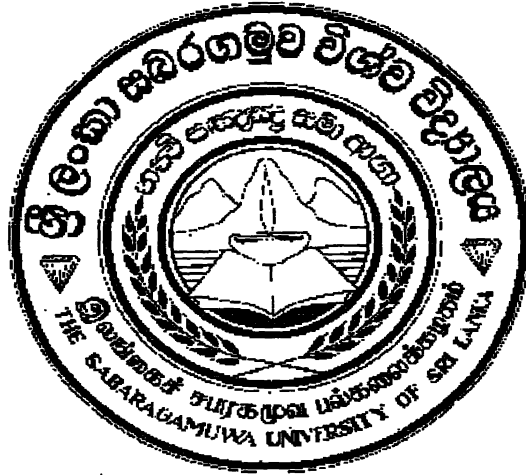


The role of Small and Micro Industries Leader and Entrepreneur promotion project (SMILE 11) in the development of the small and micro scale entrepreneurs.

(Based on Commercial Bank of Ceylon limited, Minuwangoda)

The report submitted to the Department of Social Sciences in partial fulfillment of the requirements of B.A (Special) Social Sciences Specialized in

Major Subject : Economics
Academic Year : 1998/1999



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Department of Social Sciences.
Faculty of Social Sciences And Languages

SABARAGAMUWA UNIVERSITY OF SRI LANKA
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This is to certify that this report is submitted in partial fulfillment of B.A Social Sciences (Special) Degree program.

Signature of Head

.....

Date.....

This is to certify that this report or part of it has not been submitted to any other institution and I have given due references to all published materials used in this report.

Student's Signature

M.A. Senarathna

Date...19/03/2002

Department of Social Sciences.

Dedicated
To
My Beloved
Parents & Teachers

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ABBREVIATIONS

| | |
|--------------|---|
| SSI | Small Scale Industries |
| NDB | National Development Bank |
| JBIC | Japan Bank for International Cooperation |
| SMILE | Small and Micro Industries Leader and Entrepreneur |
| PCI | Participating Credit Institutions |
| GLS | General Loan Scheme |
| TTAS | Technical Transfer Assistance Scheme |
| Mn | Million |
| Rs | Rupees |
| S L | Sri Lanka |

Chapter One

(1.1) Introduction.

(1.2) Description of the Area.

(1.3) Objectives.

(1.4) Research Questions.

(1.5) Methodology.

(1.6) Limitations.

(1.7) Chapter out line.

(1.1) Introduction

Sri Lanka is a developing country with a mixed economy. Its economy is divided into three sectors such as the agricultural sector (21.6%) industrial sector (23.8%) and services sector (54.6%). [Central bank annual report 2000]. Nowadays, as the contribution of industrial sector to the GDP is higher than the agricultural sector, industries located in the country are very essential. Industrial growth has been one of the major plans of development programs of most countries of the third world. Although almost all of them are agriculturally oriented there has often been an undue emphasis in their development plans on the growth of industry, particularly in the large- scale sector. Large, medium and small-scale industries are playing a major role in Sri Lank an economy.

Though there are big amounts of large-scale industries in Sri Lanka, they do not create much employment opportunities, because they use new technology and capital-intensive methods to increase their productivity. On the other hand, most of the people are engaged in self-employment in small and medium scale industries. Therefore small and medium scale industries are more helpful to create employment opportunities rather than the large-scale industries. The small and medium scale industries accounted for 18 % of industrial output, 17 % of value addition and 24 % of employment in industry in 1993. [Department of census and statistics in “statistical abstract 1996]. Most of small and medium scale industries (SMIs) were located in the Colombo, Gampaha and Kalutara districts. The Number of SMIs by year of commencement is as follow.

Table (1.1)

No. of SMIs by year of commencement

| Year of Commencement | No. of SMIs | % |
|----------------------|-------------|------|
| Up to 1965 | 9 | 7.3 |
| 1965 -1970 | 8 | 6.6 |
| 1970 -1977 | 18 | 14.8 |
| After 1977 | 87 | 71.3 |
| Total | 122 | 100 |

[Source: Sri Lanka SMI s impact of liberalizations and constraints for development, 1999.]

However the SMIs face the difficulty of finding their short-term and long –term capital requirements due to unfavorable fluctuations of the money market. Small business enterprises in both industrialized and developing countries have difficulties in obtaining financial assistance from banks and financial institutions. Infact most enterprises start their business without any institutional help. The entrepreneur usually obtains the small amount of finance he needs from his own savings or from his family. However small enterprises find it difficult to grow without the opportunity to barrow from lending institutions.

The entrepreneurs carry out the industries. So private entrepreneurs are more valuable than the government entrepreneurs in the business sector. So the banking sector has started to provide loans to entrepreneurs.

However the industrial sector receives credit facilities form Commercial Banks and Development Banks to meet working capital requirements, as well as medium and long – term investment requirements. Commercial banks mainly provide small and medium scale of credit facilities. On the other hand the funds provided form international agencies in the previous years, to finance small and medium scale industrial projects are increased substantially.

Table No (1.2)

Loan Approved by NDB

| | Rs. | Million |
|-----------------------------------|---------------|----------------|
| | 1999 | 2000 |
| Agriculture | 490 | 931 |
| Industry | 8381 | 6857 |
| Tourism | 668 | 128 |
| Commercial | 1788 | 666 |
| Finance | 70 | 264 |
| Housing | 828 | 853 |
| Other Loans | 217 | 378 |
| Total (Approved) | 12,442 | 10,077 |

[Source : Annual Report 2000 Central Bank of Sri Lanka]

National Development Bank, the other major development Finance institution, continued to engage in long term lending activities. However, the lending activities in terms of total loans approved decreased from the previous year. The total volume of loans approved dropped from Rs. 12,442 million at end 1999 to Rs. 10077 million at end of 2000. Following the same trend, total loans disbursed came down by 42% to Rs. 6826 million in 2000. Credit to industrial sector stood at 68% of total loans approved. Total loans approved to this sector decreased from Rs 8381 million in 1999 to Rs. 6857 million in 2000. The main sources of funds of NDB were repayment of loans by customers, international credit lines and issued of debentures.

Gradually various loan schemes have been launched within the country to develop small and medium scale industries. Among those loan schemes, National Development Bank (NDB) continued to provide financial facilities to the industrial sector and it provide refinance facility under "sector specific" credit project such as small and Micro Industries leader and Entrepreneur promotion project. [SMILEII]

This SMILE loan provides, for development of SMIs. So it could,

- Generate employment opportunities; raise income level and living standards especially in the regions
- Avoid income disparities between rural and urban populations by alleviation of poverty
- Restrict the migration of people to cities.

As a result of participation of banking sector, NDB is allocated 3.7 billion amount of money for participation credit institutions (PCI) to lend loans to small and medium scale entrepreneurs under the SMILE II loan scheme. However NDB is issued those loans through the Commercial banks.

According to the NDB statistics, they have issued 809 loans with the value of 870 million rupees. Out of that 809 loans commercial bank of Ceylon Ltd, has issued 80 loans with the 101.4 million value. [Up to 31st July 2001]

Table (1.3)

The location of SMIs by Districts

| District | No of SMIs | % |
|------------|------------|------|
| Colombo | 48 | 41.0 |
| Gampaha | 18 | 15.4 |
| Kalutara | 11 | 9.4 |
| Kandy | 10 | 8.5 |
| Galle | 16 | 13.7 |
| Karunegale | 14 | 12.0 |
| Total | 119 | 100 |

[Source: Sri Lanka SMIs impact of Liberalization and constraints for development, 1999]

However, this research seems to be very complex, become state and private sector banks are implementing this scheme all over the island. So “Minuwangoda” is the selected area, which is situated in Gampaha district in Western Province, for this research. Because Gampaha is the second large district of SMIs. So this research will help to find, how SMILE II loan scheme affects the entrepreneurs who live in Minuwangoda area?

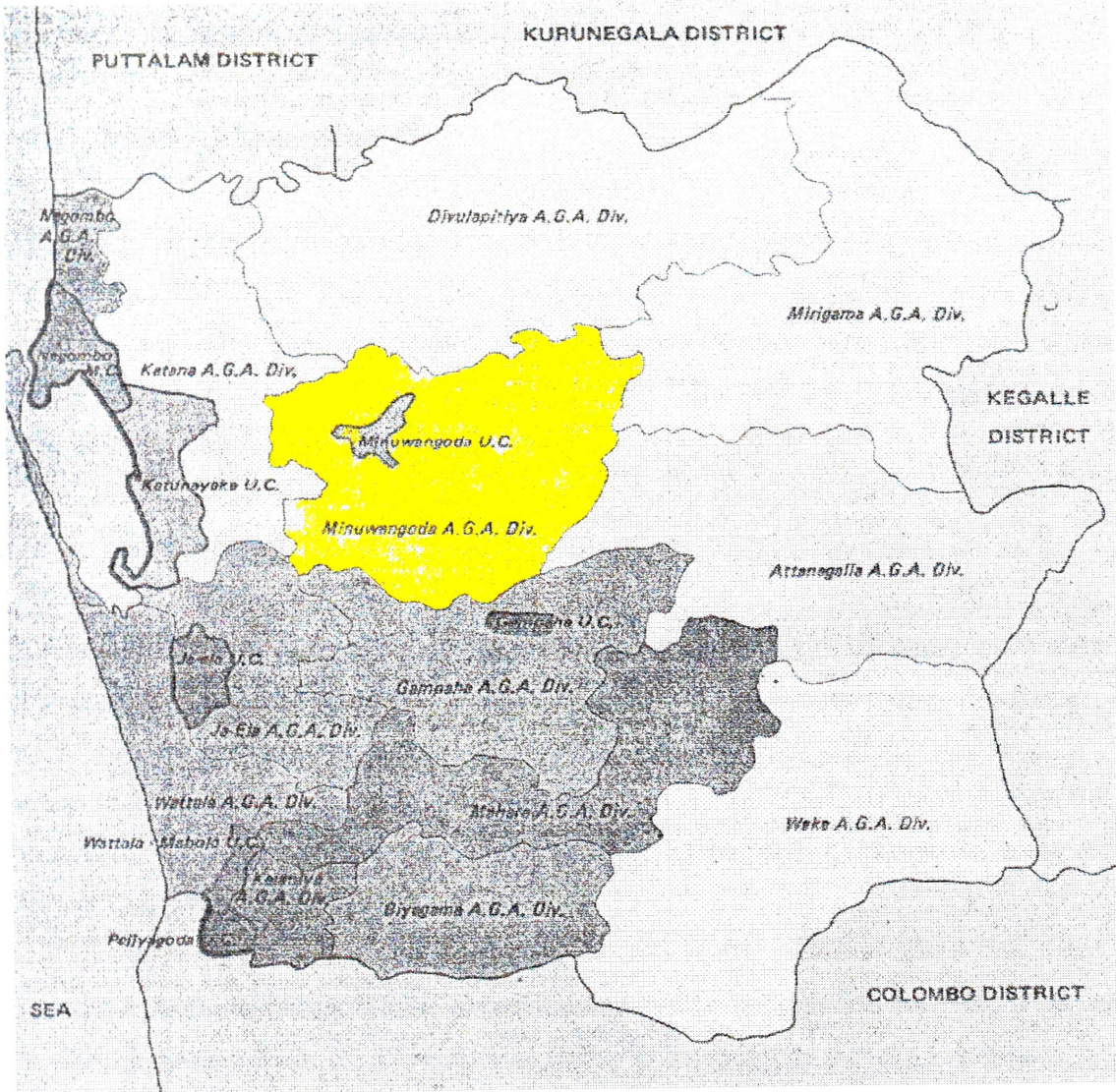
(1.2) Description of the Area


Gampaha created as a separate administration district in 1979, has a population of 1390, 862 Gampaha district spans an area of 993.3 Sq. km. With an overall density of 1400.2 persons per sq. km. The distribution of people within the district is extremely variable. Less than 600 persons are spread over a square kilometer in other outer A.G.A.Division of Divulapitiya, weke and Mirigama. The Negambo M.C. and all urban council areas except Seeduwa – Katunayake and Minuwangoda have densities exceeding 2000 persons. The most populous urban center is the Paliyagoda, U.C. area where, on the average, 6211 persons are crowded into a single square kilometer of land.

Gampaha is more urban than more other districts 27.9% of its people live in urban areas. The urban share of the country’s population is only 21.5%.

People in Gampaha are predominantly Sinhalese (92%), Sri Lankan Tamil (3.5%), Moors (2.7%), Others are (1.8%) of the district’s population. Although the majority of people are Buddhist, quite a substantial proportion of 22.5% Roman Catholics. . A small group about 5% is protestant Christians. And Muslims being Moors about 3% of the total population.

Gampaha District



 - Minuwangoda area

Map : 01

(1.3) Objectives

- To examine the effectiveness of SMILE II which launched by the Commercial Bank, to the small and medium scale entrepreneurs.
- To identify the correlations between small and medium scale entrepreneur development and SMILE II in Minuwagoda area.

(1.4) Research Question

There is large number of small and medium scale entrepreneurs of industrial sector in Sri Lanka. This both banking and non-banking sectors have introduced several loaning projects for their business activities. Among those projects, SMILE II is one of the loaning projects, introduced by the NDB. “The SMILE II loaning project is helped to development of the entrepreneur.

(1.5) Methodology

In this research both primary and secondary data are used. Primary data are the data collected for analyzing purposes. These data are collected by using questionnaires, interviews, direct observation and etc. According to this study primary data was obtained in various ways. Firstly the Chief Manager in SMILE II unit of Commercial Bank head office will be interviewed and then the Manager of Commercial Bank of Ceylon Ltd, Minuwangoda.

In addition to those people fifteen entrepreneurs will be interviewed who had obtained the SMILE II loan from the Commercial Bank, Minuwangoda by using simple random sampling method. Also a questionnaire was presented to each entrepreneur. On the other hand staff members of the Commercial Bank helped to obtain the necessary information.

Secondary data are the data obtained from others. Those data are collected from various people for various purposes. According to this research, report issued from the Commercial Bank head office and NDB publications are used. Also some secondary

information are obtained from the various documents at the university library namely, satahana, economic review, Central Bank annual report and etc.

The data obtained from the above sources are analyzed by using statistical tables, charts, graphs and etc.

(1.6) Limitations

- The selected area of this research is Commercial Bank of Ceylon Ltd, Minuwangoda.
- Only the small and micro industries entrepreneurs, who have borrowed SMILE II, are selected as the research sample.

(1.7) Chapter Out line

Chapter (1)

- (1.1) Introduction
- (1.2) Description of the Area
- (1.3) Objectives
- (1.4) Research Question
- (1.5) Methodology
- (1.6) Limitations
- (1.7) Chapter outline

Chapter (2)

Role of Entrepreneur in Economic Development

- (2.1) Introduction
- (2.2) Who is an Entrepreneur?
- (2.3) Characteristics of an Entrepreneur
- (2.4) Functions of an Entrepreneur

- (2.5) Types of Entrepreneurs.
- (2.6) Growth of Entrepreneurs.
- (2.7) Entrepreneurship in economic Development
- (2.8) Entrepreneurial Development.

Chapter (3)

Operations instructions of SMILE II

- (3.1) Introduction
- (3.2) Eligibility Criteria
- (3.3) Credit Condition
- (3.4) Approval Procedure
- (3.5) Disbursement Procedure
- (3.6) Repayment and Follow-up

Chapter (4)

Data Analysis

Analyze the data, which will obtain from research by using Statistical tables, charts and graphs.

Chapter (5)

Conclusions and Recommendations

Chapter Two

Role of Entrepreneur in Economic Development

(2.1) Introduction

(2.2) Who is an Entrepreneur?

(2.3) Characteristics of an Entrepreneur

(2.4) Functions of an Entrepreneur

(2.5) Types of Entrepreneurs.

(2.6) Growth of Entrepreneurs

(2.7) Entrepreneurship in Economic Development

(2.8) Entrepreneurial Development

(2.1) Introduction

“The economy of the country is controlled by the entrepreneurs who lived in that economic system. If the economy of the country is a result of something. The reason for that may be the condition of the entrepreneur. If there are no entrepreneurs, there is no economy. So entrepreneurs are very essential for the economy.

The role of entrepreneurs in economic growth has consistently been emphasized in the literature on economic development. It is even more relevant for developing countries like Sri Lanka where poverty and unemployment continue to exist in spite of planned efforts to mitigate them. These problems could be handled effectively by activating the latent potentials – human and physical. In order to achieve this, the policy makers have been emphasizing promotion of small and medium scale industries. Till the early sixties, the small-scale industry (SSI) sector was considered as an employment-generating sector. It was during the late sixties that this sector began to be recognized as an instrument for tapping latent entrepreneurial potential.

Entrepreneurship is not a new concept. It can be traced back as far as the 16th century. In the early 16th century the word entrepreneur was applied to those who were engaged in military expeditions. In the beginning of the 18th century that word was used to refer to economic aspects.

(2.2) Who is an entrepreneur?

Richard Cantillon, an Irishman living in France, was the first who introduced the term “entrepreneur” in 1755. He defined entrepreneur as “an agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at an uncertain price in the future”

Jean Batiste say, an aristocratic industrialist, developed the concept of entrepreneur in 1815. He defined entrepreneur with the function of coordination, organization and supervision according to him, an entrepreneur is “one who combines the land of one, the labor of another and the capital of yet another and thus produces a product”.

By selling products in the market, he pays interest on capital, rent on land; wages to laborers and what remains is profit of the entrepreneur.

Joseph. A. Schumpeter, for the first time in the 1934, assigned a crucial role of “innovation” to the entrepreneur in his “Theory of Economic development” He introduced that the entrepreneur is not a manager who supervises the production process, carrying out routine activities on the basis of past experience without any idea of change, but one who risks uncertainty and engages in activities that have not been undertaken before. In short entrepreneur is “one who makes new combinations in production.”

Hebert and Link, 1989 define that entrepreneur as “ someone who specialist in taking responsibility for making judgmental decisions that affect the location, form and the use goods resources or institutions.”

In 1983, Vesper defines entrepreneur as “person who increase competition, challenging the existing firms where there are unsatisfied needs in the market place, transfer technology, create new ides and implemented them, induce investment and with it new jobs.”

Pinchot in 1985, define the role of the entrepreneur as “creator of innovation and innovation as an act of creative destruction.”

Drucker in 1985 defines entrepreneur as “one who always searches for change, responds to it, and exploits it as an opportunity.”

The common definition of an entrepreneur is “a person who organizes, manages and takes the risk of running an enterprise.”

(2.3) Characteristics of an Entrepreneur

Those who possess entrepreneurial characteristics acquire different skills through experience, training and education or by hiring others who possess these qualities.

However, the question is: what makes the entrepreneurs successful? Whether they had any thing common in their personal characteristics? The scanning of their personal characteristics shows that there are certain characteristics of entrepreneurs, which are found usually prominent in them. The principal ones are;

Hard Work: Willingness to work hard distinguishes a successful entrepreneur from unsuccessful one. Most of the successful entrepreneurs work hard endlessly, specially in the beginning and the same becomes their whole life.

Desire for high achievement: The entrepreneurs have a strong desire to achieve high goals in business. The high achievement motive strengthened them to overcome the obstacles, suppress anxieties, repair misfortunes and devise expedients and only set up and run a successful business.

Highly optimistic: The successful entrepreneurs are not disturbed by the present problems faced by them. They are optimistic for future that the situation will become favorable to business in future. Thus they can run enterprises successfully in future.

Independence: One of the common characteristics of the successful entrepreneurs has been that they do not like to be guided by others and to follow their routine. They resist to be pigeonholed. They liked to be independent in the matters of their business.

Foresight: The entrepreneurs have a good foresight to know about future business environment. In other words, they well visualize the likely changes to table place in market, consumer attitude, technological developments, etc and take timely actions accordingly

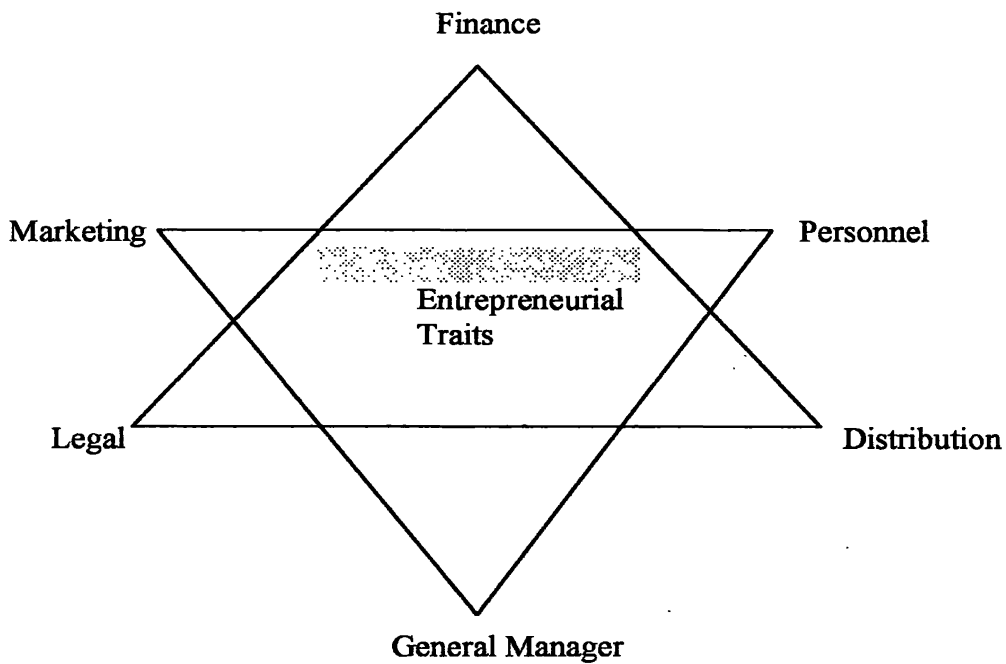
Good Organizer: Different resources required for production are divorced from each other. It is the ability of the entrepreneurs that brings together all resources required for starting up an enterprise and then to produce goods.

Innovative: Production is meant to meet the customers' requirements. In view of the changing taste of customers from time to time, the entrepreneurs initiate research and innovative activities to produce goods to satisfy the customers' demand for the product.

Mental ability: This consists of intelligence and creative thinking. An entrepreneur must be reasonably intelligent, and should have creative thinking and must be able to engage in the analysis of various problems and situations in order to deal with them.

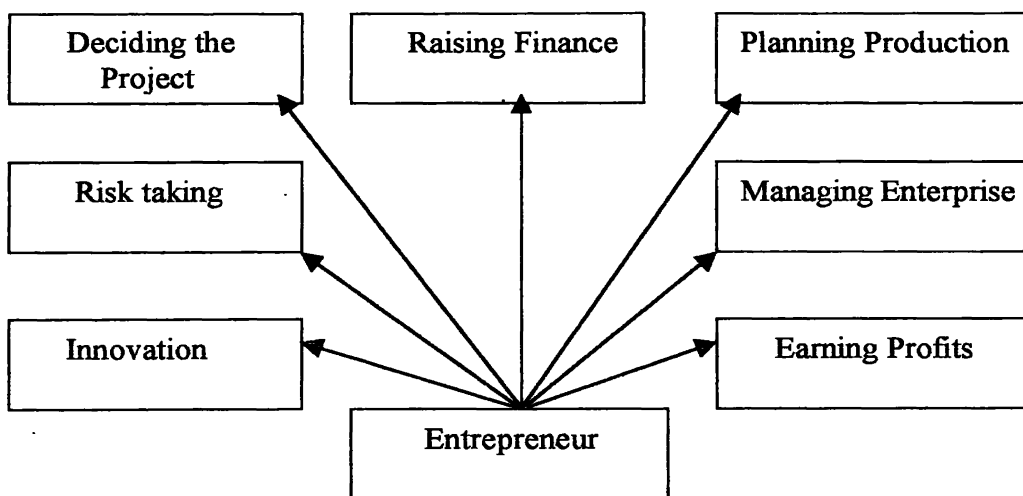
Clear objectives: An entrepreneur should have a clear objective as to the exact nature of the business, the nature of the goods to be produced and subsidiary activities to be undertaken. A successful entrepreneur may have the objective to establish the product, to make profit.

Business Secrecy: An entrepreneur must be able to guard business secrets. Leakage of business secrets to trade competitions is a serious matter, which should be carefully guarded against by an entrepreneur, should be able to make a proper selection of his assistants.



(2.4) Functions of an Entrepreneur

- 1) Idea generations and scanning of the suitable idea
- 2) Determination of the business objectives.
- 3) Product analysis and market research.
- 4) Determination of form of organization
- 5) Completion of promotional formalities
- 6) Raising necessary funds.
- 7) Procuring machine and material
- 8) Recruitment of men
- 9) Undertaking the business operations
- 10) Risk bearing



(2.5) Types of Entrepreneurs

Clarence Danhof classified entrepreneurs in the manner that at the initial stage of economic development, entrepreneurs have less initiative as economic development proceeds, they become more innovating and enthusiastic. However, entrepreneurs are classified into types. Those are,

(1) Innovating Entrepreneurs.

An innovating entrepreneur is one who introduces new goods, inaugurates new methods of production, discovers new market and recognizes the enterprise.

(2) Imitative Entrepreneurs.

These are characterized by readiness to adopt successful innovations inaugurated by innovating entrepreneurs. Imitative entrepreneurs do not innovate the changes themselves, they only imitate techniques and technology innovated by others. Those entrepreneurs are particularly suitable for the under – developed regions.

(3) Fabian Entrepreneurs.

These are characterized by very great caution and skepticism in experimenting any change in their enterprises. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position in the enterprise

(4) Drone Entrepreneurs.

These are characterized by a refusal to adopt opportunities to make changes in production formula even at the cost of severely reduced returns relative to other producers. Such entrepreneurs may even suffer from losses but they are not ready to make change in their existing production methods.

(2.6) Growth of Entrepreneurs

In terms of benefiting the people, the development of small and medium – scale industries and business offered many advantages. Most important perhaps, amid the mounting unemployment, are the small and medium enterprises that generate more jobs and often use labor-intensive methods of production. Industries of smaller size promote better income distribution and development of entrepreneurship.

One of the areas of human resources development for small and medium scale industries is the training of entrepreneurs and managers. Such training programs covering not only the basic of business, technology but also helping the trainees to identify their aptitudes, motivating term, encouraging innovative thinking and helping to develop personalities and attitudes geared for success.

The growth of the entrepreneurship in the post planning period has been significant.

E.g.: Between the year 1960 and 1989, the number of private companies went up from 26,000 to 105,200. The increase in the number of factories in industries like tobacco and related produces,

wood and wood products, rubber and rubber products, Jewelry, Photographic, and Optical goods watches and cloths, medical, surgical, and scientific equipments, sports equipments, cold storage and etc., was more than thirty times during the period 1959 – 1989.

The growth in the small entrepreneurs has been encouraging. The small-scale sector has grown in volume from 16,000 units in 1950 to over 18 lakh units by the end of 1989. Not only has the number of entrepreneurs grown over a period of time but also the scope of entrepreneurship is getting broad based.

Infect, according to Prof. Herbert Giersh, a noted economist, “there is no shortage of entrepreneurial talent any where in the world, but the actual numbers depend on the demand conditions.” However, a mixed capitalistic economy such as Sri Lanka offers scope for development of entrepreneurial talent not only in the private sector but also in the government sector. The main disadvantage is that bureaucracy tends to limit the scope for entrepreneurial activity in the private sector.

(2.7) Entrepreneurship in economic development.

Economic development essentially means process of upward change whereby the real per capita income of country increases over a long period of time. Then, what causes economic development? The phenomenon of entrepreneurship is mainly cause to the economic development. Economic development seems to be automatic and self-regulated. Thus the attitude of classical economist was very cold towards the role of entrepreneurship in economic development.

The role played by the entrepreneurs in the development of the western countries has made the people of under – developed countries too much conscious of the significance of entrepreneurship for economic development. To achieving the goal of economic development, it is necessary to increase entrepreneurship both qualitatively and quantitatively in the country. It is only active and enthusiastic entrepreneurs who

fully explore the potentialities of the countries available resources such as labor, technology and capita. Schumpeter visualized the entrepreneurs as the key figure in economic development because of his role in introducing innovations.

The role of entrepreneurship in economic development varies from economy to economy depending upon its material resources, industrial climates and responsiveness of the political system to the entrepreneurial function. In underdeveloped regions, lack of skilled labors and non- existence of minimum social and economic overheads, are less conducive to the emergence particularly of innovative entrepreneurs. In such regions, entrepreneurship does not emerge out of industrial background with well-developed industrial background with well developed institutions to support of encourage it. Therefore, entrepreneurs may not be an “innovator” but and “imitator” who would copy the innovations from the developed regions.

In underdeveloped regions, the entrepreneurs are bound to launch their enterprises on a small – scale. It is believed that small scale industries provide immediate large – scale employment.

The important role that entrepreneurship plays in the economic development of an economy is,

- * Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
- * It provides immediate large – scale employments.
- * It promotes balanced regional development.
- * It helps to reduce the concentration of economic power.
- * It stimulates the equitable redistribution of wealth, income and political power in the interest of country.
- * It encourages effective resource mobilization of capital.

- * It also induces backward and forward linkages, which stimulate the process of development.
- * It promotes country's export trade as an important ingredient to economic development

(2.8) Entrepreneurial Development.

Entrepreneur development was introduced to Sri Lanka in the year 1986. Many individuals at policy and decision – making level consider entrepreneur development as an alternative to provision of employment opportunities especially in the state sector. Some others consider entrepreneur development as a means through which lot of money could be earned.

The object of entrepreneurial development is to accelerate industrial development through development of human resources. Some banks and extension agencies undertake the entrepreneurial development programs at a high level of cost to their institutions. As bankers are in a position to promote entrepreneurial development and skills, by financing, counseling and also by obtaining the assistance and co-operation of the support agencies in this field.

However the National Development Bank established under the act no: 02 in year 1979, mostly helps to develop the rural sector by improving the business activities. The NDB launched its credit program SMILE II to assist the small and medium scale industries. The NDB signed agreements with the nine banks. The credit line facility has been made available to the NDB by the Japan Bank for International Cooperation (JBIC) through the government of Sri Lanka. SMILE II is the second line of credit the NDB has received from the JBIC to support the SMJ sector.

Under this credit program loans will be given through participatory credit institutions (PCI) such as, Bank of Ceylon, People's Bank, Commercial Bank of Ceylon, Hatton

National Bank, DFCC Bank, Sampath Bank, Seylan Bank, Kandurata Development Bank, Wayamba Development Bank and NDB branches.

The JBIC has made available Rs.3300 million to the SMILE II line for the lending of the SMI sector. Projects that do not exceed Rs.14 million are eligible for assistance under the SMILE II program. Borrowers could obtain loans of up to a maximum of Rs. 7 Million.

In addition to the general loans, borrowers are able to take advantage of concessionary financing to up grade their business managerial, technical and accounting skills under the SMILEII. The granting of loans under this scheme will be taking into account the financial viability of the project and economic benefits of such ventures. According to this loan scheme it has the separate set of operations instructions to launch this loans scheme.

Chapter Three

Operating Instructions

- (3.1) Introduction**
 - (3.1.1) General Loan Scheme (GLS)**
 - (3.1.2) Technical Transfer Assistance Scheme (TTAS)**
 - (3.1.3) Definitions**

- (3.2) Eligibility Criteria**
 - (3.2.1) Sub – Loan Legibility**
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- (3.3) Credit Conditions**
 - (3.3.1) Sub – Loans**
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- (3.4) Approval Procedure**
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(3.5) Disbursement Procedure

(3.5.1) Introduction

(3.5.2) Capital contribution.

(3.5.3) Maximum number of disbursement applications.

(3.5.4) Automatic cancellations

(3.5.5) Allocation of funds

(3.6) Repayment and Follow – up.

(3.6.1) Sub-project supervision

(3.6.2) Pre settlements

(3.6.3) Rescheduling of loans.

*** Rescheduling of sub loans**

*** Prior approval of NDB**

*** Loan loss provisioning**

*** Rescheduling of Refinance loan.**

(3.1) Introduction

The National Development Bank of Sri Lanka (NDB) pleased to announce the availability of financial facilities to participating credit institutions (PCIs) for on lending to small and micro scale industries (SMI) under the small and Micro Industries Leader and Entrepreneur promotion project (SMILE II) financed by the Japan Bank of International Corporation (JBIC). SMILE II consist of:

- (1) General Loans Scheme (GLS)
- (11) Technical Transfer Assistance Scheme (TTAS)

(3.1.1) General Loan Scheme.

The objective of the GLS is, to promote development of SMI's by providing loans for fixed assets as well as permanent working capital.

- * Japanese Yen 4608 Million (Rs. 3200 Mn) has been allocated for the GLS and fund made available to the PCIS by NDB on the first come first served basis.

(3.1.2) Technical Transfer Assistance Scheme (TTAS)

The object of the TTAS is, to strengthen and develop managerial, accounting and technical skills of SMIs through technology transfer.

- * Japanese yen 230 Million (Rs. 160 Mn) has been allocated for this purpose and the funds made available to the end users through PCIs by NDB on first come first served basis.
- * TTAS consist of 25% outright grant and 75% as a concessionary loan.

(3.1.3) Definitions

(i) Participating Credit Institutions (PCIs)

This means by commercial banks, development banks and other credit institutions approved by monetary board, which has entered in to a participation agreement with the NDB. NDB too, act as PCI.

(ii) Sub loan

This means a loan approval by a PCI in accordance with the provision of the participating agreement entered into with NDB under the SMILE II.

(iii) Grant

This means an outright grant made available by a PCI to a sub-borrower of TTAS.

(iv) Sub – Project

This means a project for which a sub loan / grant is approved or proposed to be approved by a PCI under SMILE II loan.

(v) Re – Finance loan

This means a loan approved by the NDB for the financing and eligible part of a sub – loan approved to an eligible sub – borrower for an eligible sub project .

(3.2) Eligibility Criteria

(3.2.1) Sub – loan eligibility

Eligible sub- borrowers are the sole proprietorships, partnerships, limited liability companies, co-operative societies and any other privately owned enterprises.

All industrial, manufacturing and service sub-sectors are eligible. Any other sub sector should have the prior approval of the NDB, to make them eligible for considerations under SMILE II.

Eligible size of the sub – project is, the investment in fixed assets excluding land and building at original book value should not exceed Rs.14 million on completion of the sub – project.

Under the viability of the project, all sub- projects should be financially sound and economically viable. The PCI should consider the economic benefits such as labors intensity, local raw material usage, environmental projection, etc. in approving sub loans.

The minimum debt equity ratio contribution should be twenty five percent (25%) of the overall cost of any sub – project on completion.

The objective of sub – project under the GLS all the sub – project would need to generate additional productive capacity or allow the enterprise to increase its level of operation or improve the quality of a product or improve the price competitiveness of a product.

The objective under the TTAS sub – projects are upgrade accounting, managerial and technical skills of the sub – project staff or should facilitate operation management and implementation of projects, by way of consultancy or should upgrade the quality of end products of sub – projects by purchasing quality control equipment inclusive of laboratory equipment.

(3.2.2) Refinance loan Eligibility

Under the GLS the expenditure incurred for a sub- project such as the cost of buildings, machinery, other fixed assets, vehicles, per – operative expenses and the financing of permanent working capital will be eligible for refinance to the full amount of expenditure so incurred subject to a maximum of 70% of the sub – loan. The eligible expenditure on TTAS are training cost on upgrading technical, managerial and accounting skills of the project staff, cost of consultancy services for assisting in the operations, management and implementation of projects and cost

of purchasing quality control equipment for the projects will be eligible for refinance under the TTAS scheme up to 100%.

Under the GLS, finance for seasonal and short –term working capital requirements are not eligible for refinance loans Sub- loans approved exclusively for financing of working capital requirements will be refinanced only when strong evidence is provided that the sub – loan proceeds would be used exclusively for financing the permanent working capital needs of the sub- project.

Expenditure not qualified for refinance is,

- (a) Settlements of dues outstanding to a PCI or any other Organization
- (b) General administration expenses.
- (c) Taxes and duties
- (d) Purchase of land and other real property
- (e) Compensation
- (f) Leasing
- (g) Other indirect items.

(3.3) Credit Condition

(3.3.1) Sub - loans

In GLS the maximum amount of sub – loan that can be outstanding including any outstanding on SMILE loans to any single enterprise at any given time will be Rs.7.0 million except as otherwise agreed with the NDB/ JBIC on a case by case basis.

In TTAS 25% of the PCI financed component of the project cost has to be approved by way of an outright grant. The remaining 75% considered as a sub – loan under ITAS scheme.

In GLS, PCIs will be free to determine the rate of interest to a sub – borrower subject to a minimum interest rate of 12.3% and a maximum interest rate of 14%.

Interest rate for the sub – loan under TTAS will be 3% per annum.

The repayment and grace period of sub – loans under GLS would be from three to ten years including the grace period. The maximum grace period will be 24 months. In the case of sub – projects to exclusively finance permanent working capital and purchase of commercial vehicles, the maximum repayment period should be limited to five years inclusive of a grace period.

The maturity period for sub – loans under TTAS would be from three to seven years inclusive of a maximum grace period of two years.

Under the security, the credit envisages project based lending, sub – project viability and adherence to eligibility criteria will form the basis of the credit institutions' lending decision rather than the collateral provided by the sponsor. Therefore, in the majority of cases third party. Guarantees should not be required. In most cases the appraisal of project viability combined with the security provided by the assets of the project itself should be considered adequate security for the sub loan.

(3.3.2) Refinance Loans

Under the GLS, the amount available to any sub – loan will be 70% of the sub- loan approved by a PCI. On this basis the maximum amount of refinance loan will be Rs. 4.9 Mn.

The re-finance loan available under TTAS will be 100% of the value of the sub – loan approved by a PCI. Grant component connected to each sub – loan too will be reimbursed by the NDB to the PCI, in full.

The interest rate applicable to re-finance loans granted by the e NDB to PCIs will be 6.3% per annum for GLS.

The interest rate applicable to re-finance loans granted under TTAS loans granted by the NDB to PCI will be 1% per annum.

The repayment period and grace period of each refinance loan will be the same as that of the relevant sub – loan approved by the PCI.

(3.4) Approval Procedure

(3.4.1) Free Limit for Approval

(a) GLS

For the purpose of approving refinance loans under GLS. Sub loans are categorized as below free limit sub – loans and above free limit sub-loans. The applicable free limit has been stated in the PARTICIPATING AGREEMENT entered into between NDB and PCI. These limits will be reviewed periodically as the scheme progresses. Approval of refinance under free limit is subject to acceptance by the NDB. The PCI head office should ensure eligibility and adherence to terms and conditions applicable to credit line at the time of approving refinance.

(b) TTAS

All loans are approved by the NDB.

(3.4.2) Documents

(a) GLS

All applications for refinance loans are submitted to the Refinance Operations Department of the NDB accompany by following documents.

(i) Below free limit sub – Loans.

Request for Refinance as per Annexure II. This be prepared by the PCI head office SMI unit based on the appraisal report submitted by the branch.

Appraisal Report and a copy of the sub borrower's loan applications should be retained at the PCI head office unit for future reference by NDB/JBIC until the refinance loan is fully repaid.

(ii) Above free limit sub – loans.

- Request for Refinance as per the format in Annexure II
- A copy of the appraisal report.
- A copy of the loan application made by the sub – borrower.

(b) *TTAS.*

- Request for refinance as per the format given in Annexure III
- A copy of the PCI Appraisal Report

(3.4.3) PCI Appraisal Formats

(a) *GLS.*

An appraisal format for sub-loans below Rs. 1.0 mn is given in the Annexure IV.

The PCIs will be free to use their own format in preparing the Appraisal Report in respect of the sub – loans above Rs. 1.0 Mn. However such appraisal report should contain the basic information relating to the project as described in Annexure V

(b) *TTAS*

An appraisal format for ITAS facilities is given in Annexure VI

(3.4.4) Routing through Head office.

All refinance loan approval forms should be submitted by the head office SMI units of the PCIs and not directly by the branch office.

(3.4.5) Timing

All applications for refinance loans should be submitted to the NDB not later than one month from the date of approval of the sub-loan by the PCJ.

(3.4.6) Decision by NDB

The NDB will convey its decision on refinance loan ITAS grant applications within two weeks of receipt of applications at the NDB in the case of below free limit sub – loans and within three weeks of receipt of application in the case of above free limit sub – loans.

Refinance approval for sub – loans below the free limit will not normally be rejected on ground of viability. However, the NDB will examine conformity eligibility criteria availability of funds etc. and convey its acceptance in respect of free limit sub – loans.

(3.5) Disbursement Procedure.

(3.5.1) The refinance loan and the grant components of the TTAS will be disburse only after the PCI has disbursed the sub – loan/grant either in full or in part. TTAS loans and grant components should be released to the sub – borrower. All refinance loan disbursement application should be submitted to the Refinance Operations Department of the NDB through the Head office SMI unit of the PCIs.

(3.5.2)Capital contribution

PCIs should ensure that sponsors bring in their capital contribution when disbursing sub loans. This aspect will be examined at the time of processing refinance loan disbursement applications.

(3.5.3) *Maximum number of disbursement applications.*

In order to reduce clerical work both at the PCIs and at the NDB claims for refinance loan disbursement should normally be limited to not more than three (3) claims per sub – loan.

(3.5.4) *Automatic cancellations*

Refinance loan approvals in respect of which no claims for disbursement is received by the NDB within twelve months of approval of the refinance loan will be cancelled automatically.

(3.5.5) *Allocation of funds*

The disbursement of sub – loan proceeds should normally be in accordance with the allocations made at the time of approval of the refinance loan by the NDB. Any variation of such allocations should be notified to the NDB prior to the claiming of refinance loan proceeds on such sub – loan.

(3.6) *Repayment and follow- up*

(3.6.1) *Sub – project Supervision*

The PCI should supervise the sub – project during the implementation period to ensure proper utilization of each sub – loan installment disbursement, and at least once in every six months thereafter to review the progress of each sub – project.

(3.6.2) *Pre – Settlements*

When a sub – borrower repays to the PCI a part or full sub – loan in advance of maturity, the refinance component corresponding to such repayments should be the NDB immediately.

(3.6.3) *Rescheduling of loans*

*** *Rescheduling of sub – loans.***

In the case of sub – projects which have experienced time overruns cost overruns, or experience temporary difficulties resulting in their inability to service the loans, PCIs could consider rescheduling repayments on such sub – loans.

*** *Prior approval of NDB***

Subject to the above principles being adhered, to PCIs are authorized to reschedule sub – loans on one occasion without prior reference to the NDB. Such reschedulement should however, be informed to the Refinance Operations Department of the NDB within 14 days of rescheduling. In instance where a particular sub – loan has to be rescheduled a second time such reschedulement can be effected with the prior approval of the NDB. The maturity date sub – loan after its rescheduling either on the first occasion or on the second and final occasion cannot exceed. 10 days in the case of GLS loans and 7 years in the case of ITAS loans from the date of release of first installment of the respective loan.

*** *Loan loss provisioning***

After a reschedulement of a sub – loan for the second occasion if the sub- borrower still finds difficult to service the debt, the PCI is expected to make a loss provision in accordance with the Central Bank of Sri Lanka directives on loss provisioning.

** Rescheduling of Refinance Loan*

In the event of a sub – loan being rescheduled, a similar reschedulement is done on the corresponding refinance loan only if a request is made by the respective PCI. The NDB will provide additional loan for an amount equal to that which has already been repaid on account of principal in arrears provided the amount to be so refunded will constitute a new re – finance loan.

Table (3.1)

No. of SMIs by type of sectors.

| Sector | No. | % |
|-------------------|-----|-------|
| Food & Beverage | 31 | 19 |
| Textile & Apparel | 30 | 18.4 |
| Rubber & Plastic | 24 | 184.7 |
| Leather Product | 5 | 3.0 |
| Wood Plastic | 23 | 14.1 |
| Light Engineering | 50 | 30.6 |
| Total | 163 | 100 |

[Source : Sri Lanka Small and Medium Industries Impact of Liberalization and constraints for development (May 1999) by L.F.Yapa.]

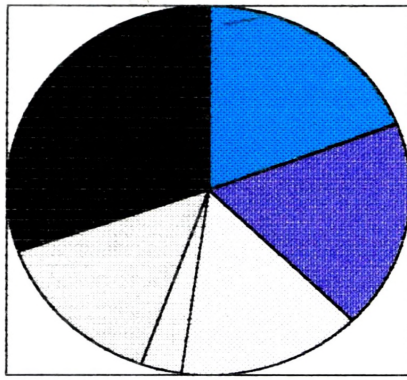


Figure (3.1)

[Source : Sri Lanka Small and Medium Industries Impact of Liberalization and constraints for development (May 1999) by L.F.Yapa.]

Chapter Four

Data Analysis

- (4.1) Educational Status**
- (4.2) Member of the Family**
- (4.3) Status and Type of Business**
- (4.4) SMILE Loan**
- (4.5) Performances before and after SMILE II**
- (4.6) Advantages of SMILE II**
- (4.7) Regional Development**
- (4.8) Relief Provided by the bank**
- (4.9) Suggestions to develop the Bank**

To collect this data Minuwangoda was selected as the research area situated in the Gampaha District. In this research fifteen entrepreneurs are selected as samples who borrowed SMILE II loan from Commercial bank of Ceylon Ltd., Minuwangoda. Following tables analyze the information, which is collected from the above sample.

According to those tables the educational standard of the research sample is somewhat high in the Minuwangoda Area.

Educational Standard

Table No. (4.1)

| Levels | % |
|---------------|------------|
| Primary | 20 |
| O/L Pass | 47 |
| A/L Pass | 27 |
| Graduate | 6 |
| No. Schooling | - |
| Total | 100 |

[Source : Field Survey.]

According to this survey, most entrepreneurs have passed the O/L examination. It is about 27%. There is no one included the “ no school “ level. Because Gampaha district has the highest literacy level of the country. Overall 94% of people are literate in the Gampaha district. However, more men are literate than women, respectively 96.3% and 92.9%. About 95% people have passed primary level education. The reason for that higher education is, Gampaha has a very high level of school attendance. Also a significantly high proportion of people are receiving formal education in schools or some other educational institution. The primary, secondary and tertiary education system change according to the market driven economy.

Members of the family

Table No. (4.2).

| Level | % |
|--------------|------------|
| Less than 3 | 13 |
| Between 3-5 | 53 |
| Between 6-10 | 34 |
| More than 10 | - |
| Total | 100 |

[Source: Field Survey]

Most families in the research area have 5 or 6 members. These families are not too large. There are 13% families included in to less than 3 embers family 53% families belong to the group between 3 to 5. There is no family, which has more then 10 members. Therefore, those entrepreneurs have normal family status. So they employing in the small and micro industries.

Status and Type of Business.

Table. (4.3)

| Type Status | Sole Enterprises | | Partnership Enterprises | | Private Limited | | Company Limited | |
|------------------------|---------------------|-------------|----------------------------|-------------|--------------------|-------------|--------------------|----------|
| | No | % | No | % | No | % | No | % |
| Hardware Stores | 4 | 45% | 1 | 25% | | | - | |
| Vehicle Sales | 2 | 22% | 1 | 25% | 2 | 100% | - | |
| Furniture Stores | 3 | 33% | - | - | | | - | |
| Electric Equipments | - | | 2 | 50% | | | - | |
| Total | 9 | 100% | 4 | 100% | 2 | 100% | - | - |
| % | | 60% | | 27% | | 13% | | - |

[Source: Field Survey]

When we consider the above 4.3 table, 60% of entrepreneurs are included into the sole enterprises. It has 45% of hardware shops and 33% of furniture sellers. Rest of 22% consists of vehicle sellers. Most hardware is sole enterprises. But only one hardware store is included in the partnership enterprises.

There is 27% of partnership enterprises included in this research sample. Large numbers of electric equipment sellers belong to the partnership enterprises. It is about 50%.

When considering the Private enterprise Limited there are about 13% of enterprises. All these 13% consist of vehicle sellers. The 100% private limited enterprises are concerned with vehicle enterprises.

There are no other entrepreneurs included into the Company Limited. It is zero. Under this loaning system sole enterprise are the most valuable enterprises. Because Sri Lanka has a large number of sole enterprises than others. So most of these enterprises are trying to get that SMILE loan. That's why sole enterprises have large numbers of portions for this loaning system in the research.

Most enterprises, which have 6-10 years business duration, are trying to take that loan. The projects, which have less than 2 years business duration, has not been motivated to take that loan.

SMILE II Loan

Table (4.4)

Table (4.4.1)

| Projects | Loan Amount (Rs.)'000 | Average (Rs) '000 | % |
|---------------------------------|--------------------------|----------------------|-------------|
| Improve Exciting Project | 37100 | *3372 | 81% |
| Start New Projects | 8500 | **2125 | 19% |
| Total | 45600 | 54497 | 100% |
| * $\frac{37100,000}{11} = 3372$ | | | |
| ** $\frac{8500,000}{4} = 2125$ | | | |

Table (4.4.2)

| Project | Total Initial Capital (Rs.) '000 | Average Initial Capital (Rs.) '000 | % | Sources | | | |
|------------------------------|--|--|-------------|----------|-------------|--------------|---------------|
| | | | | Bank | Non Bank | Hand Over | Own Saving |
| Improve Exciting Project | 11,100 | *1009 | 81% | 2 | 4 | 3 | 3 |
| Start New Projects | 2,700 | **675 | 19% | - | - | 2 | 2 |
| Total | 13,800 | 1684 | 100% | 2 | 4 | 5 | 5 |
| * $\frac{11,100}{11} = 1009$ | | | | | | | |
| ** $\frac{2,700}{4} = 675$ | | | | | | | |

Table (4.4.3)

| Projects | Average loan Amount (Rs.)'000 | Average Interest (%) | Average time (dates) | Average Installments |
|------------------------------|-------------------------------|----------------------|----------------------|----------------------|
| All project | *3,040 | 12% | 59 | 67 |
| * $\frac{45,600}{15} = 3040$ | | | | |

[Source: Field Survey]

Under the SMILE II loan, Commercial Bank of Ceylon Ltd. has provided 45, 600 thousand rupees for the sample. The large number of loans are taken for improve the exciting projects. That is about 18% of all provided loans. The average amount that issue for improve exciting projects are 3372 thousand rupees. The average amount of 2125 thousand rupees provided to start new project. It is about 19% of all SMILE II loans. This bank lent 8500 thousand rupees to encourage new projects. As a whole, Commercial Bank of Ceylon Ltd, has issued 80 loans to the value of 101 million rupees. [Table No. 4.4.1]

When considering the above entrepreneurs, the average amount of initial capital to provide exciting project are about 1009 thousand rupees according to the Table No (4.4.2). On the other hand 81% of initial capital lent for exciting projects. When comparing with the average amount of SMILE II loans, they provided 3372 thousand rupees to improve exciting projects. The average loans amount for exciting projects are greater than the average initial capital. But both percentages of loans and initial capital provided for existing projects are fixed at 81%. Most existing projects have taken their initial capital form non-banking intuitions.

However, one fourth of entrepreneurs have taken that loan to start new project when comparing with the existing project.

According to the new projects, the average initial capital is 675 thousand rupees. It is about 19% of the average loan amount taken to start new projects and is 2125 thousand rupees. This average loan amount is much greater than the average initial capital of new projects. Also the initial capital of exciting projects is greater than new project. As most of new projects are small scale, they didn't take banking and non – banking assistance for initial capital. They use only their own saving and hand over money.

According to national data, the growth in credit to the industrial sector was in line with the improved performances of these sectors in GDP, where the industry sector by 10.2% in 2000 [Annual Report 2000, central Bank of Sri Lanka.]

As a whole, the average loan amount issued by the Commercial Bank of Ceylon Ltd., Miniwangoda is 3040 thousand rupees, which shown in Table No. (4.4.3). The average interest rate is 12.7%. Also this loan system doesn't take too much time to issue the loan. It is about 59 days or two months period. The average installments for an entrepreneur are about 67. This particular SMILE loan is issued for only a 10 years period. The loan amount issued by the banks should be increased year by year. Then NDB approved higher amounts of money to issue that loan. Within 10 years customers should cover that loan.

A general rise in the interest rate structure was observed, particularly after the first quarter of 2000. The main causes were increased public sector borrowings, a reduction in rupee liquidity consequent upon a significant deficit in the balance of payments and tightening of the monetary policy to contain pressure on the exchange rate. As the nominal interest rate rose, real interest rates increased towards the latter part of the years, as inflation continued to be relatively low.

The proportion of credit provided at higher rates of interest by commercial banks continued to decline. The percentage share of total credit given at interest rate over 25% declined by about 2 percentage points from the level at end September

1999, while the percentage share of credit given at interest rates ranging between 21% and 25% dropped by 3 percentage points. The proportion of total outstanding credit granted at interest rate ranging between 16% and 20% rose from 34% at end September 1999 to 38% at the end of September 2000.

Performances Before and After SMILE II

Table (4.5)

(4.5.1)

Income, Expenditure and Workers

| SMILE II Loan | Before SMILE II | After SMILE II |
|--|-----------------|----------------|
| Average monthly net income (Rs. '000) | 49 | 193 |
| Average monthly expenditure (Rs. '000) | 189 | 255 |
| Average workers (No.s) | 8 | 14 |

(4.5.2)

Income Expenditure Ratio

| SMILE II Loan | Before SMILE II | After SMILE II | Increment |
|--------------------------|-----------------|----------------|-----------|
| Income Expenditure Ratio | *26% | **76% | 50% |

* $\frac{49}{189} \times 100 = 26\%$

189

** $\frac{193}{255} \times 100 = 76\%$

255

(4.5.3)

Trading Area

| SMILE II Loan | Before SMILE II | | After SMILE II | |
|----------------|-----------------|-----|----------------|-----|
| | No. | % | No. | % |
| In City | 7 | 64% | 5 | 45% |
| In District | 1 | 9% | 2 | 18% |
| Around Colombo | 2 | 18% | 3 | 28% |
| In Island | 1 | 9% | 1 | 9% |
| | | 100 | | 100 |

(4.5.4)

Providing Raw materials

| SMILE II Loan | Before SMILE II | | After SMILE II | |
|-----------------------------|-----------------|-----|----------------|-----|
| | No. | % | No. | % |
| Own Production | - | | - | |
| Purchase from whole sellers | 6 | 55% | 3 | 28% |
| Purchase from Importers | 4 | 36% | 4 | 36% |
| Import | 1 | 9% | 4 | 36% |
| | | 100 | | 100 |

(4.5.5)

Transport

| SMILE II Loan | Before SMILE II | | After SMILE II | |
|----------------|-----------------|-----|----------------|------|
| | No. | % | No. | % |
| By bus | - | - | - | - |
| By hiring | 3 | 28% | - | - |
| By own vehicle | 8 | 72% | 11 | 100% |
| | | 100 | | 100 |

[Source: Field Survey]

The amount of income, expenditure and workers differ within the period of before and after SMILE II. In Table No 4.5.1 the average monthly net income before the loan is too much less than the amount after the loan. The income, expenditure ratio

$$\frac{\text{Net Income}}{\text{Expenditure}} \times 100$$

before the loan is about 25% and after the loan is 76%. It means, as the cause of the loan, the income increases very significantly. The increment of that income expenditure ratio is about 50%. [Table No 4.5.2] .

The average workers before the loan are 8. Then it has increased up to 14 workers after the loan. That increment is about 43%. $[6/14 \times 100 = 43\%]$

According to table No 4.5.3, the trading area of most entrepreneurs are “in city” before they borrowed the loan. But after she loan the trading area is distributed for district area and around Colombo area. As these are small and micro industries, these enterprises not spread up to the area around the Island. So most enterprises are located “in city”, “in district” and “around Colombo” areas. It means after the SMILE II loan about 90% enterprises are located in the above three area.

According to this research, there is no person who used his own production as the raw materials. Before the loan large number of entrepreneurs (55%) obtained their raw materials through whole sellers. There are only 9% entrepreneurs who imported the raw material. After the SMILE loan most entrepreneurs are provided with their raw materials by importation and purchase from importers. That is about 72%.

[Table No 4.5.4]

According to Table No 4.5.5, there are no other entrepreneurs who used buses for transportation of raw materials. Before the loan about 28% and 72% used respectively hiring vehicle and own vehicles to transport their raw materials and production. But after the own 100% entrepreneurs used their own vehicle to transport their materials.

(4.6) Advantage of SMILE II

However when compared with other loans SMILE II loan has a very low amount of interest rate. It is about 14%. Because NDB provided money to Commercial Bank of Ceylon Ltd., under the interest rate of 6.3%. That's why commercial bank of Ceylon Ltd can lend loans at a lower interest rate of 14%.

When we consider about the securities for that loan, it should provide large amounts of property. It means whole enterprise or land or both enterprise and land should be provided as the securities. All the entrepreneurs who have taken that SMILE II loan repay their loans very successfully. According to sample there aren't any persons who have lapsed when repaying that loan.

When comparing with other a loan SMILE II has more advantage. Those are

- * Lower interest rate
- * Low amount of security
- * Loans can take according to the type of enterprise
- * SMILE II can be used as the additional capital
- * Loan can be taken very quickly by and at any time we want.

Thus low level of facilities such as low interest rate, low securities and etc motivate entrepreneur to borrow this loan. Certain bank can issue any number of SMILE loans. But one person can take a maximum of 7 million rupees. Some entrepreneurs asked more the 7 million rupees as the cause of low interest rate. But bank can't issue more than 7 million for a particular person. That is the approved amount of NDB. But if necessary NDB can increase that maximum amount by certain amount. If a person wants more than. 7 million, bank includes him in the level of medium scale.

Because that SMILE loan provide for only small and micro scale entrepreneurs. This loan is most benefited for entrepreneur who have low amount of capital. However, entrepreneur development can be achieved through the above loan

(4.7) Regional Development

As the cause of lower interest rate large number of small and micro industries have expanded throughout the city. Then increment of industries leads to development of the region. On the other hand, as this bank, the amount of people came in to city increased. Thus enterprise have expanded in the city. As the cause of different kinds of loans large number of enterprises came in to the city. On the other hand they provide large number of deposit facilities for both children and adults. Banks always try to give awards to the customers through raffles etc. Thus most people are motivated to deposit their money and barrow loans from the Commercial Bank of Ceylon Ltd. All those things leads to the regional development through the bank.

(4.8) Relief provided by the bank

When considering other facilities provided by the bank through the loan, overdraft facility is more valuable. A letter or a telephone call of a customer can be approved overdrafts.

If a customer face difficulty of reaping loan, the bank tries to extend the repaying time period with the lower interest rate. This is a very valuable thing. Because of these causes, most people are encouraged to borrow SMILE loans.

(4.9) Suggestions to develop the Bank

Those banks not expanded to the rural area so rural people don't know about those facilities provided by the Commercial Bank of Ceylon Ltd. So those people should be educated about those facilities. That can be done through publications. These people should be educated about the lower interest rate, low amount of securities and lower time duration of the SMILE II loan. By educating people about those loans, bank can increase the customers. On the other hand it reduces the unemployment problem. Because those loans can be used as the initial capital of the project.

If that lower interest rate keeping continuously, customers can be increased. On the other hand, if banks increase that maximum 7 million up to some higher amount, that also would lead to the increase of customers. Just and friendly service is more necessary to develop a bank. Lower interest rates for loans and higher interest rates for deposits leads to the increase of the customer of the bank.

When there is an increase of customers of the bank, the bank will achieve development. But those customers must be good and reliable customers.

Chapter Five

Conclusions and Recommendations

(5.1) Conclusions

(5.2) Recommendations

(5.1) Conclusions

The entrepreneurs who lived in Minuwangoda area have obtained considerable development through the SMILE II. which was given for small and micro industries. Some data were collected and analyzed, to prove this statement and when analyzing the data following points are highlighted.

- * The educational standard of the Gampaha district is ore higher than the other districts. Thus the educational standard of the entrepreneurs who live in Minuwangoda are have higher educational standard. On the other hand those entrepreneurs families have less amount of dependents.
- * As the lack of initial capital, the commencement of new projects are limited . Thus the loans borrowed to continue the existing projects rather than to start new projects.
- * Because of the low financial status of the entrepreneurs, they start only small-scale enterprises by using low amount of initial capital. Then they will improve their new projects by using loans as the additional capital.
- * The loan has adversely affected to the enterprise, to increase entrepreneur's income. Because of that the income / expenditure ratio has increased. This increment of the ratio shows the real situation of the project.
- * On the other had human resource involvement also has increased as the cause of loan. When increasing the human resource involvement, it leads to development of the project.
- * After getting the loan most entrepreneurs have motivated to purchase raw materials from importers. After increasing the financial standard investment on raw materials have grown up.

- * The entrepreneurs who benefited through this loan system have reached to the position, which can afford a vehicle.
- * The entrepreneurs have motivated borrow the loan because of the low amount of interest rate. In additions low securities and short time duration have also motivated the entrepreneurs. This leads to improve the development of entrepreneurs.
- * Through the large amount of loans issued, the number of industries has increased in the city. This is caused to make regional development, which is necessary for the development of the country.
- * As the cause of overdraft facilities and repaying facility, this loan system is more benefited for the entrepreneurs.
- * The maximum amount of loan (7 million rupees), which is provided by this system, can be identified as the only considerable failure. According to above-mentioned points I can come to the conclusion about this loan system which has benefited and profitable to the entrepreneurs in Minuwangoda area.

(5.2) Recommendations

- * It will be useful, if the lower interest rate of SMILE II loan remaining at the same amount, when comparing with other competitive financial institutions.
- * The increasement of maximum 7 million of loan will be helpful for the customers.
- * Giving the consultation services for the customers will educate the customers about the SMILE II loan.
- * The decreasement of securities will motivate the customers to get loans.

- * If the productions of customers are increased, the customers due to the increasement of the production demand would increase the amount of loan.
- * Providing the loan very quickly is essential for the customers.
- * Providing the simple applications are easy to handle the bank activities to the customers.
- * If the bank provides relief for repaying loans, it will help to increase the demand for their loans.
- * If the bank able to give just and friendly service, they may able to increase their loans.

SMILE II PROMOTION PROJECT

THE RESEARCH ON THE EFFECT OF SMALL AND MEDIUM SCALE ENTREPRENEURS

This report is submitted in partial fulfillment of B.A Social Sciences (Special) Degree Program in Sabaragamuwa University of Sri Lanka.

I kindly request you to fill- in this questionnaire and declare this data will be used only for educational purpose.

Thank You.

S.M.M.A Senarathna

(1) Name of the Enterprise :

(2) Address :

(3) Educational Status :

(Owner)

Primary

O/L

A/L

University

No Schooling

(4) Members of the Family :

Female

Male

(5) Nature of the Enterprise :

(6) Type of the Enterprise :

Sole enterprises

Partnership enterprises

Public Company LTD

Private Company LTD

(7) How long the business has started ?

(8) SMILE II take for ,

To improve the existing project

To start a New Project



Q.N (12)

(9) If it is to improve the existing project,

(9.1) Initial capital of the enterprise :

(9.2) How does it borrow, :

Bank Loan

Non Bank loan

Hand Over

Own Savings

(9.3) When you borrow SMILE II, have you paid back above loan completely ?

Yes



Q.N (9.5)

No

(9.4) If "No" the remaining amount

(9.5) Have you got SMILE II for additional capital ?

Yes



Q.N (9.7)

No

(9.6) If "No" for what purpose did you get?

(9.7) Has the business developed through the loan?

Yes

No

If "Yes"

What are the reasons for that ?

Increase of workers.....

Increase of income.....

Decrease of cost.....

(10) Before borrowing SMILE II ,

(10.1) Monthly Income :

(10.2) Monthly Expenditure:Labour
Capital
Other

(10.3) Number of Workers:

(10.4) Traded Area:

| | |
|----------------------|----------------------|
| In the town | <input type="text"/> |
| In district | <input type="text"/> |
| Around Colombo | <input type="text"/> |
| In the whole country | <input type="text"/> |

(10.5) How did you get raw materials?

(10.6) Way of transportation for raw materials, final goods & other things :

| | |
|----------------|----------------------|
| By Bus | <input type="text"/> |
| By hiring | <input type="text"/> |
| By own vehicle | <input type="text"/> |

(11) After borrowing the SMILE II

(11.1) Monthly Income:

(11.2) Monthly Expenditure: Labour
Capital
Other

(11.3) Number of Workers:

(11.4) Traded Area:

| | |
|----------------------|----------------------|
| In the town | <input type="text"/> |
| In district | <input type="text"/> |
| Around Colombo | <input type="text"/> |
| In the whole country | <input type="text"/> |

(11.5) How did you get raw materials?

(11.6) Way of transportation for raw materials, final goods & other things

| | |
|----------------|----------------------|
| By Bus | <input type="text"/> |
| By hiring | <input type="text"/> |
| By own vehicle | <input type="text"/> |

(12) If, to start a New Project.

(12.1) Have you got SMILE II for capital?

Yes → Q.N (12.3)
 No

(12.2) If "No" for what purpose ?.....

(12.3) Has the business developed through the loan?

Yes | No

If "Yes"

What are the reasons for that ?

Increase of workers.....

Increase of income.....

Decrease of cost.....

(12.4) Apart from the SMILE II have you borrowed another loan?

Yes
 No

(13) SMILE II Loan

| Amount Rs. | Interest % | Borrowed Date | Time duration to get Loan | No. Of Terms | Terms Paid | Remaining Terms |
|---------------|---------------|------------------|------------------------------|-----------------|---------------|--------------------|
| | | | | | | |

(14) When comparing with other loans, Interest is

Low
 High
 Same

(15) Have you used securities for SMILE II?

Yes
 No

What are they?

(16) Are you paying this loan successfully?

Yes

Remaining amount to pay?

No

What are the problems?

(17) When comparing with other loans,

Advantages



Disadvantages

(18) Write your comments about SMILE II?

.....

(19) Is there a regional development through this bank?

.....

(20) What are the additional facilities provided by the bank, when borrowing SMILE II?

.....

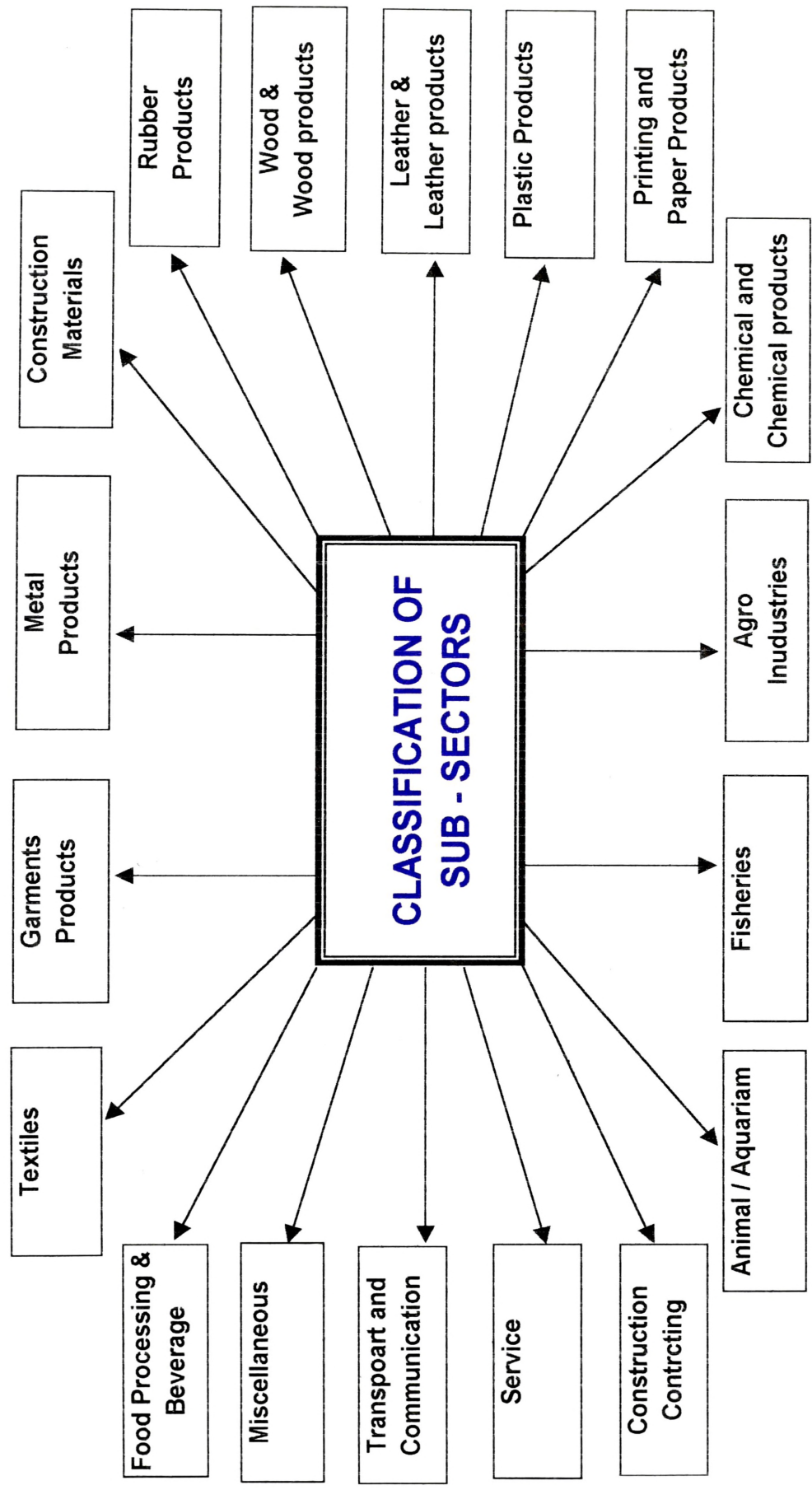
(21) What are the facilities provided by the bank, to avoid repaying problems?

.....

(22) What suggestions can you give for the development of the bank?

.....

Annexure 1



TO BE PREPARED BY THE HEAD OFFICE OF THE PCI

Date :

The Manager
Refinance Operations
National Development Bank
Colombo 2.

Dear Sir,

REQUEST FOR REFINANCE UNDER SMILE 11

In terms of the Participating credit Agreement entered in to between our bank and the NDB, we have approved a refinance loan /sub loan of Rs..... Subject to acceptance by NDB and the details of the sub loan are given below. Please confirm your acceptance of the refinance loan under the SMILE 11 Scheme.

1. **General Information**

| | | | |
|-----------------|-------|------------|-------|
| PCI | ..... | District | ..... |
| Branch | ..... | Sub Sector | ..... |
| Business Name | ..... | Product | ..... |
| Project Address | ..... | Ownership | ..... |

2. **Project Description**

.....

3. **Previous Borrowings**

| | |
|-----------------------|-------|
| Source | ..... |
| Original Amt.& Date | ..... |
| Purpose | ..... |
| Rate of Interest (%) | ..... |
| NDB Ref. No. (If any) | ..... |

4. Cost of the Project

Existing (Rs.) Bank

Equity

Proposed (Rs.) Bank

Equity

Total

4. Terms of the Sub Loan

Amount Rs. :.....

Interest Rate (%) :.....

Repayment Period :.....

Grace Period :.....

5. Timing

Date applied to PCI :.....

Date of Sub Loan approved :.....

6. Recommendation / Approval

We have evaluated the above proposal for a sub loan of Rs..... and on the basis of that evaluation this project is technically feasible and financially viable and therefore merits the bank's support. In approving this facility we have adhered to the terms and conditions applicable to the SMILE 11 loan scheme.

Recommendation of the Head Office

.....

Name & Designation

Date.....

Approval of the Head Office

.....

Name & Designation

Date.....

Date.....

Manager - Refinance Operations

National Development Bank

No.40 Navam Mawatha

Colombo 2

Dear Sir,

SMILE 11

TECHNICAL TRANSFER ASSISTANCE SCHEME

1. In terms of the Participating Credit Agreement entered in to by our bank and the NDB of Sri Lanka, we hereby apply for a refinance loan as per the details given below:

- (a) Facility Approval :
- (b) Name of the sub -borrower :
- (c) Branch :
- (d) Date of Approval :

2. Copies of I) appraisal report 11) sub-borrower's loan application and 111)latest auditedbalance sheet & a profitability statements certifying the value of fixed assets are attached herewith.

Yours faithfully

.....

Authorized Officer

Head Office, SMI Unit

APPRAISAL REPORT FOR SUB- LOANS BELOW RS. 1,000,000

1. General Information

PCI : Sub loan (Rs) :
Branch : Refinance loan(Rs) :
Province : Product :
District : Type :
AGA Division :
Appraisal Officer :

2. Borrower

2.1 Business Name :

2.2 Incorporation No. and Date :

2.3 Factory Address :

2.4 Office Address :

2.5 Organization :

2.6 Existing Operations :

2.7 Past Financial Performance :

Year ended

Total sales

Gross profit

Profit before Interest & Depreciation

Net Profit before Tax

2.8 Assets & Liabilities

Fixed Assets

Current Assets

Equity

Term Loans

Current Liabilities

3. Proposed Project

3.1 Description of the proposed project:

3.2 Management :

3.3 Manpower

| | | |
|------------|--------------|--------------|
| <u>Men</u> | <u>Women</u> | <u>Total</u> |
|------------|--------------|--------------|

3.4 Cost of Project

Existing

Bank

Equity

Proposed

Bank

Equity

3.5 Machinery/ Vehicles to be purchased

| Item | Supplier | Country of origin | Date of Purchase | Purchase Price | New/Secondhand/ Reconditioned |
|------|----------|----------------------|---------------------|-------------------|----------------------------------|
| | | | | | |

3.6 Market

a. Products and its use :

b. Distribution arrangements of the particular product :

c. Proportion to be sold in the

Export Market(%)

Local Market(%)

4. Financial Analysis

Total Sales

Contribution

Profit before Interest & Depreciation.....

Net Profit

Return on Investment (%)

Debt Service Coverage Ratio (times)

5. Terms and Conditions of the sub-loan

- 5.1 Sub loan Amount
- 5.2 Grace Period
- 5.3 Repayment Period
- 5.4 Rate of Interest
- 5.5 Security
- 5.6 Conditions of the sub loan

.....

6. Recommendation / Approval

This is to certify that we have appraised the application made by.....for a loan of Rs..... and are of the opinion that on the basis of the investigation done and assumptions used, the project is financially viable and technically feasible.

Recommended

.....

(Name & Designation)

Date

Approval of the Head Office

.....

(Name & Designation)

Date

PERMANENT WORKING CAPITAL COMPUTATION

| | <u>No. of days Allowed</u> | <u>Amount</u> |
|--|----------------------------|---------------|
| (a) Minimum raw material to be held in stock | | |
| (b) Work in Progress* | | |
| (c) Finished Goods | | |
| (d) Debtors | | |
| Gross Working Capital requirements | | |
| (e) Less: Existing current assets | | (.....) |
| Suppliers credit and other short term Facilities | | (.....) |
| (f) Net Permanent working capital requirements | | <u>.....</u> |

*

| | | | | | |
|---|---|---|--------------------------------|---|-------------------------------------|
| No of days required for Converting RM to FG ----- Total No of working days For the year | X | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Annual raw material cost</td> <td style="width: 10%; text-align: center;">+</td> <td style="width: 50%;">Half of total direct expenses</td> </tr> </table> | Annual raw material cost | + | Half of total direct expenses |
| Annual raw material cost | + | Half of total direct expenses | | | |

CONTENTS OF THE APPRAISAL REPORT FOR SUBLOANS ABOVE Rs.1.0 Mn

1. The sub-borrower
 - Business name
 - Factory & Office Address
 - Type of the Organization

2. Personal information on the Proprietor of the business
 - Full Name
 - Private Address
 - Age
 - Main Occupation
 - Identity Card No.
 - Average Monthly Income

3. Past performance relating to existing operations
 - Description of the existing project
 - Number of employees in the business

4. The Proposed project
 - Description of the project
 - Rationale
 - Location
 - Production Process
 - Capacity
 - Plant & Machinery
 - Raw Material
 - Utilities

5. Market Information

6. Financial Analysis

- Cost of Project and means of financing
- Break even point
- Cash flow statement
- Proforma balance sheet

7. Effectiveness of the sub project

| | Before | After | Effectiveness |
|--------------------------|--------|-------|---------------|
| Manpower | | | |
| Woman Participation | | | |
| Local raw material usage | | | |
| Production capacity | | | |
| Production | | | |
| Value added | | | |

8. Terms & conditions of the loan

Amount of loan

Rate of Interest

Grace Period

Security offered

9. Other Information

Date of receipt of the borrower's application

Date of approval of the sub-loan

Name of the Appraisal Officer

10. The appraisal report should adequately justify the financing decision of the proposed sub-project. It should be submitted through the Head office SMI Units with their covering approval.

APPRAISAL REPORT FOR SUB- LOANS BELOW RS. 1,000,000

1. General Information

PCI Sub loan (Rs)

Branch Refinance loan(Rs).....

Province Product

District Type

Appraisal Officer

Date of TTAS facility approved :.....

2. Borrower

2.1 Business Name

2.2 Incorporation No. and Date

2.3 Factory Address

2.4 Office Address

2.5 Organization

2.6 Existing Operations

3. Proposed Project

3.1 Description of the proposed project:.....

3.2 Implementation Schedule

3.3 Cost of Project

4. Debt Servicing Capacity

Total Sales

Profit before Interest & Depreciation

Other Income

Debt Service Coverage Ratio

5. Terms and Conditions of the sub-loan

5.1 Grant (Rs)

5.2 Sub loan

- (a) Amount
- (b) Grace Period
- (c) Repayment Period
- (d) Rate of Interest
- (e) Security

6. Recommendation / Approval

This is to certify that we have appraised the application made by.....for a loan of Rs..... and are of the opinion that on the basis of the investigation made, the proposal merits the bank's support.

Recommended

.....
(Name & Designation)
Date

Approved

.....
(Name & Designation)
Date

Approval of the Head Office

.....
(Name & Designation)
Date

REIMBURSEMENT APPLICATION - SMILE II

GENERAL LOANS SCHEME

| |
|---------------------------------------|
| Sub Loan Amount : Date : |
|---------------------------------------|

| |
|---|
| Refinance Loan Amount : Date : |
|---|

| |
|---------------------------------|
| Refinance Loan Ref.No |
|---------------------------------|

1. Name of Credit Institution:

Branch Office :

2. Name & Address of :

Sub borrower :

3. Reimbursement Application

| | Amount of sub loan Released By PCI(Rs.) | Date Released by PCI | Refinance loan amount applied/obtained(Rs.) |
|----------------------|---|----------------------|---|
| Present Application | | | |
| Previous Application | | | |

4. Details of present claim:

| | | | | |
|-----------------------------|--|--|--|--|
| Description of Expenditure | | | | |
| Date of payment to supplier | | | | |
| Name & Address of Supplier | | | | |
| Amount of claim | | | | |
| Country of Origin | | | | |
| Country of procurement | | | | |

We,do certify that the above amounts have been paid for proper execution of project activities within the terms and conditions of the loan agreement.

.....

Branch Manager

Date

.....

Authorized Officer SMI Unit

Head Office

REIMBURSEMENT APPLICATION - SMILE II
TECHNICAL TRANSFER LOANS & GRANTS

| |
|---|
| Technical Assistance Amount : Date : |
|---|

| |
|---|
| Refinance Loan Amount : Date : |
|---|

| |
|---------------------------------|
| Refinance Loan Ref.No |
|---------------------------------|

1. Name of Credit Institution:

Branch Office :

2. Name & Address of :

Sub borrower :

3. Reimbursement Application

| | Amount of sub loan Released By PCI(Rs.) | Date Released by PCI | Refinance loan amount applied/obtained(Rs.) |
|----------------------|---|----------------------|---|
| Present Application | | | |
| Previous Application | | | |

4. Details of present claim:

| | | | | |
|--|--|--|--|--|
| Description of Expenditure | | | | |
| Name of Supplier & Date of payment | | | | |
| Amount of claim | | | | |
| In whose favor the Bank Disbursement has been made | | | | |

We,do certify that the above amounts have been paid for proper execution of project activities within the terms and conditions of the loan agreement.

.....
Branch Manager
Date

.....
Authorized Officer SMI Unit
Head Office

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