - Authorization requirement for TBT reasons</td>
</tr>
<tr>
<td>B220</td>
<td>B22 - Restricted use of certain substances</td>
</tr>
<tr>
<td>B310</td>
<td>B31 - Labelling requirements</td>
</tr>
<tr>
<td>B830</td>
<td>B83 - Certification requirement</td>
</tr>
<tr>
<td>B900</td>
<td>B9 - TBT Measures n.e.s.</td>
</tr>
<tr>
<td>C900</td>
<td>C9 - Other formalities, n.e.s.</td>
</tr>
<tr>
<td>F400</td>
<td>F4 - Customs Surcharges</td>
</tr>
<tr>
<td>F500</td>
<td>F5 - Seasonal duties</td>
</tr>
<tr>
<td>F690</td>
<td>F69 - Additional charges n.e.s.</td>
</tr>
<tr>
<td>F710</td>
<td>F71 - Consumption taxes</td>
</tr>
<tr>
<td>F790</td>
<td>F79 - Internal taxes and charges levied on imports n.e.s.</td>
</tr>
<tr>
<td>P130</td>
<td>P13 - Licensing or permit requirements to export</td>
</tr>
<tr>
<td>P500</td>
<td>P5 - Export taxes and charges</td>
</tr>
<tr>
<td>P620</td>
<td>P62 - Certification required by the exporting country</td>
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**0906 - Cinnamon**

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<tr>
<td>F790</td>
<td>F79 - Internal taxes and charges levied on imports n.e.s.</td>
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<tr>
<td>P110</td>
<td>P11 - Export Prohibition</td>
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<tr>
<td>P130</td>
<td>P13 - Licensing or permit requirements to export</td>
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<tr>
<td>P500</td>
<td>P5 - Export taxes and charges</td>
</tr>
<tr>
<td>P620</td>
<td>P62 - Certification required by the exporting country</td>
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**0907 - Cloves**
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</tr>
<tr>
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<td>C9 - Other formalities, n.e.s.</td>
</tr>
<tr>
<td>F400</td>
<td>F4 - Customs Surcharges</td>
</tr>
<tr>
<td>F690</td>
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</tr>
<tr>
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**5308 - Coir Yarn**

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<td>A220</td>
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<tr>
<td>A320</td>
<td>A32 - Marking requirements</td>
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<td>A830</td>
<td>A83 - Certification requirement</td>
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<td>C9 - Other formalities, n.e.s.</td>
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<tr>
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**5702 – Coir Floor Coverings**

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Source: WITS NTMs database, 2013
United Nations Development Programme

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3rd Floor United Nations Service Building
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