

# The State of Social Enterprises in Sri Lanka



# Foreword

**The term ‘Social Enterprise’ is relatively new to Sri Lanka, although the practice of employing business approaches and leveraging market mechanisms to address social problems has a long and distinguished history in the country, in the form of co-operatives, thrift societies, and welfare and development societies.**

In the past decade, there has been a surge in social entrepreneurship across Sri Lanka, with new social enterprises established to tackle a myriad of social and environmental problems and foster social inclusion, economic integration and sustainable development.

Yet until now our understanding of this phenomenon was limited. And this is why I am so pleased by the publication of this landmark survey which reveals with unprecedented clarity the exciting breadth, depth and potential of social enterprise in Sri Lanka.

Commissioned by the British Council and based on methodology developed for our Global Social Enterprise programme, the research was carried out by Lanka Ventures and Social Enterprise UK with support from United Nations ESCAP and a number of other partners.

It finds that social enterprises are active in all of Sri Lanka’s 25 districts and nine provinces, with



many operating in multiple locations, and that they are addressing issues at the village level, nationally and, in some cases, internationally.

The survey also confirms that the sector is growing rapidly, with 38 per cent of all social enterprises set up in the past ten years. It estimates that today there are between 6,000 15,000 social enterprises in Sri Lanka. Additionally, it evaluates the growth rates of these enterprises and identifies the social objectives they aim to achieve.

The findings indicate that the sector is vibrant and increasingly diverse, with social enterprises adopting a range of business models and operating across the manufacturing, agriculture, cultural, creative and environmental protection sectors. And these organisations are ambitious, with strong aspirations to increase sales with existing customers and diversify into new markets.

This is welcome news given the beneficial social impact that social enterprises deliver.

This includes creating employment and income generating opportunities for young people and marginalised communities; working to support vulnerable children and adults; and empowering women and girls.

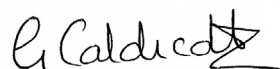
At the same time, the survey identifies some of the biggest barriers facing social enterprises. These include a lack of awareness and understanding of social enterprise among the public and the lack of targeted support for the sector from government and other influential organisations. Alongside this, the survey pinpoints business constraints for social enterprises, such as access to finance, and it examines their future needs in terms of technical, managerial and financial support.

Our hope is that this research will equip policy makers, social investors and other key actors with the knowledge they need to provide more targeted and enhanced support to the social enterprise sector while simultaneously raising the public profile of social enterprise.

The research will also inform the delivery of all of our social enterprise activity – from social enterprise training and consulting to policy dialogues – and serve as a baseline for measuring the impact we and our partners can achieve. This includes our programme with the EU, CARE Germany-Luxembourg and Chrysalis to support integrated rural development in the most vulnerable districts of the Central and Uva Provinces

The survey will also inform our partnership with United Nations ESCAP to promote the growth of social enterprise and social impact investment in Sri Lanka and across the Asia-Pacific region as a means of supporting progress on the Sustainable Development Goals (SDGs).

In closing, I would like to express my deep gratitude to Lanka Social Ventures, SEUK, United Nations ESCAP, and all the partners, organisations and individuals that contributed to the survey. We look forward to further opportunities to collaborate with you in seeking to build a more sustainable, inclusive and prosperous future through social enterprise and, in doing so, build collaboration, opportunities and trust between the UK and Sri Lanka.



**Gill Caldicott**

***Country Director of the British Council in Sri Lanka***



# BRITISH COUNCIL

The British Council is the UK's international organisation for cultural relations and educational opportunities. We create friendly knowledge and understanding between the people of the UK and other countries. We do this by making a positive contribution to the UK and the countries we work with- changing lives by creating opportunities, building connections and engendering trust.

Equality and diversity are an important part of our work and we have adopted a strategy of embedding them in everything we do through our Equality, Diversity and Inclusion policy. In addition, we deliver programmes in many countries, which support our priority of progressing gender equality and the empowerment of women and girls. A key part of our role is to support knowledge exchange and dialogue between the UK and other countries as well as working in partnership to address gender inequality and support the empowerment of women and girls.

We also deliver a Global Social Enterprise programme that draws on UK experience and expertise to promote inclusive economic systems and help address entrenched social and environmental problems in our communities and societies.

Working across 29 countries with local and international partners, we provide capacity building for social entrepreneurs, promote social enterprise

education in schools and universities, and manage international development projects that foster the growth of social enterprise. We also convene policy dialogues, organize study tours and publish reports to share knowledge and best practice in scaling the social economy.

Our previous publications include:

a ***Vision of Social Enterprise in Europe 2020*** which considers the evolution of social enterprise into the mainstream economy

***Think Global Trade Social*** which examines the role of social business in achieving progress on the UN's Sustainable Development Goals surveys providing crucial evidence about social enterprise in countries such as Pakistan, Ghana and Myanmar

More information about our work in both social enterprise and women's empowerment can be found at <https://www.britishcouncil.org/society>

# UNITED NATIONS ESCAP



The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations' regional hub promoting cooperation among countries to achieve inclusive and sustainable development. The largest regional intergovernmental platform with 53 member States and 9 associate members, ESCAP has emerged as a strong regional think-tank offering countries sound analytical products

that shed insight into the evolving economic, social and environmental dynamics of the region.

The Commission's strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which it does by reinforcing and deepening regional cooperation and integration to advance connectivity, financial cooperation and market integration. ESCAP's research and analysis coupled with its policy advisory services, capacity building and technical assistance to governments aims to support countries' sustainable and inclusive development ambitions.

## About the ESCAP – British Council partnership

In February 2017, the British Council and ESCAP signed a collaborative agreement to promote the growth of social enterprise and impact investment

across the Asia-Pacific region as a means of supporting progress on the Sustainable Development Goals (SDGs).

Together we are cooperating to provide research, analysis, training, policy dialogues and offer guidance to support policy makers and other stakeholders in formulating and implementing policies and strategies that foster social enterprise and create enabling environments for impact investment.

The social enterprise survey in the Pakistan is an example of this work and will provide information as to the size and scale of the social enterprise sector in the country.

Social enterprises harness trade, investment and business activity towards social and environmental objectives and are increasingly recognized as critical drivers of innovation for sustainable development.

## Disclaimer:

This publication has been produced with the assistance of the United Nations Economic and Social Commission for Asia and the Pacific. The contents of this publication are the sole responsibility of the British Council and can in no way be taken to reflect the views of ESCAP.

# Lanka Social Ventures



Lanka Social Ventures (LSV) is a 'social enterprise' committed to promote and support entrepreneurship and innovation for social development and environmental sustainability. LSV supports entrepreneurial and innovative individuals, groups, communities and SMEs to develop and transform into successful and financially sustainable 'social enterprises'. LSV understands the challenges women and youth entrepreneurs face in terms of access to finance and technical advisory and takes on a gender and youth lens approach.

LSV's key functions are:

- **IMPACT HUB**- Social Enterprise Incubator & Accelerator supports early stage social entrepreneurs and innovators by providing business-critical services needed for young social enterprises to grow and thrive.
- **Social Enterprise Academy**- delivers internationally accredited training for social entrepreneurs / SME owner managers and business coaches & advisors in partnership with the Institute of Enterprise & Entrepreneurs, UK.
- **Research & Consulting** – provides technical advisory and shares experience and expertise with public, private and non-profit organisations in the areas of social enterprises, SME policy and practice, skills and employment and related sectors.

LSV was established in 2015 and is governed by a board of directors. As a social enterprise, all its revenue is reinvested in business and for promotion and support social enterprises and SMEs.

Over the past three years, LSV has emerged as one of the leading business support providers in the social enterprise space in Sri Lanka.

# Acknowledgements

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Study Advisory Group

Dan Gregory, SEUK

Salim Sharif, SEUK

Tristan Ace, British Council

Adam Pillsbury, British Council

Sanjeevani Munasinghe, British Council

Chameera Wickramasinghe, British Council

Thushara Gunasekera, British Council

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# Acronyms

ADB	Asian Development Bank
CSO	Civil society organisation
GDP	Gross domestic product
INGO	International non-governmental organisation
LSV	Lanka Social Ventures
MSME	Micro, small and medium-sized enterprises
NEDA	National Enterprise Development Authority
NGO	Non-governmental organisation
SEL	Social Enterprise Lanka
SEUK	Social Enterprise United Kingdom
UN	United Nations
VCS	Voluntary and community sector



# Executive summary

This report presents the findings of a recent study on social enterprises in Sri Lanka. The study used a combination of desk research, interviews with expert stakeholders and a survey of social enterprises, which engaged representatives from a diverse range of industries and sectors across the country.

For the purposes of this research, social enterprises were defined by two key criteria: a mission to generate social and community benefit, and the adoption of trading activities to fulfil that mission.

Some 368 organisations responded to the survey, and they provided rich data on the sector, demonstrating a genuine commitment to their missions, as well as a clear understanding of their individual challenges and needs for support.

The survey reveals that social enterprises in Sri Lanka operate across the manufacturing, agriculture, cultural, creative and environmental protection sectors, and that many work across multiple industries.

Social enterprises can be found in all 25 districts of the country, and many operate in multiple locations. The majority of the social enterprises surveyed provide services directly to local communities, with some providing services nationally, while they work to address issues at the village level, nationally and, sometimes, internationally.

Sri Lankan social enterprises have adopted

a broad range of legal structures, including traditionally private sector business forms, as well as those of associations, co-operatives and companies limited by guarantee.

Although the term 'social enterprise' is new to Sri Lanka, the concept is not. Many organisations surveyed didn't necessarily consider themselves to be social enterprises, even though they met the study's defining criteria.

Some 30 per cent of the surveyed social enterprises have been in operation for more than 15 years, and some, especially co-operatives, have been in operation for well over 50 years. Another 38 per cent of social enterprises have been operating for less than ten years, indicating a rapidly growing sector.

Most of the surveyed social enterprises have full-time staff, part-time staff and volunteers who support at events. On average, social enterprises have one or several full-time employee(s), and many social enterprises have a work force with a majority of staff employed on a part-time basis. Volunteers also play an important role, with around a third of social enterprises creating opportunities for volunteers, and this is most common amongst social enterprises initiated by international non-governmental organisations (INGOs).

Social enterprises work with diverse groups across the community, including vulnerable children and adults, young people, women

## Executive summary.....Cont...

and girls and people with disabilities. Many social enterprises support multiple groups of beneficiaries and serve diverse communities. A majority of social enterprises work to create employment or income opportunities for vulnerable or marginalised populations within their communities.

There study also shows some evidence of Sri Lankan social enterprises carrying out impact evaluation and reflective practices.

Social enterprises in Sri Lanka have strong growth aspirations, aiming to increase sales with existing customers and diversify into new markets.

The survey respondents also provided thoughtful reflections on their own key challenges and support needs, which impact on the sustainability and growth of the social enterprise sector in Sri Lanka. These include a lack of suitable funding during the phases of enterprise start-up, development and expansion; the financial and personal risks associated with setting up a social enterprise; the availability of skilled workers and volunteers; and a lack of access to affordable and appropriate support. Another key challenge is the need for greater public awareness and recognition of social enterprises. Furthermore, many social enterprises struggle with marketing themselves, and may find it more difficult than traditional for-profit businesses to build networks, supply chains and markets.

This research clearly indicates the exciting breadth, depth and potential of social enterprise in Sri Lanka. At the same time, the survey findings also reveal that the current resources provided to social enterprises by the government and other organisations do not adequately support the needs, aspirations and growth of the sector in Sri Lanka. Even so, it is still a rich, diverse and distinct vibrant sector that benefits both the social and economic life of the country and its people.



# Introduction

The concept of social enterprise is deeply rooted in Sri Lankan business practice. Yet, the terminology and organisational model in its more recent incarnation are relatively new to the country.

So, social enterprise, while old in practice, is a relatively new concept<sup>1</sup>. In 1902, US non-profit Goodwill Industries first pioneered the notion of 'a hand up, not a handout' by developing a social business that offered employment to the poor through mending and selling used clothing<sup>2</sup>. In the UK, the pioneers of social enterprise can be traced back to August 1844, when a group of 28 Rochdale workers formed a co-operative society. They viewed co-operation as the best way of giving ordinary people control of their own organisation, with all members having an equal share in decision-making and receiving a fair share of the profits<sup>3</sup>.

Across the globe, the concept of social enterprise has been interpreted and understood differently, but this has not stopped social enterprises from becoming an integral part of the entrepreneurial ecosystem<sup>4</sup>. The contributions of social enterprises towards sustainable development have been acknowledged by the United Nations (UN), World Bank, Asian Development Bank (ADB) and others. Anecdotal and research evidence suggests that social enterprise activity is increasing, with more social start-

ups, incubators, accelerators and social finance providers setting up worldwide. Community-based organisations and non-governmental organisations (NGOs), too, are exploring social enterprise models to support their social mission and financial sustainability.

However, to date there has been little quantitative evidence on the number of social enterprises that are operating in Sri Lanka and the social and environmental impact they are delivering. We know that many social enterprises are engaged in livelihood development and social services. Yet, the impact and influence of these programmes remain unknown.

This study was conducted by LSV with support from SEUK and local partners. It sought to generate an estimate of the total number of social enterprises operating in Sri Lanka, and to establish existing policy activity that is relevant to social enterprise. The primary component of the study was a survey of social enterprises, and a brief review of policy and higher education activity relevant to social enterprise was also conducted. The research comprised five main phases:

- a. Methodology design, validation and development.
- b. Social enterprise database and survey sample.
- c. Social enterprise survey data collection and analysis.

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<sup>1</sup> Social Enterprise UK, 2017

<sup>2</sup> <http://www.goodwill.org/about-us/goodwills-history/>

<sup>3</sup> Social Enterprise UK, 2017 / For further information on Rochdale Cooperative <https://www.rochdalepioneersmuseum.coop/wp-content/uploads/2013/02/Our-Story.pdf>

<sup>4</sup> See for example <http://www.unescap.org/news/international-coalition-promote-social-enterprise-and-impact-investment-sustainable-development> or <http://blogs.worldbank.org/dmblog/business-doing-good-supporting-social-enterprise-sector>

- d. Desk-based research and interviews (related to policy and higher education).
- e. Data collection to inform the estimate of the total number of social enterprises.

### Social enterprise classification

An important element of the study design was the approach taken to defining social enterprises.

Given the absence of a universally accepted definition, the research team decided not to impose a strict definition of social enterprise, but instead decided to identify a clear process of understanding social enterprises within the Sri Lankan context. To do this, survey respondents were asked questions that could be used as

Table 1: Classification of social enterprises		
Primary criteria	Question detail	Approach to social enterprise classification
<b>Impact — core mission of the organisation</b>	Does your organisation place emphasis on profit first, your social/environmental mission first, or both jointly? <ul style="list-style-type: none"> <li>• Profit first.</li> <li>• Social/environmental mission first.</li> <li>• Both jointly.</li> </ul> (One answer allowed)	Organisations stating that their core mission put 'profit first' were excluded.
<b>Income source</b>	What proportion of your income comes from grants? <ul style="list-style-type: none"> <li>• 0 to 24%</li> <li>• 25 to 49%</li> <li>• 50 to 74%</li> <li>• 75 to 100%</li> </ul> (One answer allowed)	Organisations reporting '75 to 100%' from grants were excluded.

inclusion or exclusion criteria (see Table 1), without informing them of a specific definition, which allowed for a definition to be applied later.

For the purposes of this report, the research team, following consultation with stakeholders, settled on a combination of criteria that had to be met for a respondent to be considered a social enterprise. It is not suggested that these criteria together form a watertight or universal definition of social enterprise, nor that others

should adopt it. It is simply the combination of criteria that the research team found as most appropriate for the purposes of this study, and which is based on lessons from a wide range of contexts, international research and feedback from key national stakeholders.

## Defining social enterprises

**“ Social enterprises are businesses that tackle social and environmental problems. They create jobs and generate income like other businesses, but instead of channelling their profits to owners they reinvest them to support their social mission. In doing so, they are improving people’s lives in our communities and societies.”<sup>5</sup>**

Across the world and within Sri Lanka, the concept of ‘social enterprise’ can be defined according to its distinctive features:

- A central mission to address a particular social and/or environmental problem.
- The use of commercial strategies.
- An emphasis on maximising impact over profit.
- A focus on finding solutions within communities.

The proportion of profit reinvested in the business or shared with beneficiaries and stakeholders is often a characteristic that attracts significant debate.

Both the opportunity and challenge afforded by this lack of a clear, universal definition is that

social enterprise can, therefore, encapsulate a spectrum of activities. It is, perhaps, critical to allow a commonly agreed definition to emerge within and from the needs of the local context. However, local contexts can vary, even within a country, rendering even a single uncontested definition in one country challenging<sup>6</sup>.

Still, a clearer, generally agreed definition of what constitutes a social enterprise within the Sri Lankan context is needed for several reasons. Firstly, mapping and tracking this sector of the economy remains a challenge without a consistent working definition. Secondly, lingering ambiguity around the definition makes it harder for social enterprises to promote themselves effectively to customers, investors and regulators, and to differentiate themselves from other businesses. Thirdly, potential funders further afield, including official aid agencies, may find it hard to identify social enterprises to provide support. Finally, it is difficult for the government to provide targeted support and even fiscal incentives without clarity over what types of organisations are eligible.

<sup>5</sup> British Council website

<sup>6</sup> <http://www.centreforsocialenterprise.com/what-is-social-enterprise/>







# Study methodology

## Study aims

This study aims to provide a better understanding of the profile of social enterprises in Sri Lanka. The study seeks to provide an estimate of the current size and scale of the social enterprise sector in the country.

In addition, this research aims to support the British Council's Global Social Enterprise programme in evaluating impact of its work and tracking how the sector develops in the coming years.

The study also briefly assesses whether there are existing policies to support social enterprise in Sri Lanka, in order to create a baseline of policies relevant to the sector. These can be mapped over time to assess if engagement with policymakers results in explicit support for social enterprise in the future. Additionally, the study explores the extent to which higher education institutions in the country currently provide social-enterprise-specific educational options as a baseline to observe how this changes over time.

Despite the limitations of this study, it is hoped that it will help other interested parties to assess progress and develop interventions that will support the growth of the sector.

This study will also help to reveal the sectors in which social enterprises are operating successfully, where the gaps are, and what trends and developments could shape the sector's future.

It is also hoped that this study will make an important contribution to the development of the social enterprise sector by equipping other actors with the information to develop better targeted support interventions.

The key objectives of the baseline study are to:

- Identify the number of social enterprises operating in the 25 districts and nine provinces of Sri Lanka, and the types of activities they undertake.
- Evaluate the growth rates of these enterprises, identifying those with the highest growth and why they succeeded in expanding.
- Analyse the employment and leadership opportunities for women in the sector.
- Identify the social objectives of social enterprises and how surpluses are directed towards achieving those.
- Determine the types and sources of assistance that social enterprises have received, as well as their future needs in terms of technical, managerial and financial support.
- Describe the status and nature of the social enterprise ecosystem in Sri Lanka, including the policy, regulatory and support environment, and pinpoint business constraints such as access to inputs, outputs and credit markets.
- Improve the overall understanding of the policy ecosystem, including:

- o Government and NGO policy.
- o Financial inclusion, microfinance development and regulatory measures.
- o Private sector development, in particular relating to support offered to micro, small and medium - sized enterprises (MSMEs).

The expected outcome of this survey is to enhance knowledge of the structure and performance of social enterprises in urban and rural areas of Sri Lanka, and to inform the creation of policy measures and interventions to enhance their growth and impact on socio-economic development.

The literature on social enterprise in Sri Lanka is limited. Therefore, the literature review as part of this study has drawn upon evidence relating to the country's small and medium-sized enterprise (SME) sector. One major observation of this study is that successive Sri Lankan governments have taken various steps to develop small and medium-sized industries since independence in 1948. However, the contribution of SMEs to the national economy is still lower than in other developing countries in the region. The contribution of SMEs to Sri Lanka's total gross domestic product (GDP) increased to 52 per cent in 2011, from 40 per cent in 2010. However, SMEs continue to be constrained by poor infrastructure, limited access to finance, tax regulations, an inadequately educated workforce, corruption, inefficient government bureaucracy, and restrictive labour regulations<sup>7</sup>

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<sup>7</sup> The Global Competitiveness Report 2011-2012, 2012

## Methodology

This study was carried out between April and September 2017. Data was gathered from a cohort of 416 organisations, identified from records held by NEDA, LSV, the British Council, Social Enterprise Lanka (SEL), the NGO Secretariat and the provincial Departments of Co-operatives. Data was collected by enumerators on a one-on-one basis, using a structured questionnaire. A web-based questionnaire was posted online to collect data from those who have Internet access, but who were unable to meet face-to-face. Of the 416 respondents, 368 were identified as social enterprises, as per the criteria used in this study, amounting to 88 per cent.

The 48 organisations that did not meet this study's social enterprise criteria received over 75 per cent of their revenue from donor funding or grants.

The data and information that informed the study were derived from both primary and secondary sources. Primary data was collected through a combination of qualitative and quantitative approaches. The methodology included a stakeholder analysis to determine key organisations and individuals to be consulted during the study. Secondary data was collected from various published and unpublished literature, government censuses and statistics, and online sources.

Qualitative data was principally obtained through discussions with relevant government officials, representatives of private and non-governmental organisations and key stakeholders in the social enterprise sector.

Quantitative data was obtained from a national survey, which comprised a structured questionnaire conducted with organisations that appeared to have characteristics common to social enterprises. The sample 'social enterprises' were selected from databases held by NEDA, the British Council, LSV, Good Market, SEL, the NGO Secretariat, and Departments of Co-operatives at the provincial level. The survey sample was non-randomised and non-scientific to ensure the survey could reach as many of those organisations that were reasonably likely to meet the social enterprise criteria used for the study.

The survey questionnaire (presented in full in Annex 4) was developed in consultation with the teams at the British Council and SEUK, as well as key local stakeholders. It was structured under the following headings:

- Year of registration and legal registration form.
- Turnover and profit generation and use.
- Employees, by gender, marginalised or socially excluded groups and in comparison to the previous year.
- Number of beneficiaries reached, and type of beneficiary.
- Gender and age of leadership.
- Social enterprise sector and focus/core objectives.
- Location and sphere of operation (regional, national, international).
- Profit/impact focus.

- Growth expectations and barriers faced.
- Sources of finance and funding, including proportion of income from grants/donations.
- Top three constraints to financing.
- Business support needs.
- Whether respondent would describe their organisation as a social enterprise.

The survey was conducted in all of Sri Lanka's 25 districts and was offered in all three official languages (Sinhala, Tamil and English). It was administered between April and September 2017, following pre-testing of the questionnaire, field manual preparation and training of field workers<sup>8</sup>. The field work was conducted by a team of data collectors comprising LSV staff and Enterprise Development Officers at NEDA. The questionnaire was hosted on SurveyMonkey, and the link was shared by partner organisations (i.e., the British Council, Good Market and SEL) and on the LSV Facebook page, inviting social entrepreneurs to participate in the survey.

The survey questionnaire was conducted within the same period in each district and under the close supervision of the research team to ensure the reliability of data sources and continuity and consistency of focus and analysis.

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<sup>8</sup> Before the commencement of the survey, the data collection team was given an induction covering the objectives and methodology of the survey, data collection techniques and recording, survey ethics, and reporting.

## Social enterprise database and sampling

### Database

A social enterprise database was created using existing information held by LSV and the study's partners, data gathered from online research, and data collected through support from stakeholders (such as by gaining access to their databases, networks and portfolios). Once compiled, the database was added to throughout the project, using information from events and stakeholder consultations.

### Sample size and selection

Where available, existing databases of social enterprises, MSMEs, co-operatives and NGOs were used as a starting point, followed by engagement with key stakeholders to access their networks and portfolios.

The survey sample was non-randomised. The existing databases were not large enough to be divided into sub-national or other sub-sets for more systematic sampling, and using stakeholder portfolios, memberships and networks for outreach also meant that a formal sampling process was not possible. As such, the survey is an indication of social enterprise activity, not a representative sample of such activity.

## Survey tool and analysis

A paper-based questionnaire was used for data collection, and an online version of the survey was hosted on SurveyMonkey. A full list of the survey questions can be found in Annex 1.

### Data analysis

The target number of responses was 150, based on receiving six responses per district. Although this target was achieved within six weeks of the survey's launch, the initial responses were received from only a few districts, so it was continued in districts where there were an insufficient number responses. Eight respondents completed the online survey. Figures 1 and 2 show the geographical spread of respondents by district and province.

Returned questionnaires were checked for completeness and consistency, and were randomly cross-checked for the accuracy of information. Data was then entered into an Excel spreadsheet and analysed using descriptive statistical techniques. Primary data analysis was supplemented by secondary analysis to explore patterns across geographical areas, years of operation, proportion of female leadership, size and sector focus.

Figure 1: Survey respondents by district

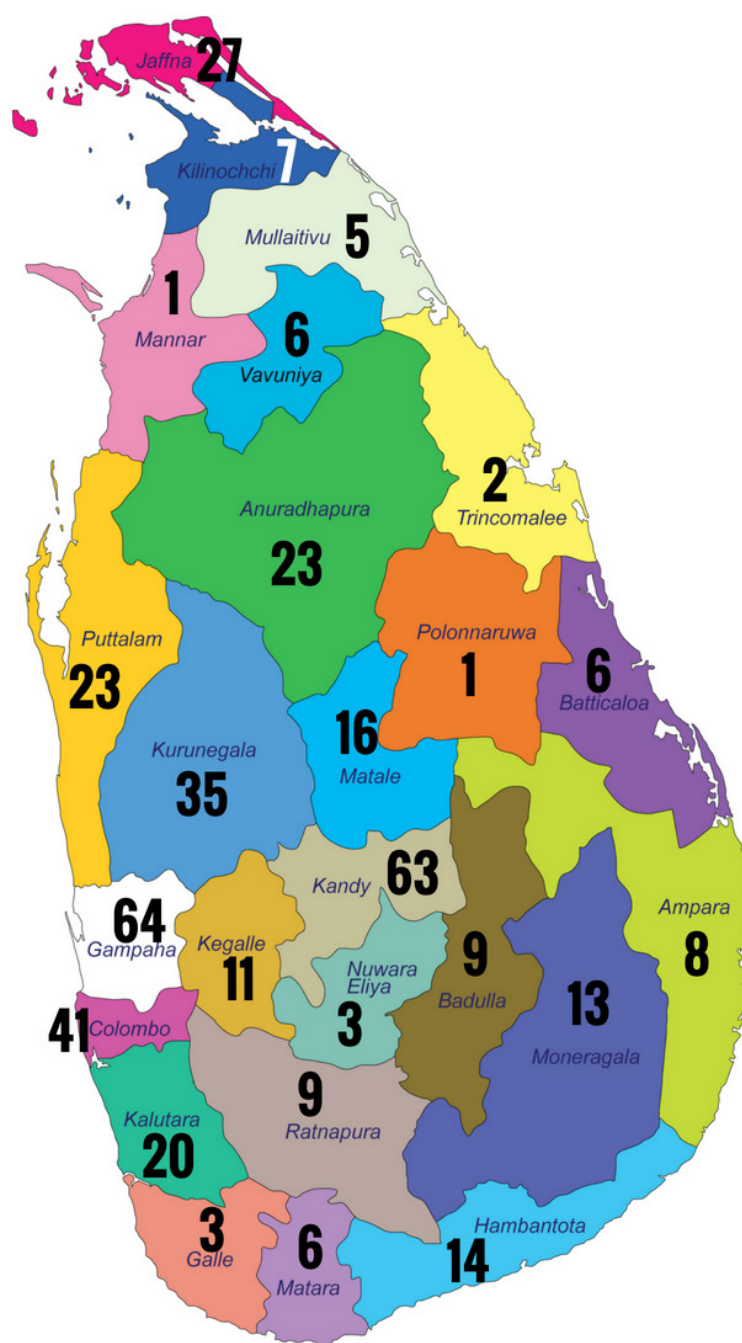
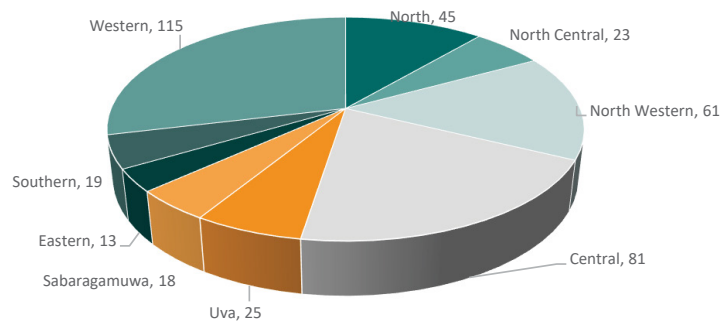


Figure 2: Survey respondents by province



## Confidentiality and subsequent use of data

All survey data has been treated as confidential, except where explicit permission has been given to share information.

## Methodology to estimate total number of social enterprises

A key component of the study is to provide an estimate of the total number of social enterprises operating in Sri Lanka. This process was not straightforward, and it is important to emphasise that this is only a rough estimate and we are not confident in its accuracy. The estimate is based on small and not statistically robust survey samples and rather speculative extrapolation. We estimated – based on small surveys – the prevalence rate of organisations that met social enterprise characteristics from among the NGO,

co-operative and micro and small and medium enterprise (MSME) communities

According to the Ministry of Industry and Commerce and the Department of Census and Statistics there are 1,017,267 MSMEs in Sri Lanka, of which, eight per cent are formally constituted (about 81,381 MSMEs). A sample survey was carried out by telephone to help establish the proportion of MSMEs that could be considered as social enterprises, based on our survey criteria. This initially suggested that 70 per cent [43 out of 60] self-identified as social enterprises. Based on experience and feedback from expert stakeholders, it is believed this number is unreliaibly high and, therefore, inaccurate. We therefore revisited these numbers and also looked at the database again. We contacted a sample of them again, found that many of them are least likely to be social enterprises and revised our figure to 10%, which is more realistic.

Meanwhile, the Department of Co-operative Development reports that there are 10,418 primary co-operatives (classified as credit, agriculture, industrial, school, and multi-purpose co-operatives, as well as fisheries and other societies) and 1,469 registered NGOs in Sri Lanka, of which 983 are active. A small sampling

survey was again used to determine how many of these co-operative societies and NGOs could be classified as social enterprises. In this case, the percentages — 27 per cent of co-operatives and 5 per cent of NGOs — were believed to be more realistic, providing a total of around 3,000 NGO and co-operative social enterprises.

**Table 2: Estimated total number of social enterprises in Sri Lanka**

Source	Total number	Social enterprise prevalence rate	Expected total number of social enterprises (= Total*Prevalence rate)
NGOs	983	5%	50
Co-operatives	10,418	27%	2800
MSMEs	1,017,267 Only 8% formally constituted (81,381)	10%	8100
<b>Total</b>	<b>C 11,000</b>		

We cross referenced these calculations against our survey, where half of the survey respondents were SMEs. This would suggest a figure of 3,000 social enterprises operating as SMEs, offering a more prudent minimum figure of a total of around 6,000 social enterprises<sup>9</sup>. Using social enterprise per capita figures, established by the British Council for India, Pakistan and Bangladesh, would suggest around 25,000 social enterprises in Sri Lanka. Our estimate of 11,000 sits comfortably between these two reference points (see Table 2).

In addition to collecting data using a face-to-face survey technique, the methodology was validated and the findings verified with key stakeholders and informants and through online

research. There is, however, limited data on NGOs, particularly those that are trading (selling goods or services, as opposed to relying on donations and grant income). A lack of available information and statistics combined with complicated sampling design make it currently very difficult to gauge the size of the social enterprise sector in Sri Lanka.

Nevertheless, based on this experimental and somewhat flawed methodology, our calculations would suggest around 11,000 organisations in Sri Lanka could meet what are often understood to be the defining characteristics of social enterprise. We offer this number fully aware that it is a rough estimate and hope others can build on this methodology and refine it in future to generate more robust estimate.

<sup>9</sup> It should be noted also that not all respondent claiming to be NGOs in our survey were registered with the NGO Secretariat.



$$\begin{array}{r} \textcircled{1} \\ 423 \\ 124 \\ +123 \\ \hline \hline \end{array}$$

$$\begin{array}{r} \textcircled{2} \\ 354 \\ 142 \\ +160 \\ \hline \hline \end{array}$$

$$\begin{array}{r} \textcircled{3} \\ 624 \\ 213 \\ +453 \\ \hline \hline \end{array}$$

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# Overview of the country context and existing research on social enterprise

This section briefly sets out the current social, political and economic landscape in Sri Lanka to provide an overview of the environment within which social enterprises are operating.

## Sri Lanka country context

Sri Lanka is an island nation located to the south-east of the Indian subcontinent. The country is a multi-ethnic society, populated by a majority of Sinhalese (74.9 per cent), as well as other ethnic groups, including Tamils (15.3 per cent), Muslims (9.3 per cent), and Eurasians and other minority groups (0.5 per cent) (Census 2011).

Sri Lanka gained independence from Britain in 1948, and has since seen major changes to its economy. As a middle-income developing country, 6.7 per cent of its 21 million people live below the national poverty line. Around 80 per cent of the population lives in rural areas. The Global Competitiveness Report 2016-2017 ranks Sri Lanka 71st out of 138 countries<sup>10</sup>.

Sri Lanka's GDP in 2016 was USD US\$81.3 billion and GDP has been growing at over four per cent

since 2015. Sri Lanka's gross national income per capita grew from US\$2,430 in 2010 to US\$3,727 in 2016. Its competitiveness score has remained at 4.2 for the last five years. A socio-economic snapshot of Sri Lanka is given in Table 3.

Following independence gained in 1948, Sri Lanka transitioned from a predominantly rural agricultural economy to a more urbanised economy. Regardless of relatively low economic indicators, Sri Lanka nevertheless leads the region in terms of education and health indicators, as well as in literacy levels and maternal mortality. In 2015, Sri Lanka ranked 73rd in the Human Development Index<sup>11</sup>. The country has undergone a wide range of reforms over the past 50 years, the most significant of these happening after the introduction of the World Bank and International Monetary Fund assisted structural adjustment programmes and the stabilization programmes in 1997.

Endowed with significant natural resources, such as graphite, mineral sands, limestone, phosphates and gems, along with a geography and climate conducive to agricultural and fisheries production, Sri Lanka has excellent potential for economic development. However, the country's economic growth has been constrained by serious social and political problems.

Despite several periods of socio-political flux, Sri Lanka has achieved high levels of social welfare. It has been particularly successful in servicing basic human needs as demonstrated by the country's

<sup>10</sup> The global competitiveness report 2016-2017, 2016

<sup>11</sup> Worldbank.org, 2017

performance against a range of social indicators such as life expectancy, literacy, education and

health. In this regard, Sri Lanka has outperformed many developing countries in Asia, Sub-Saharan

<b>Table 3: Sri Lanka's key socio-economic indicators</b>					
		2013	2014	2015	2016
<b>Mid-year population</b>	Male	9,966,000	10,056,000	10,151,000	10,265,000
	Female	10,619,000	10,715,000	10,815,000	10,938,000
	Total	20,585,000	20,771,000	20,966,000	21,203,000
<b>Labour force participation</b>		53.7%	53.2%	53.8%	53.8%
<b>Employed persons</b>		7,681,000	7,700,000	7,831,000	7,948,000
<b>Literacy rate</b>					93.2%
<b>Unemployment rate</b>					4.4%
<b>Gross national income per capita (US\$)</b>	Total	3,525	3,734	3,744	3,727
<b>Gross domestic product (GDP) at current market price (US\$)</b>	Total	74.3 billion	79.4 billion	80.6 billion	81.3 billion
<b>Major economic activities of GDP by percentage (%)</b>	Agriculture	7.7	8.0	8.2	7.5
	Industry	29.2	28.3	27.3	27.1
	Services	56.4	56.9	57.3	57.0
<b>GDP growth (%)</b>	Total	3.4	5.0	4.8	4.4
	Agriculture	3.2	4.6	4.8	-4.2
	Industry	4.1	4.7	2.1	6.7
	Services	3.8	4.8	5.7	4.2
<b>Source: Central Bank of Sri Lanka Annual Reports – various years</b>					

Africa and South America, and following several decades of sustained growth, today ranks highest among developing countries, notably in South Asia, in terms of human development.

The 26-year civil war, however, which ended in 2009, restrained Sri Lanka's economy for almost three decades and caused significant hardships to Sri Lanka's citizens, the environment and the economy. It is estimated that 80,000 to 100,000 people were killed during the war. The total

economic cost has been estimated at US\$200 billion<sup>12</sup>, or approximately five times the GDP of Sri Lanka in 2009. In areas affected by war, there remain many social challenges for widows, women without families, former combatants and disabled people, amongst others.

Since the end of the war, the country's economy has grown at an average of 6.4 per cent (from 2010 to 2015) and the economy is transitioning from a predominantly rural, agricultural economy towards a more urbanised economy

<sup>12</sup> Asiaecon.org, 2017

driven by services, which now account for 57 per cent of GDP. Economic growth in the last five years can be attributed to a peace dividend. Yet there remains a need for structural changes in the economy. Development goals are to be pursued through rapid economic growth and by transforming the structure of the economy into a modern, environmentally-friendly, and well-connected economy that can create employment opportunities with better remuneration.

## The micro, small and medium-sized enterprise sector (MSMEs)

MSMEs have played a pivotal role in Sri Lanka's economic development, creating much-needed employment, generating wealth and contributing to poverty alleviation. MSMEs play a major role in income distribution, as well as regional development. They create an environment in which large firms can flourish, and they contribute to export earnings.

Given their role in socio-economic development, MSMEs have been a main focus for successive Sri Lankan governments, with several initiatives being implemented to support start-ups and MSMEs that demonstrate growth potential. The Sri Lankan government views the promotion of MSMEs as a key pillar in the country's socio-economic development. Until now, MSMEs have often been insufficiently integrated into the national and international economies, especially in the northern and eastern parts of the island. Business support services are generally only available in the Western province. This has a negative impact on the competitiveness and environmental sustainability of businesses in the northern and eastern regions of the country, where the number of start-ups is low and there is little stimulus for innovation.

In Sri Lanka, MSMEs are defined using two criteria: total number of employees and annual turnover. Medium-sized enterprises in the manufacturing and service sectors are defined differently, based on the number of employees (see Table 4).

**Table 4: Defining micro, small and medium-sized enterprises in Sri Lanka**

Sector	Criteria	Micro	Small	Medium
<b>Manufacturing</b>	Annual turnover (Rs.)	< 15 million	16 million to 250 million	251 million to 750 million
	Number of employees	< 10	11 to 50	51 to 300
<b>Services</b>	Annual turnover (Rs.)	< 15 million	16 million to 250 million	251 million to 750 million
	Number of employees	< 10	11 to 50	51 to 200

**Source: Ministry of Industry and Commerce (2015)<sup>13</sup>**

<sup>13</sup> National Policy Framework for Small and Medium Enterprise Development, Ministry of Industry and Commerce, Published on 01 January 2015

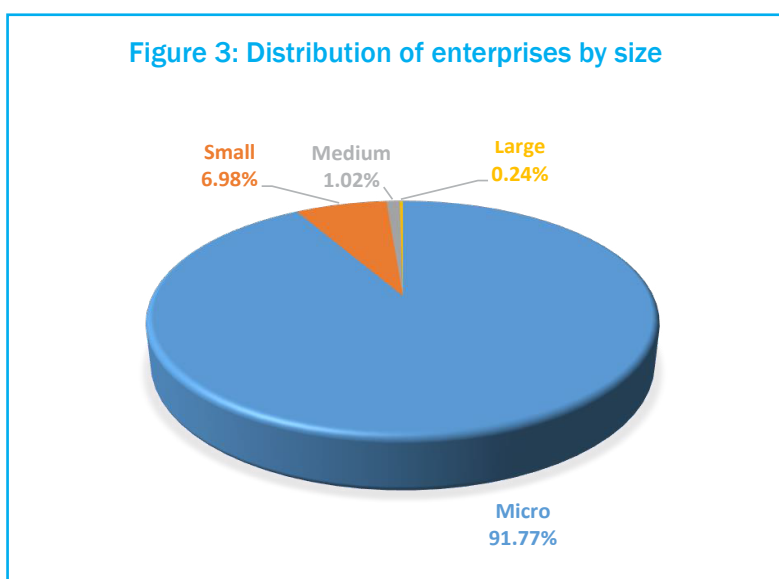
MSMEs in Sri Lanka can be further understood in terms of their ownership and legal registration:

- Private companies: registered with the Registrar of Companies as a Public Limited Liability Company, Private Limited Liability Company or Limited by Guarantee Company.
- Sole proprietorship or partnership businesses: registered with respective provincial councils through divisional secretariats.

According to the Sri Lanka Economic Census 2013/14, 99 per cent of the 1,019,681 enterprises in Sri Lanka were MSMEs (see Figure 3), providing 75 per cent of employment within the private sector (see Table 5) and contributing 52 per cent of GDP<sup>14</sup>. MSMEs contribute 30 per cent in terms of value added and account for 32.7 per cent of

employment in the agricultural sector, 26.3 per cent of employment in the manufacturing and processing sector and 41 per cent of employment in the services sector.

The MSME sector is considered critical to economic development in Sri Lanka, and it has grown considerably over the past decade. Just over three million people are employed in private enterprises, which accounts for around 40 per cent of total employment, while around 2.5 million are self-employed<sup>15</sup>. The micro-enterprise sector has created 44.6 per cent of all private sector jobs, while small enterprises account for 17.6 per cent of employment. A vast majority of micro-enterprises are owner-manager operations, with an average of 1.4 employees. While small enterprises have an average of 7.4 employees.



<sup>14</sup> Ministry of Finance Annual Report 2015

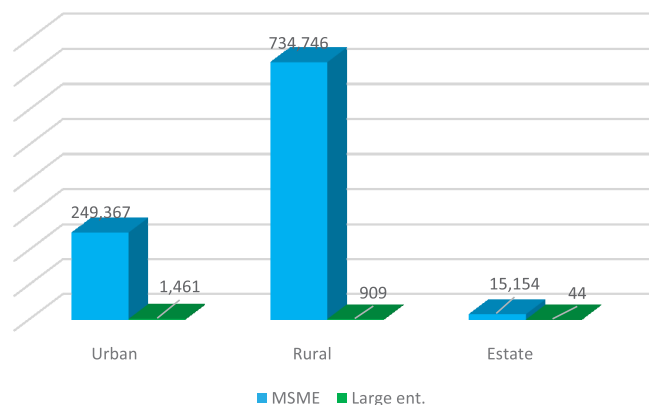
<sup>15</sup> [http://www.statistics.gov.lk/samplesurvey/LFS\\_Q1\\_Bulletin\\_WEB\\_2017\\_final.pdf](http://www.statistics.gov.lk/samplesurvey/LFS_Q1_Bulletin_WEB_2017_final.pdf)

Despite Sri Lanka's rapid urban development, much MSME activity occurs outside of cities,

with 74 per cent of private enterprises operating in rural areas (see Figure 4).

<b>Table 5: Number of establishments and people engaged in micro, small and medium-sized enterprises</b>					
	Number of establishments		People engaged		Average number of people engaged per establishment
	Number	%	Number	%	
<b>Total</b>	1,019,681	100	3,003,119	100	2.9
<b>Micro</b>	935,736	91.8	1,338,675	44.6	1.4
<b>Small</b>	71,126	7	529,751	17.6	7.4
<b>Medium</b>	10,405	1	386,756	12.9	37
<b>Large</b>	2,414	0.2	747,937	24.9	309
Source: Department of Census and Statistics					

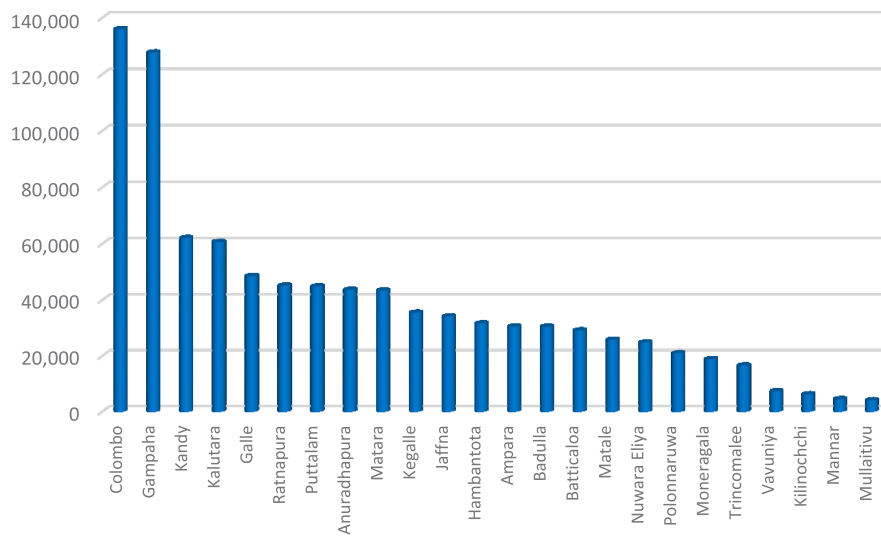
**Figure 4: Geographic distribution of enterprises**



In terms of the distribution of private enterprises by district, the Western province (comprising Colombo, Gampaha and Kalutara) accounts for nearly a third of private enterprises. While Colombo has the highest number of private

enterprises, Mullaitivu has the lowest, with just 4,122 (0.4 per cent). At the time of the Economic Census in 2013, no large-scale enterprises were operating in Mullaitivu, Kilinochchi, Mannar, Ampara or Batticaloa (see Figure 5).

**Figure 5: Distribution of enterprises by administrative districts**



MSME leaders face many challenges including access to finance, the necessary managerial skills and difficult economic conditions <sup>16</sup>.

## Women in the micro, small and medium-sized enterprise sector<sup>17</sup>

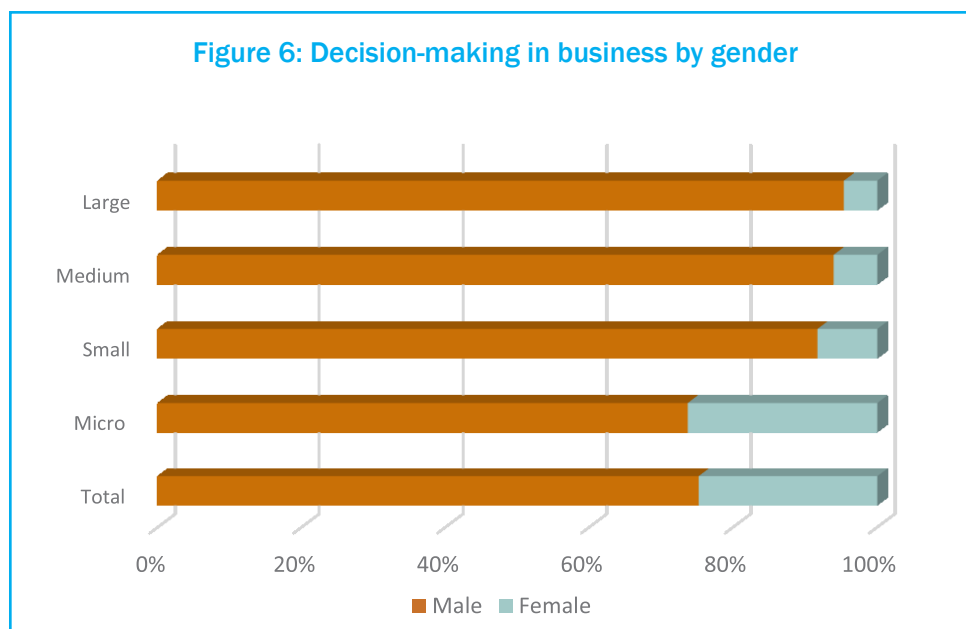
About 25 per cent of enterprises in the country are run by women, but this percentage is higher in rural areas (26 per cent) than in urban areas (22 per cent). The Kurunegala district has the highest ratio of female participation in decision-making in business (38 per cent), while the Colombo district

has the lowest (20 per cent). The sectors with the highest proportion of female entrepreneurs or decision makers are education (48 per cent) followed by accommodation and food services, finance and insurance, and manufacturing<sup>18</sup>.

<sup>16</sup> Attygalle et al, 2014

<sup>17</sup> Over the past two decades there has been a significant increase in female entrepreneurship and women-led business, particularly in rural areas. The government and INGO community have supported livelihood development programmes, particularly in the aftermath of the tsunami in 2005. However, there are still significant barriers for women, including lack of access to investment and the 'head of the household' rule which gives greater rights to men.

<sup>18</sup> Economic Census, 2013/14



Sri Lanka offers a mixed picture in terms of gender equality. The country leads other South Asian countries in terms of women's educational (World Rank 86) and health (World Rank 1) indicators, but still shows significant gender inequality overall<sup>19</sup>. Although Sri Lanka has been able to achieve gender equality in education, women account for only one-third of the economically active population<sup>20</sup>. The majority of women, especially in rural areas, are still confined to traditional gender roles<sup>21</sup>. Socio-cultural norms often discourage women from aspiring to have successful careers or become entrepreneurs. This limits women's opportunities to pursue gainful employment and limits their earning capacity.

The major constraints on female entrepreneurs include a lack of financial literacy and access to credit, a lack of connections and access to networks and vocational training, and gender-based violence and family responsibilities<sup>22</sup>. This gender gap in mainstream entrepreneurship has created an opening for social enterprises, and substantial resources have been allocated by the government and bi-lateral agencies (for example, the ADB) to address this gender gap.

Women across Sri Lanka face gender-based violence that directly and indirectly inhibits their capacity for economic empowerment. The National Action Plan to Address Gender-Based Violence<sup>23</sup> was created using a multi-sectoral approach by engaging several ministries from nine sectors. Sri Lanka has ratified the Convention on the Elimination of Discrimination Against Women.

<sup>19</sup> The Global Gender Gap Report 2017, World Economic Forum (See pp11- 12)

<sup>20</sup> The labour force participation of women was 35.9 per cent in 2015. This means there is a disproportionate number of women who have no access to paid work, social security schemes or other benefits. This inequality is often attributed to inaction by the country's legislature as well as to socio-cultural norms.

<sup>21</sup> Includes cooking, cleaning, raising children and taking care of spouse and in-laws.

<sup>22</sup> Perera 2016 (same as above)

<sup>23</sup> In 2016, United Nations Development Programme with Ministry of Women's and Child Affairs developed

## The social economy

The social economy has a long history in Sri Lanka. In 1904, the first co-operative society, Menikhinna Credit Society, was established in Menikhinna, a village near Kandy, in the Central Province. Thereafter, the co-operative sector saw rapid expansion and became an important organisational model in the country. After independence in 1948, the government's welfare programmes and agriculture settlement programme encouraged the emergence of social organisations, particularly in rural and farming areas. These included farmers' associations, thrift societies, welfare and development societies and self-help groups run by women and young people at the village level.

One of the key reasons for this surge in formal and informal social organisations were the social welfare policies of successive governments. Many of these welfare and development programmes were delivered through these social organisations (e.g. poverty alleviation programmes, such as Janasaviya and Samurdhi; water distribution for agricultural activities; and infrastructure development, such as road development and the maintenance of canals and reservoirs). The involvement of citizen groups in civil society and welfare-based activities paved the way for local social activism and volunteerism. The Sarvodaya Sramadaana Movement, which started in the 1950s, is a good example of a local NGO successfully spurring the development of the local NGO sector. The first local NGO oriented towards women and development was

Lanka Mahila Samithi, established in 1930. It focused on development through rural women's participation in civil society<sup>24</sup>.

Sri Lanka's social enterprise sector has predominantly evolved from three main sources: social organisations (i.e. grassroots societies), co-operatives and local NGOs. Professional organisations are also now becoming important players, providing the much-needed professional skills development that is crucial for the social enterprise sector. First and second generation family businesses and a new generation of MSMEs are now showing interest in adopting the concept of social enterprise.

## The co-operative sector

Co-operatives in Sri Lanka engage in social and economic activities in both urban and rural settings, and they particularly benefit those living in poor villages. All co-operative societies fall within the purview of the Department of Co-operatives and Internal Trade, and are regulated by the Co-operatives Societies Act of 1972, which was amended in 1992.

The co-operative sector consists of two major types of co-operatives: primary societies (Figure 7) and secondary societies. In 2016, there were 10,635 primary co-operatives in Sri Lanka, the majority of which were credit co-operative societies (see Table 6). Other popular forms of co-operatives are based in the fisheries and agriculture sectors, while school co-operatives are also extremely successful due to the support of the education authorities.

<sup>24</sup> Human Development in South Asia 2000 The Gender Question, The Mahbub ul Haq Human Development Centre



While sectors such as agri-business, livestock and fisheries have significant potential when it comes to co-operatives, there are certain challenges that are endemic to the wider co-operative

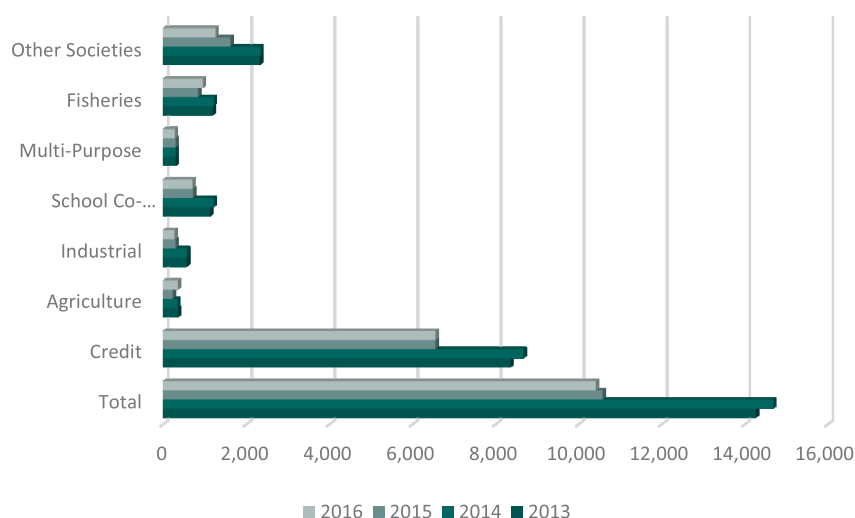
sector, which impede growth. The number of co-operatives has declined drastically in this decade, 3,858 co-operatives being de-registered between 2013 and 2016.

**Table 6: The co-operative sector in Sri Lanka**

Type of society/year		2013	2014	2015	2016
<b>All societies</b>		14,454	14,871	10,770	10,635
<b>Primary societies</b>	<b>Total</b>	14,276	14,695	10,582	10,418
	Credit	8,364	8,677	6,558	6,557
	Agriculture	367	347	233	358
	Industrial	575	576	301	277
	School co-operative	1,134	1,220	722	711
	Multi-purpose	308	308	304	286
	Fisheries	1,197	1,219	844	962
	Other societies	2,331	2,348	1,620	1,267
<b>Secondary societies</b>		178	176	188	217
<b>Apex unions</b>	Banking unions	17	17	31	33
	National co-operative councils	1	1	2	1
	District co-operative councils	26	26	27	25
	Multi-purpose unions	8	8	23	9
	Other unions	126	124	105	149

Source: Department of Co-operative Development

**Figure 7: Primary co-operative societies by business type**



Co-operatives share many similar features with social enterprises. They are involved in the distribution of consumer goods, the supply of essential consumer services, the supply of agricultural inputs, and promotion and marketing activities in the fields of agriculture, fisheries and industry, as well as the mobilisation and allocation of savings in rural areas, with the mutual assistance of the Co-operative Rural Bank.

During the civil war, women-led co-operatives in the north and east developed programmes such as the One Dish Meal<sup>25</sup>. While an assessment of the dairy producers in the Kilinochchi district highlighted the potential for expansion, a lack of technology or a lack of strategic planning, for example, holds the sector back.

While growing demand offers great potential for agri-businesses to export their goods, challenges relating to certification requirements, developing the necessary marketing strategies and overcoming domestic trade barriers hold many co-operatives back.

Many co-operatives would consider themselves as social enterprises, and many — not all — would meet the defining criteria for social enterprise adopted for this research. Conversely, many social enterprises will feel some solidarity with the co-operative movement, but they may not adopt democratic and participative, one-member-one-vote structures, or conform to the International Co-operative principles<sup>26</sup>.

## **Voluntary and community sector: non-governmental organisations and civil society organisations**

For the purpose of this study, we are using the terms NGOs, civil society organisations (CSOs) and voluntary and community sector (VCS). Each of these terms is somewhat contested and there are, of course, significant overlaps.

A VCS organisation in Sri Lanka has the option of registering under any one of four legal instruments:

- Society or association under the Societies Ordinance of 1891.
- Non-profit company under the Companies Act of 2007.
- VSSO Act.
- An Act of Parliament sponsored by a Member of Parliament through a Private Member's Bill (although this is very rare)<sup>27</sup>.

As per Inland Revenue regulations, all VCS organisations are expected to pay a tax of 0.3 per cent of all income, regardless of how it is generated or earned, which is a challenge for some smaller CSOs.

According to the website of the National Secretariat for NGOs, there are 1,496 registered NGOs in Sri Lanka. The government has always considered NGOs as important development

<sup>25</sup> Viluthu with World Bank Funding

<sup>26</sup> See for example <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.817.8118&rep=rep1&type=pdf>

<sup>27</sup> A private bill by a Member of Parliament refers to a matter related to an individual or group of individuals, including a corporation, named in the bill. Most private bills deals with the incorporation of, or amendments to the acts of incorporation of, religious, charitable and other social organisations. Once passed by the parliament, such organisations are required to incorporate the organisation with the Registrar of Companies.

partners, and they were not strictly regulated in the past. There were no specific laws or regulations governing the operation of NGOs until 1980, when the government enacted the Voluntary Social Services Organizations (Registration & Supervision) Act (VSSO Act). This aimed to systematise the registration and supervision of NGOs. The government's stance on NGOs and CSOs began to change during the peak of the civil war, based on the assumption that some INGOs and their local counterparts were working against the government. As a result, the government brought in tougher regulations for NGOs, particularly those supported by INGOs and foreign donors.

There is limited literature concerning this sector, but it is clear that Sri Lanka's achievement of middle-income status, combined with the end of the civil war, resulted in a reduction of donor funding. CSOs have had to adopt new strategies to survive, and there has been an attempt to replicate social enterprise and earned income generation models, inspired to some degree by the Bangladesh experience.

As an exit strategy, some international donor agencies are actively encouraging beneficiary organisations to explore income generating opportunities. For some CSOs that are restructuring to meet the new realities, converting to a social enterprise becomes a potential next step.

When a new government came into power in 2015, it introduced several policy changes that opened up the possibility for a closer working relationship between CSOs and the government. CSOs can now bid for implementation of government development programmes, particularly at the village level, and respond to call for tenders in the government procurement process<sup>28</sup>.

The current situation presents clear opportunities for some CSOs to transition into social enterprises. Their experience in addressing social issues and focus on social impact are key strengths and the potential for securing government contracts or involvement in public-private partnerships could make these CSOs financially viable. However, this would require a change in mindset for many of them, as well as the development of organisational capacity, legal and governance considerations, and other issues.

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<sup>28</sup> For example, maintenance of minor irrigation canals, rural roads, and minor reservoirs etc.



# Ecosystem for social enterprises in Sri Lanka

## The policy and legal framework for social enterprises

### National policy framework

Although Sri Lanka has no specific policy focus on social enterprises, the national policy framework has, for some time, favoured and supported enterprises that generate ‘triple-bottom’ economic, environmental and social benefits. Employment creation has been an overriding policy focus, while increasing agricultural and manufacturing outputs and equitable regional distribution of wealth generated by enterprises are other priorities. The new SME policy announced in 2016 does make specific reference to social entrepreneurship, stating that the government will:

‘Support social entrepreneurship, ethical production and fair trade branding by creating awareness of the concepts, requirements and opportunities in local and international markets’<sup>29</sup>.

In addition to the policy statement of the new government delivered by the Prime Minister in November 2015<sup>30</sup>, the 2016 Budget proposals stressed the importance of investing in

MSMEs. Recognising the value of MSMEs in job creation and in addressing the issues of income distribution, regional development and social cohesion, the government made the MSME sector a key component of its economic strategy.

Key policies that directly influence the social enterprise sector are summarised in Table 7.

<sup>29</sup> National Policy Framework for SME Development, p7

<sup>30</sup> Economic Policy Statement made by Hon Prime Minister, Ranil Wickremesinghe in Parliament on 5th November 2015.



**Table 7: Summary of national policy framework\***

Policy type	Policy name	Relevance to social enterprise
<b>National development policy</b>	Vision 2025	Aims to transform Sri Lanka into the hub of the Indian Ocean, with a knowledge-based, highly competitive, <b>social-market economy</b> . The policy focuses on: <ul style="list-style-type: none"> <li>• Generating one million job opportunities.</li> <li>• Enhancing income levels.</li> <li>• Developing rural economies.</li> <li>• Ensuring land ownership to rural and estate sectors, the middle class and government employees.</li> <li>• Creating a wide and a strong middle class.</li> </ul>
<b>Programme</b>	Decentralized Capital Budget Programme (DCB) 2016	Allocated Rs.3,357 million for 23,500 projects to develop rural infrastructure, community development and rural economic affairs.
<b>Programme</b>	Rural Infrastructure Development Programme (RIDP) 2016	Allocated Rs.13,278 million for 28,649 projects to enhance employment and livelihood opportunities through the development of supportive infrastructure and raising the socio-economic status of entire communities. Special focus was given to rural areas and projects that develop supportive infrastructure and generate self-employment opportunities for young people and women.
<b>Policy</b>	National Policy Framework for SME Development	Promotes SMEs with high potential and improves the business environment to allow SMEs to realise their full potential in the global economy.
<b>Act/legislation</b>	Micro Finance Bill	Focuses on licensing, regulation and supervision of companies carrying out a microfinance business; the registration of NGOs accepting limited savings deposits as microfinance NGOs; the setting of standards for the regulation and supervision of microfinance NGOs and micro-credit NGOs.
<b>Policy</b>	National Agriculture Policy	Focuses on the food, floriculture and exported agricultural crop sectors, with the aim of facilitating their rapid growth. The objectives are to meet the basic needs of the farming community in terms of food and nutrition, security, and enhanced employment opportunities and incomes through the adoption of technically feasible, socially acceptable, economically viable and environmentally friendly agricultural production technologies, marketing and related strategies.
<b>Policy</b>	National Trade Policy	Aims to improve domestic productive capacity and trade performance, revitalise the nation's integration in global and regional markets, raise the living standards of the people, and accelerate the nation's long-term economic growth rate.
<b>Policy</b>	National Environmental Policy	Aims to promote the sound management of Sri Lanka's environment, balancing the needs for social and economic development along with environmental integrity. Also aims to manage the environment by linking together the activities, interests and perspectives of stakeholders, and to assure environmental accountability.
<b>Policy</b>	Policy on Solid Waste Management	Aims to ensure environmental accountability and social responsibility of all waste generators, waste managers and service providers; actively involve individuals and all institutions in integrated and environmentally sound solid waste management practices; maximise resource recovery with a view to minimise the amount of waste for disposal; and minimise adverse environmental impact due to waste disposal to ensure the health and well-being of the people and eco-systems.
<b>Policy</b>	National Policy on Co-operatives <sup>20</sup>	Aims to establish a policy framework to create supportive legal and regulatory mechanisms, in order to contribute actively to the economic and social development of Sri Lanka, within a globalised market environment, while adhering to internationally accepted principles and the Statement on the Co-operative Identity.

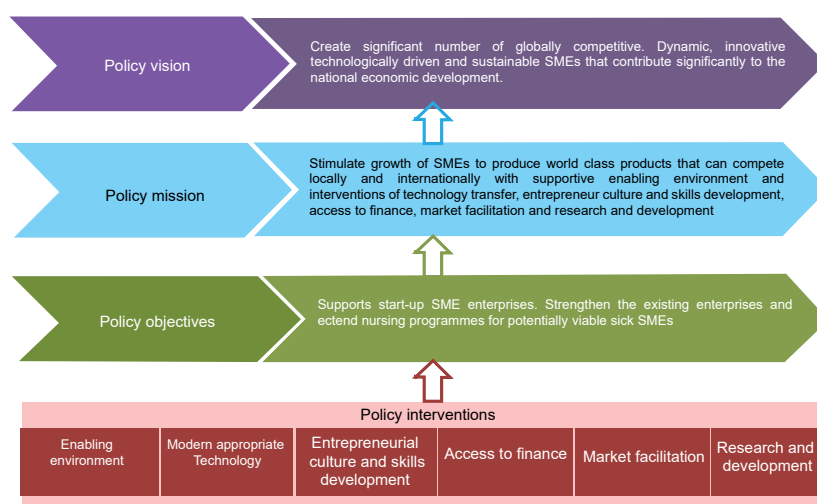
The development of a Sri Lankan SME policy was primarily prompted by a study on the SME sector by the ADB in the latter part of 1990s. This study recommended a number of policy actions to support an enabling environment for SMEs, one of which was to establish an SME Task Force who would be responsible for drafting a White Paper for SME development.

In December 2002, the Task Force presented a White Paper to the government that focused on key elements considered essential for SME growth, such as finance, physical infrastructure, technology support, the regulatory framework, access to information and advice, access to markets, business support services, industrial relations and labour, linkage formation, and environmental issues. Many of the recommendations were implemented by the government, including the establishment of NEDA, SME Bank (later merged with Lankaputhra

Bank), concessional loan schemes and SME forums at the district level.

The National Policy Framework for SME Development was launched in October 2015 by the Ministry of Industry and Commerce. The key focus of the framework is to promote high-potential SMEs and improve the business environment to allow SMEs to realise their full potential in the global economy<sup>31</sup>. The framework further stresses its mission to 'stimulate growth of SMEs to produce world class products and services that can compete locally and internationally with [a] supportive enabling environment and interventions of technology transfer, entrepreneur culture, skills development, access to finance, market facilitation and research and development.' See Annex 2 for further information on this framework.

**Figure 8: National policy framework for small and medium-sized enterprise development**



<sup>31</sup> National Policy Framework for SME Development, Ministry of Industry and Commerce, 1 October 2015

In 2016, the government embarked on several programmes to promote growth within the agricultural sector. The National Food Production Programme 2016-18 was launched with the target of making the country self-sufficient in a selected set of crops. These programmes are relevant to the social enterprise sector, as many social enterprises are agri-businesses engaged in food production, marketing and livelihood support. The government has focused on, for instance, productivity improvement measures, ensuring remunerative prices for farmers, and enabling uninterrupted access to markets, among other initiatives.

## Legal context

Although there is no specific legal provision for social enterprises, there are several laws and acts currently in force that are used by social enterprises.

### **Companies Act of 2007:**

The Companies Act (No. 7 of 2007) contains the rules, procedures, accounting and reporting requirements for companies incorporated or registered in Sri Lanka. The registration of companies, and the filing of accounts and annual returns are done via the Registrar of Companies. It recognises several types of companies: a limited company, an unlimited company, and a company limited by guarantee. A new concept has also recently been introduced, the a single individual shareholder company, which provides protection for entrepreneurs with small and medium-sized enterprises, as it enables such

individuals to mitigate against financial risk and protect personal family assets when venturing into business.

The Companies Act 2007 abolished 'people companies' which had existed since 1982. A majority of the village organisations and companies run by producer groups and farmers were registered as people companies.

### **Cooperative Act [Co-operative Societies (Amendment) Act (No. 11 of 1992)]**

The system of co-operative societies was introduced in 1906, during British rule, to fulfill the economic needs of the rural farming community through the provision of loans. As the number of co-operative societies increased, Co-operative Societies Ordinance No.7 of 1911 was enacted to provide guidance and observation. Several amendments were made to this act, in 1972, 1983 and 1992. The latest amendments outline the rules around registration, membership and governance, rights, obligations and privileges, accounts and finance, and the dissolution of co-operatives.

### **Societies Ordinance of 1891 (Amendment Act 11 of 2005)**

The Societies Ordinance provides for the registration of mutual provident societies, established to promote thrift, giving relief to members in time of sickness or distress, or aiding them in financial difficulties, and providing for widows and orphans and other societies, where the respective Ministry may extend the powers of the ordinance (a proposal to review this law is under consideration).



## **Voluntary Social Service Organisations [Registration and Supervision] Act Number 31 of 1980**

All voluntary and social services organisations are required to register under this act. In addition, such organisations must register with the National Secretariat for Non-Governmental organisations.

## **Enterprise support services**

Sri Lanka's enterprise support system is made up of a diverse range of public, private and voluntary organisations scattered around the country. At the government policy level, the Ministry of Industry and Commerce is responsible for SME development, while NEDA is the main government organisation responsible for the promotion and development of the SME sector. NEDA aims to create a dynamic and sustainable, internationally competitive enterprise sector by facilitating and proactively supporting the development, growth and competitiveness of Sri Lankan enterprises as an integral part of the national economy. NEDA has a team of around 300 enterprise development officers stationed at the Divisional Secretary level, who deliver and co-ordinate SME development activities at the grassroots level.

It is worth noting the complexity of the support ecosystem, comprising various state and other SME support service providers, and its

fragmented nature, characterised by a number of public sector agencies spread across seven major central government ministries<sup>32</sup>, nine provincial councils (regional governments) and a host of government departments. Alongside the public sector, several international and local NGOs and private sector organisations provide an array of business support. This complexity has resulted in overlapping and duplicated functions, which have affected their effectiveness and reputations, and have even created rivalry between institutions.

Business support services for SMEs are recognised as an important intervention within the SME development strategy. Over the years, business support services have improved considerably. There are currently over 250 business support providers in the country.

There is presently no government agency that is directly responsible for social enterprise development. However, government agencies such as NEDA have recognised the importance of the social enterprise sector to the local economy and have acknowledged the need for government intervention to promote and encourage the growth of this sector. For many years, the government, international donors and local NGOs have also actively promoted and supported community-based enterprises, farmer and production companies, and producer co-operatives (agriculture and fisheries), and many of these have become successful social enterprises<sup>33</sup>.

The current enterprise support system is summarised in Table 8.

<sup>32</sup> Ministry of Industry and Commerce, Ministry of National Policies and Economic Affairs, Ministry of Science, Technology and Research, Ministry of Development Strategies and International Trade, Ministry of Agriculture, Ministry of Rural Economy and Ministry of Primary Industries.

<sup>33</sup> Dambadeniya Export Products Development Co Ltd was started as an export processing village company (peoples company) in early 1980s and is one of the most successful social enterprises in Sri Lanka.

**Table 8: Enterprise support system — key players**

Organisation type	Name of organisation/s	Key functions and relevance to social enterprises
<b>Administrative and regulatory environment</b>		
<b>Government — national level</b>	Department of Registrar of Companies	<ul style="list-style-type: none"> <li>Responsible for the efficient and effective implementation, administration and enforcement of several legislative enactments, including the Companies Act No 7 of 2007, the Societies Ordinance No 16 of 1891, the Cheetus Ordinance No 61 of 1935, and the Public Contracts Act No 3 of 1987.</li> </ul>
<b>Government — national level</b>	Consumer Affairs Authority — Ministry of Industry and Commerce	<ul style="list-style-type: none"> <li>Mandated to protect consumer interests and ensure fair market competition in Sri Lanka. Takes necessary actions to safeguard the interests of consumers while maintaining effective competition amongst suppliers of goods and services.</li> </ul>
<b>Government — national level</b>	Inland Revenue Department — Ministry of Finance	<ul style="list-style-type: none"> <li>Responsible for the assessment and collection of individual and business taxes.</li> </ul>
<b>Government — national and provincial levels</b>	Department of Co-operative Development Provincial departments of co-operative development (nine provinces)	<ul style="list-style-type: none"> <li>The Department of Co-operative Development: vested with the duties of setting policies for the development of the co-operative sector and of supervising and monitoring the functions of the national level co-operative societies and national/institutional co-operative societies.</li> <li>Provincial departments of co-operative development: responsible for the development of the co-operative sector at the provincial level, and tasked with registering, administering and monitoring all co-operative societies, and the provision of financial assistance, training and education for boards of directors, managers, employees and members of co-operative societies.</li> </ul>
<b>Local authorities</b>	Municipal and Pradeshiya Sabhas	<ul style="list-style-type: none"> <li>Responsible for the registration of businesses for local tax purposes and the enforcement of public health laws.</li> </ul>
<b>Specific support interventions (such as entrepreneurial development, export promotion, technology support, assistance to procure raw materials and inputs, and product marketing)</b>		
<b>Government — national level and divisional levels</b>	NEDA — Ministry of Industry and Commerce	<ul style="list-style-type: none"> <li>Has recognised social enterprises as an important sector which merits government attention and support.</li> </ul>
<b>Government — national and divisional level</b>	Small Enterprise Development Bureau — Ministry of National Policies and Economic Affairs	<ul style="list-style-type: none"> <li>Assists small enterprises in sectors with potential for economic development and supports the development of existing small enterprises. Runs offices in each district, including the Northern and Eastern provinces, located within the premises of the District Secretariats, to enable members of the public to access their services.</li> <li>Does not have specific interventions aimed at social entrepreneurs.</li> </ul>
<b>Government — national and district level</b>	Industrial Development Board — Ministry of Industry and Commerce	<ul style="list-style-type: none"> <li>As the premier state organisation entrusted with the responsibility of development of the industrial sector in Sri Lanka, provides holistic support for SMEs through national offices.</li> <li>Does not have specific interventions aimed at social enterprises.</li> </ul>
<b>Government — national level</b>	Industrial Technology Institute — Ministry of Science, Technology and Research	<ul style="list-style-type: none"> <li>Established to provide technical advisory and consultancy to the industrial and SME sector, carrying out industry-based and collaborative research, sharing technical information among SMEs and conducting training.</li> </ul>

**Table 8: Enterprise support system — key players**

Organisation type	Name of organisation/s	Key functions and relevance to social enterprises
<b>Government — national level</b>	Sri Lanka Standards Institute — Ministry of Science, Technology and Research	<ul style="list-style-type: none"> <li>Responsible for the formulation and application of national standards, the promotion of quality assurance in all sectors of the economy, the promotion and dissemination of valid measurement practices, and the training of industry and service personnel on concepts, practices and techniques of standardisation and quality management.</li> </ul>
<b>Government — national and divisional level</b>	Vidatha Centres — Ministry of Science, Technology and Research	<ul style="list-style-type: none"> <li>Runs the Vidatha programme, which was initiated in 2004 'with a view to boosting the rural economy and enhancing its contribution to national economic development', and which aims to transfer scientific knowledge and research innovations of scientists to MSMEs at grassroots level through a network.</li> </ul>
<b>Government — national and provincial level</b>	Department of Agriculture — Ministry of Agriculture and Agrarian Development	<ul style="list-style-type: none"> <li>Mandated to promote and support farm entrepreneurship and commercial farming. Runs special programmes to create and support farmer societies, community farm businesses, commercial farms and other commercial suppliers of planting materials, along with buyers and processors of farm produce.</li> <li>Creates and supports farmer-based entrepreneurial organisations that could be considered as social enterprises.</li> </ul>
<b>Government — provincial level</b>	Provincial industrial/enterprise development authorities and agencies (Western, North Western, Central, and Southern provinces)	<ul style="list-style-type: none"> <li>Operate their own business support agencies that provide a range of support services for all forms of MSMEs, community-based organisations and business entities.</li> </ul>
<b>Rural and cottage enterprises development (handicrafts, agriculture based enterprises, etc.).</b>		
<b>Government — provincial level</b>	Provincial departments of small Industries — all provincial councils	<ul style="list-style-type: none"> <li>Provide the necessary resources, training, advice and market access to traditional artisans and craftspeople.</li> </ul>
<b>Government — national, district and divisional level</b>	Department for Samurdhi Development — Ministry of Samurdhi Development	<ul style="list-style-type: none"> <li>Empowers poor, low-income and other communities through the provision of social security, social welfare, development of human capital, promotion of livelihood development activities and provision of microfinance. Also contributes significantly to the protection and nourishment of the environment, the expedition of national development and to building a prosperous nation, ensuring food security and social equity devoid of poverty.</li> </ul>
<b>• Chambers of commerce and industry and business associations</b>		
<b>Private sector</b>	Ceylon Chamber of Commerce	<ul style="list-style-type: none"> <li>The oldest business membership body in Sri Lanka, with over 500 corporate and SME members, and which facilitates over 20 trade councils. Has implemented donor-funded SME support programmes, but does not have a specific focus on social enterprises.</li> </ul>
<b>Private sector</b>	Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) and regional and district chambers of commerce	<ul style="list-style-type: none"> <li>The apex body of regional and district chambers of commerce, which co-ordinates and facilitates SME-related activities at national and regional levels and lobbies at the national and provincial levels.</li> </ul>
<b>• Non-governmental organisations and donors</b>		
<b>National level</b>	USAID	<ul style="list-style-type: none"> <li>Over the past 30 years, has implemented several SME development/support programmes, providing policy and strategic support to government agencies responsible for SME development and export promotion. These projects have supported public sector SME support agencies and chambers of commerce at national and regional levels to</li> </ul>

**Table 8: Enterprise support system — key players**

Organisation type	Name of organisation/s	Key functions and relevance to social enterprises
		develop physical, human and financial capacities, and improve the quality of enterprise support programme and outreach. Ongoing programmes include BIZ+ (technical assistance and grants for SMEs) and YouLead (youth-focused programme with an entrepreneurship development component).
<b>National level</b>	United Nations Development Programme	<ul style="list-style-type: none"> <li>Has implemented various enterprise development programmes in Sri Lanka, in partnership with the government, private sector and NGO/civil society organisations. Ongoing programmes include the Northern Livelihood Project and Promoting Sustainable Development and Inclusive Growth for Sri Lankan SMEs.</li> <li>In partnership with the Ministry of Science, Technology and Research, has launched the Social Innovation Lab, which is a co-financed initiative to support national development priorities through the prototyping of development ideas to complement accelerated initiatives.</li> </ul>
<b>National level</b>	German Society for International Cooperation	<ul style="list-style-type: none"> <li>Has been providing financial and technical support to the government to improve SME policy and support environment. Has supported national and regional chambers of commerce to enhance their capacity to engage and support micro enterprises and SMEs. Ongoing projects include SME Sector Development in Sri Lanka and Vocational Training in the North of Sri Lanka.</li> </ul>
<b>NGO</b>	Sarvodaya Shramadana Movement	<ul style="list-style-type: none"> <li>The oldest NGO in Sri Lanka, which has initiated pioneering social entrepreneurial initiatives at national and grassroots levels.</li> </ul>

## Financial services

The financial system in Sri Lanka consists of:

- The Central Bank of Sri Lanka (CBSL), licensed commercial banks, licensed specialised banks and rural banks.
- Licensed finance companies and specialised leasing companies.
- Primary dealers, pension and provident funds, insurance companies, stock brokers, securities market intermediaries and unit trusts.
- Thrift and credit co-operative societies.
- The foreign exchange market, money market, capital market and informal financial market.
- The legal framework related to the financial system and to the payment and settlement system<sup>34</sup>.

Financial inclusion is a major component of Sri Lanka's development agenda and is critical to equitable economic growth, employment creation and social and human development. Sri Lanka's microfinance sector is comprised of co-operatives, NGOs, commercial banks (state-owned and private) and special government programmes such as Samurdhi. Microfinance institutions provide various financial services, including loans, savings, insurance, remittances and other services, such as training and consultation. These services are typically targeted towards low-income customers and microenterprises.

Key government policy initiatives relevant to social enterprise and SME finance include:

- MSME Credit Guarantee Scheme in 2016 with Rs.500 million contributed by the government as initial capital, together with the additional assistance of selected financial institutions. Under this scheme, 75 per cent of the total facility will be guaranteed.
- US\$100 million from the ADB to support MSME lending at concessional rates.
- Allocation of additional Rs.90 million to disburse concessionary small loans from Rs.10,000 to Rs.300,000 for small and medium-sized agri-businesses under the National Agribusiness Development Programme (NADeP).
- The Tharuna Diriya youth empowerment and employment project under the NADeP.
- New loan schemes by NADeP for enterprises in the agricultural value chain through the Value Chain Development Capital Agriculture Loan Scheme and the Value Chain Development Seasonal Agriculture Loan Scheme.
- Increase of the grace period of loans granted under the Commercial Scale Dairy Development Loan Scheme, from six months to 12 months.
- Implementation of phase two of the Self-Employment Promotion Initiative Loan Scheme.

<sup>34</sup> Central Bank of Sri Lanka- [http://www.cbsl.gov.lk/htm/english/05\\_fss/f\\_1.html](http://www.cbsl.gov.lk/htm/english/05_fss/f_1.html)

- The new loan scheme SWASHAKTHI — Towards One Million Jobs launched by the CBSL for the development of 25,000 MSMEs.
- The Saubhagya Scheme, implemented by the Poverty Alleviation Microfinance Project of the CBSL to help merge SME funds into one large SME facility. The merger of these funds will create synergies that will enable the CBSL to better serve the MSME sector.
- The Self Employment Promotion Initiative Scheme, which provides financial assistance to train young people who are rejected by vocational training institutes, to help them establish their own self-employment projects.

## Venture capital and impact investment

Venture capital has not been a popular source of capital to date in Sri Lanka. Almost all state and private banks operate their own venture capital firms, but there are almost no providers of venture capital to SMEs. The only two private equity funds in Sri Lanka are focused on mature and high-growth companies, with professional management in place, which is a very small segment of the overall SME market. Furthermore, their target investment size is in the range of US\$2 million to US\$7 million, far larger than the investment requirements of most SMEs<sup>35</sup>.

Social or impact investment is a new concept in Sri Lanka. The recently established Lanka Impact Investing Network is a group of qualified and experienced professionals who have identified the need for a dedicated impact investment company in order to support the emerging social enterprise sector in Sri Lanka. It has already identified investors willing to invest in social enterprises. The network's newest project, Ath Pavura, is a television reality show (similar to Dragon's Den in the UK) that aims to connect investors and social entrepreneurship.

There is growing interest from international impact investors in Sri Lankan social enterprises and SMEs, and one such investor has already invested in a medium-sized food manufacturing 'impact' enterprise.

## Higher education and the vocational training sector

In Sri Lanka, education is state-funded and free at all levels, including vocational training and university education. At 92 per cent, Sri Lanka's literacy rate is above the global average, and is the highest in South Asia.

The University Grants Commission<sup>36</sup> is the government agency responsible for overseeing the functions of state universities, while the Tertiary and Education Commission oversees

<sup>35</sup> Kulasinghe, Shalini et.al (2018) Catalyzing Small and Medium-sized Enterprise Venture Capital in Sri Lanka, ADB SOUTH ASIA Working Paper Series, No.54, March 2018. <https://www.adb.org/sites/default/files/publication/408131/swp-054-sme-venture-capital-sri-lanka.pdf>

<sup>36</sup> The UGC in Sri Lanka came into existence in 1978 and entrusted with the task of administering the admission of universities. In Sri Lanka, university admissions are a very sensitive issue which create political sensitivities as well.



tertiary and vocational education institutions. Increasing entrepreneurship among graduates is one of the twelve goals of the University Grants Commission.

Currently, there are 15 state universities in Sri Lanka. The universities of Colombo and Peradeniya are the oldest and most prestigious. The University of Kelaniya (arts and aesthetics), University of Sri Jayawardhenapura (commerce) and University of Moratuwa (engineering) are also popular choices amongst students. The Universities of Jaffna, Ruhuna, Rajarata, Eastern, South Eastern, Wayamba and Sabaragamuwa are national universities established in regions to provide higher education opportunities to rural students, while also supporting the development of these regions.

In recent years, with changes to the University Act, some additional institutes have been given permission to grant their own degree programmes. As of 2015, there were 16 such

non-state institutes offering 64 recognised degree programmes in the field of information technology, engineering, psychology, management and medicine.

## Entrepreneurship programmes in Sri Lankan universities

Entrepreneurship education is essential to addressing the problem of unemployment and improving economic growth. Incorporating entrepreneurship courses into business education is a relatively new idea in Sri Lanka. Recently, there have been significant efforts to incorporate entrepreneurship within higher education courses, and almost all universities have introduced entrepreneurship and innovation into undergraduate and postgraduate degree programmes. The University of Moratuwa, University of Uva-Wellassa and University of Sri Jayawardenepura, for instance, have educational programmes in entrepreneurship.

### Entrepreneurship degrees offered by Sri Lankan universities

- B.B.M. Entrepreneurship & Management — Uva Wellassa University
- B.Sc. Entrepreneurship (Special) — University of Sri Jayawardenapura
- B.Com. Entrepreneurship (Special) — University of Kelaniya
- B.B.A. Entrepreneurship (Special) — University of Ruhuna
- B.Sc. Biosystems Technology in Agricultural Technology and Entrepreneurship — South Eastern University
- B.Com. Enterprise Development — South Eastern University
- MBA in Entrepreneurship — University of Sri Jayawardenapura, University of Moratuwa

Source: University Grants Commission

### **University of Sri Jayawardenapura**

The new department of entrepreneurship at the University of Sri Jayawardenapura runs various programmes for owners and managers of start-ups and mature enterprises. It provides a space for fostering creativity and innovation, incubating viable concepts, facilitating the success of entrepreneurial ventures, and bridging the gap between academia, business and government in the entrepreneurial arena (Young Entrepreneur Sri Lanka, 2017).

### **The Open University of Sri Lanka**

The Open University of Sri Lanka offers a programme to support the creation and management of small business ventures. The structure of the programme is designed for those who aspire to become managers in business. In 2017, the university conducted a short course on social enterprise in partnership with Social Enterprise Lanka.

### **University of Moratuwa**

The University of Moratuwa runs a university-wide programme to promote an entrepreneurial culture within the university. It has created a special position of Endowed Professor/Senior Fellow in Innovation and Entrepreneurship and the post-holder is responsible for running activities in collaboration with various departments. The Department of Management of Technology delivers an entrepreneurship course module and social entrepreneurship was introduced as subject in the 2017 academic year. In 2015, the university introduced an MBA programme in Entrepreneurship, and social entrepreneurship has been included as a subject in the course module.

### **University of Peradeniya**

Agri-business and entrepreneurship is taught as a subject in the degree programmes offered by the Faculty of Agriculture. In addition, the Career Guidance Unit conducts business start-up programmes for undergraduates, in partnership with NEDA.

### **University of Colombo**

The Faculty of Management and Finance conducts short courses and awareness programmes for students and SMEs, in collaboration with the private sector.

## **Key social enterprise actors**

The past three years have seen significant development within the 'formal' social enterprise sector in Sri Lanka. The interest in social entrepreneurship has grown tremendously as a result of active collaboration between international organisations and local social entrepreneurs. There have been both push and pull factors influencing the development of Sri Lankan social enterprises.

Development organisations, INGOs and local NGOs have played a leading role in raising awareness of the concept of social enterprise, particularly amongst rural and urban CSOs, young people and those passionate about social and environmental issues. The British Council in Sri Lanka, Oxfam and Italian charity ICEI can be considered as those most actively encouraging the development of the social enterprise 'movement'. Table 9 summarises the key actors in the social enterprise space in Sri Lanka.

**Table 9: Key actors in the social enterprise sector in Sri Lanka**

Name of institution	Organisation type	Location	Social enterprise related activities
<b>British Council in Sri Lanka</b>	International organisation	Colombo, Kandy, Jaffna	Actively promotes the development of social enterprise and social investment to help foster a more sustainable, inclusive and prosperous future for all. Its programme draws on UK expertise, striving to share best practice and create opportunities between the UK and Sri Lanka and provide social entrepreneurs with training, business consulting and mentoring, access to funding and investment opportunities, study tours and international networking. In addition, conducts research and organises policy dialogues, academic exchanges and public awareness activities that promote social enterprise and social investment.
<b>Oxfam</b>	International organisation	Colombo	Commissioned research to assess support services for social enterprise in Sri Lanka, which proposed a recommendation to establish an incubator and accelerator for social enterprises that was launched in 2015 with Oxfam seed funding. In 2016, along with local partners, conducted an international conference on social enterprise and social finance. Its ongoing SUNRISE project promotes and supports social enterprises and impact SMEs in the North, East and Sabaragamuwa provinces.
<b>ICEI/Overseas (Italy)</b>	International organisation	Colombo	An Italian development organisation that has been working in Sri Lanka since 2005. Assisted in setting up Coopid, a successful community managed social enterprise benefit model in the Matale district of the Central province. Has also initiated and supported Ecowave, a social enterprise in the Uva province engaged in agricultural processing.
<b>CARE International/Chrysalis</b>	International organisation	Colombo	Had a strong interest in introducing the concept of social enterprise through their work, particularly through their programmes in the plantation sector. Its successor in Sri Lanka, a social enterprise, continues its work in the country.
<b>Good Market</b>	Social enterprise network/access to market	Colombo and Galle	A curated platform for social enterprises and responsible businesses that meet minimum sector standards and are good for people and good for the planet. Hosts an outdoor market event in Colombo that attracts thousands of regular customers interested in people- and planet-friendly products. Runs its own mini supermarket and restaurant. Has an online platform with over 100 registered vendors from around the country, who receive training and advice to help them improve product quality and standards.
<b>Lanka Social Ventures</b>	Incubator, accelerator and business support	Colombo, Kandy, Batticaloa and Vavuniya	Promotes and supports new and existing social enterprises through its social enterprise incubator and accelerator. Runs tailor-made support programmes for social enterprises based on their individual developmental needs. Most of its business support services are delivered through one-to-one and group coaching and mentoring, usually at the enterprises' own premises and at times convenient to them, and delivered by paid and pro-bono coaches. In addition, conducts policy dialogues, seminars and conferences to raise public awareness of social enterprises.  In 2017, carried out two workshops on 'Introduction to Social Enterprises and Green Enterprises' for undergraduates taking the university's entrepreneurship module. In 2016, conducted a one-day programme on social enterprises for academics and students at Moratuwa University. Its newest initiative, Social Enterprise Academy, delivers accredited courses for social entrepreneurs and practitioners engaged in business coaching and advisory. Is also the Sri Lanka Academic Centre of the Institute of Enterprise and Entrepreneurs, United Kingdom.
<b>Lanka Impact Investing Network</b>	Impact investment platform	Colombo	The pioneers of impact investment in Sri Lanka, aiming to connect impact investors and social entrepreneurs to drive positive change. Together with Social Enterprise Lanka and Hatton National Bank, launched Sri Lanka's first <i>Dragon's Den</i> type TV reality show.
<b>Social Enterprise Lanka</b>	Social enterprise network	Colombo	Serves as a networking hub pulling together local and international stakeholders and aligning their efforts towards a shared vision. Is one of the main partners of <i>Ath Pavura</i> , a TV reality show for social enterprises.
<b>Avishkaar Frontier Fund/Intellicap</b>	Impact investor	South Asia	Has invested in two SMEs in Sri Lanka within a space of two years: MA's Foods and Grasshoppers Pvt. Ltd.

## Existing research on social enterprise in Sri Lanka

As the term ‘social enterprise’ is relatively new to Sri Lanka, it has not attracted significant research interest. However, there is a significant amount of academic research on Sri Lankan co-operatives, farmer and producer companies, and the wider SME sector.

A research study commissioned by Oxfam and produced in collaboration with IIX Shujog is the only relevant comprehensive research study on social enterprise in Sri Lanka. Yet this study is focused on so-called ‘impact enterprises’, and only on those within the agriculture sector. It identifies the key challenges they face and makes recommendations for donors and development agencies looking to support such organisations in Sri Lanka. Its findings and recommendations are based on secondary research and a field survey of mission-driven enterprises in Sri Lanka<sup>37</sup>.

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<sup>37</sup> Oxfam and IIX Shujog (2014) Sri Lanka Social Enterprise Needs Assessment and Advisory, <https://iixglobal.com/portfolio-item/sri-lanka->





# Study findings

## Social enterprise identity

This survey used specific criteria to identify social enterprises, but respondents were also asked whether they consider their organisation to be a social enterprise, and 44 per cent of them did so (self-identifying social enterprises), including

some respondents who did not meet our criteria. Moreover, 46 per cent of respondents identified their organisation as a private enterprise and 15 per cent as a society or association (see Figure 9).

**Figure 9: Self-identification of respondent organisations**



In all, 75 per cent of the respondent organisations had a clear understanding of what social enterprises are and what drives them, and 33 per

cent mentioned that social enterprises generally invest their profits to achieve their organisation's mission (see Figure 10).

**Figure 10: Respondent organisations' understanding of social enterprise**

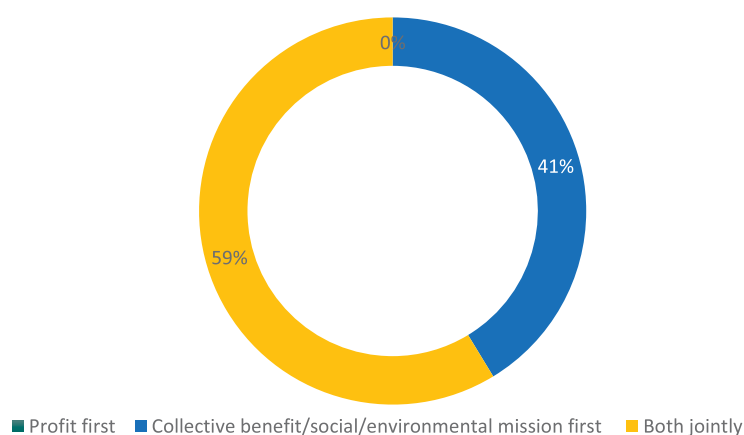




A total of 41 per cent of the respondents reported that their organisation's primary mission is to deliver a collective social or environmental impact, and the remaining 59 per cent majority reported having a mission

that gives equal emphasis to social impact and financial benefit (see Figure 11). It is worth noting that participating entrepreneurs may not have wanted to emphasise their financial focus in this context.

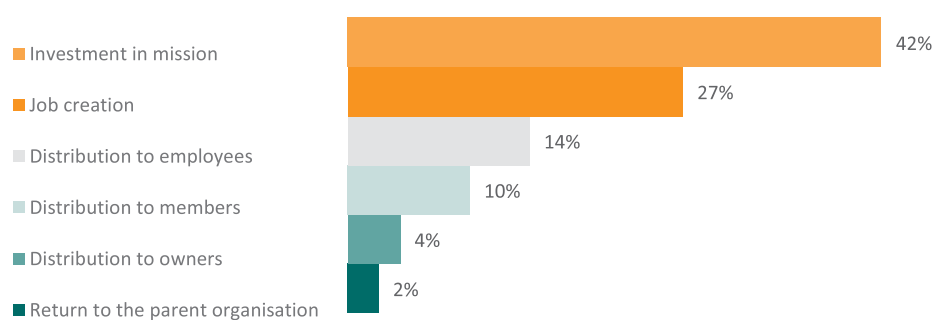
**Figure 11: Mission and focus of respondent organisations**



Respondent social enterprises were asked how they use their profit/surplus, with 42 per cent stating that profits are invested in their organisation's mission, and 27 per cent reporting

that profits are used to support job creation. Some social enterprises share profits with employees (14 per cent) and members (10 per cent), while a small minority (four per cent) return profit to the social enterprise owner (see Figure 12).

**Figure 12: Respondent organisations' use of profit/surplus**

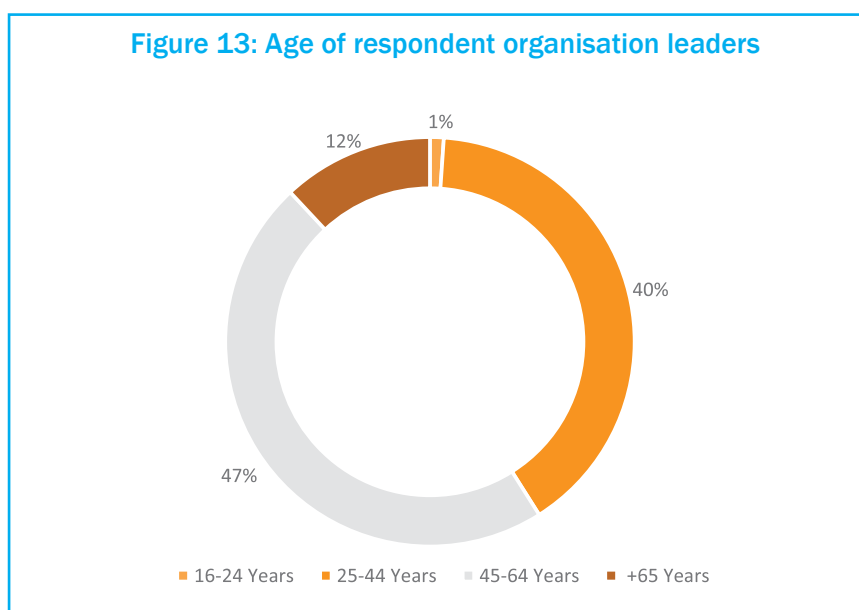


## Social enterprise leadership

The leaders of social enterprises in Sri Lanka are most commonly aged between 45 and 64 (47 per cent). Only four of the respondent social enterprises are led by people aged between 16 and 24, while 40 per cent of social enterprises are led by young people aged between 25 and 44 (see Figure 13). Further analysis shows that 51 per

cent of the social enterprises started after 2000 were founded or led by those in the 25 to 44 age group. These results are in line with previous studies on the characteristics of Sri Lankan start-ups and the owners of small businesses. A study by SLASSCOM<sup>38</sup> found that 75 per cent of start-up entrepreneurs were aged between 20 and 35, while another study<sup>39</sup> revealed that 58 per cent of small business owners are aged between 20 and 40.

Figure 13: Age of respondent organisation leaders



The survey found that 69 per cent of respondent social enterprises are led by men and 31 per cent by women (see Figure 14). Men also outnumbered women in leadership roles (senior management positions), with 64 per cent and 36 per cent, respectively. Yet the respondent social

enterprises have a higher proportion of women in senior leadership positions than mainstream businesses. According to national SME statistics, 25 per cent of businesses are run by women (26 per cent in rural areas and 22 per cent in urban areas).

<sup>38</sup> SLASSCOM (2016) Country Overview of the Start-up Ecosystem in Sri Lanka, Survey Report, Sri Lanka Association of Software and Service Companies

<sup>39</sup> Nishanthi, M.H. (2014) Analysis of Entrepreneurial traits of the Small Business owners in Sri Lanka, in International Journal of Scientific and Research Publications, Volume 4, Issue 10, October 2014

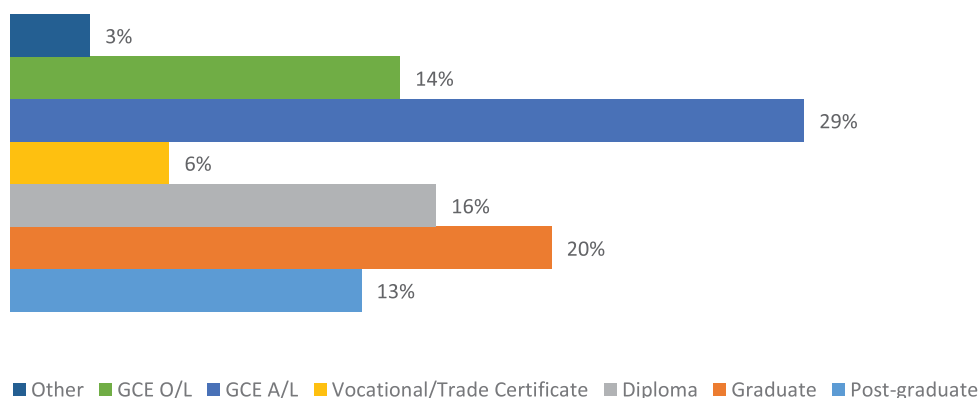
**Figure 14: Gender of respondent organisation leaders**



Regarding the educational levels of social enterprise leaders, close to half of the respondent organisations (48 per cent) reported that their leaders have attained higher educational qualifications (diploma, degrees and postgraduate degrees). Around 40 per cent have completed secondary education as their highest qualification (see Figure 15). These results suggest that social enterprises leaders may have more extensive formal education than SME

leaders more widely. For example, the Wijetunge and Pushpakumari<sup>40</sup> (undated) study on 200 SME owners found that 25 per cent had GCE advanced level qualifications, 25 per cent were university graduates, 23 per cent held either a certificate or diploma, and three per cent percent had obtained a postgraduate qualification. Another study on a cohort of SME owners found that the owner's education level has a direct impact on the business's growth<sup>41</sup>.

**Figure 15: Educational level of respondent organisation leaders**



<sup>40</sup> Wijetunge, W.S. and M.D.Pushpakanthi (undated) Entrepreneurial Orientation and Business Performance of Small and Medium Scale Enterprises of Western province of Sri Lanka, Department of Business Administration, Faculty of Management Studies and Commerce, University of Sri Jayewardenepura, Sri Lanka

<sup>41</sup> Amaradiwakara, A.U. and M.M.Gunatilake (2016) Factors Affecting Growth of Small and Medium Enterprises in Sri Lanka in Journal of Business & Economic Policy Vol. 3, No. 4; December 2016.

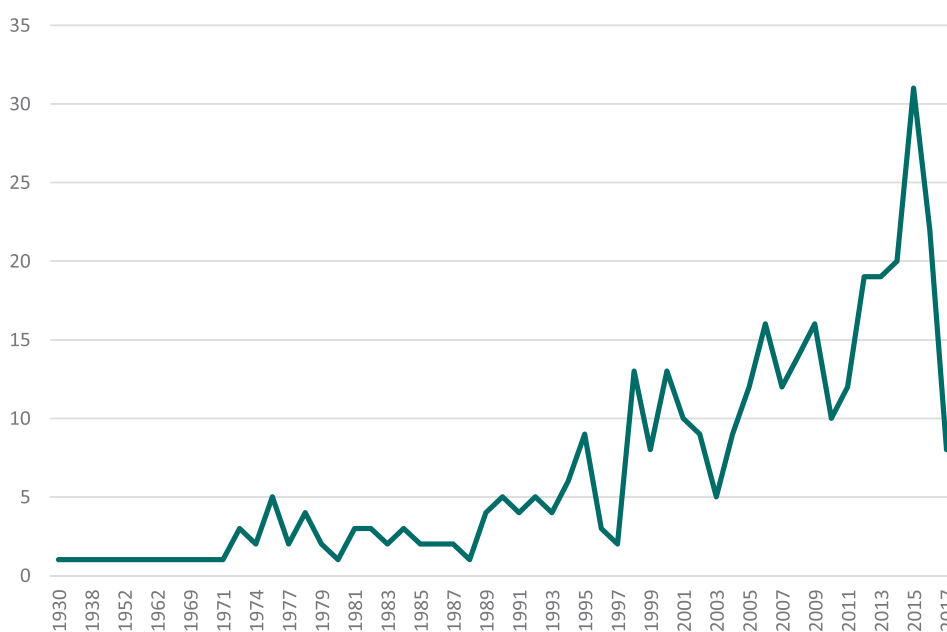
## Years of operation

The social enterprise sector is growing. As Figure 16 shows, the oldest organisation surveyed was founded in 1930. Some 31 organisations, representing eight per cent of respondents, were started in 2015. Many of the respondent organisations founded before 2000 are co-operatives or societies and charities engaged in income generating activities. The findings show that the number of formally constituted social enterprises increased rapidly between 2000 and 2010. The figure for 2017 is lower, as the survey was conducted during that year.

There are many possible reasons for the rapid increase of social enterprises from 2000

onwards. Government welfare schemes such as Janasaviya and Samurdhi target poverty reduction and provided grants for start-ups. There were also programmes, such as the Vidatha centres that were set up across the country, that provided training on agricultural processing and manufacturing technologies that also encouraged start-ups. In addition, in the aftermath of both the 2004 tsunami and the civil war, international NGOs developed programmes to provide financial and in-kind support for MSMEs. The exit strategies of some INGOs also encouraged the creation of social enterprises by providing necessary financial and non-financial support to develop income generating activities.

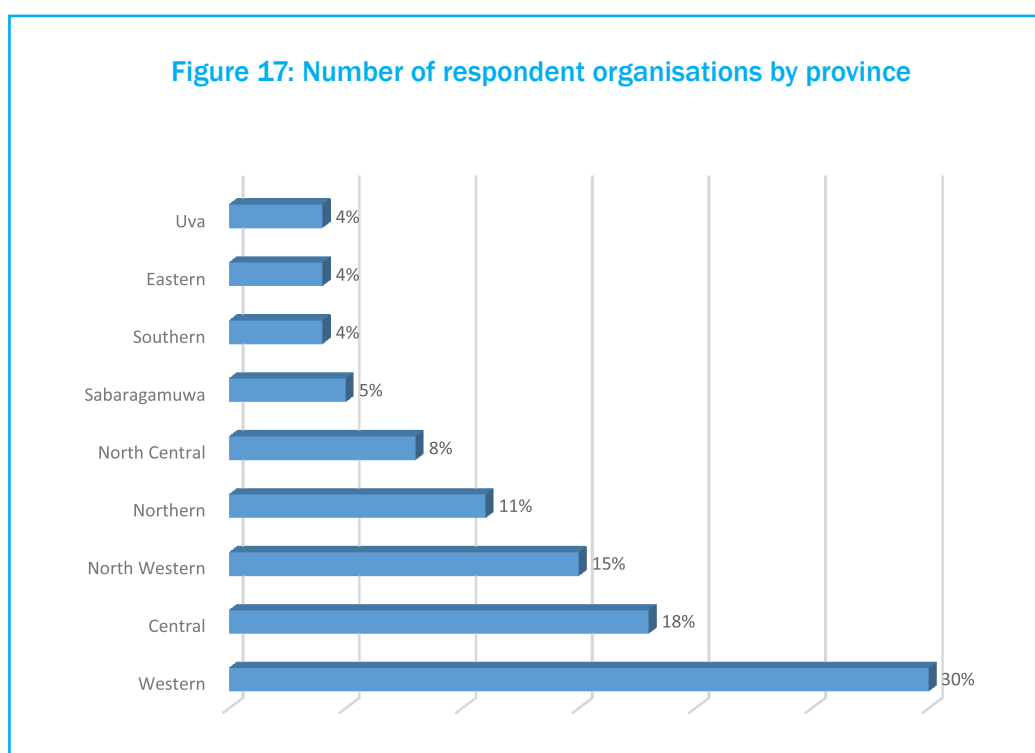
Figure 16: Start-up year of respondent organisations



## Location: where are respondents based and operating?

As Figure 17 shows, many social enterprises are based in the Western (30 per cent) and Central

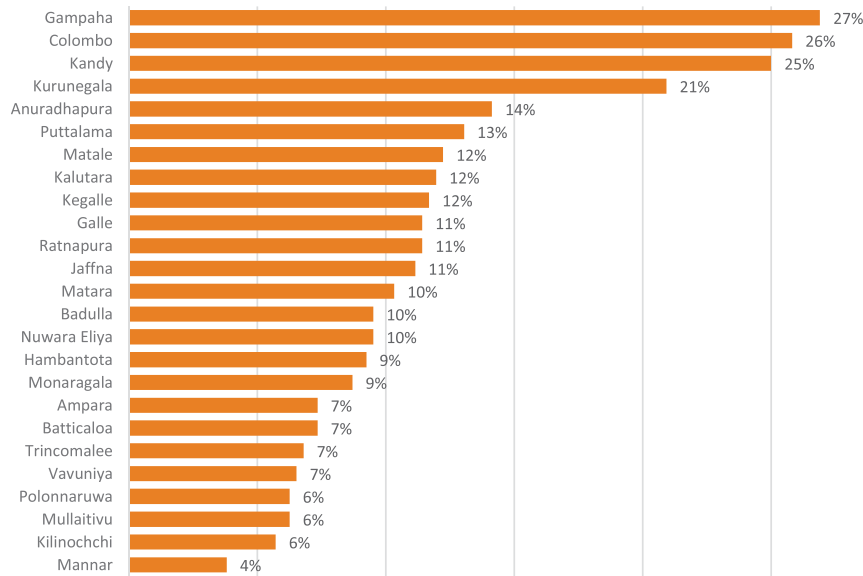
(18 per cent) province. There are fewer in the Southern, Eastern and Uva provinces (4 per cent in each).



When respondents were asked about the geographical spread of their operations, the Gampaha district, in the Western province, sees most activity, with 27 per cent of organisations conducting activities there. This is followed closely by Colombo (26 per cent) and Kandy (25 per cent).

As shown in Figure 18, lower levels of social enterprise activity can be found in suburbs and rural areas, particularly in the North (Mannar: 4 per cent, Kilinochchi: 6 per cent, Mullaitivu: 6 per cent and Vavuniya: 7 per cent), North Central (Polonnaruwa: 6 per cent), and East (Trincomalee: 7 per cent, Batticaloa: 7 per cent, Ampara: 7 per cent).

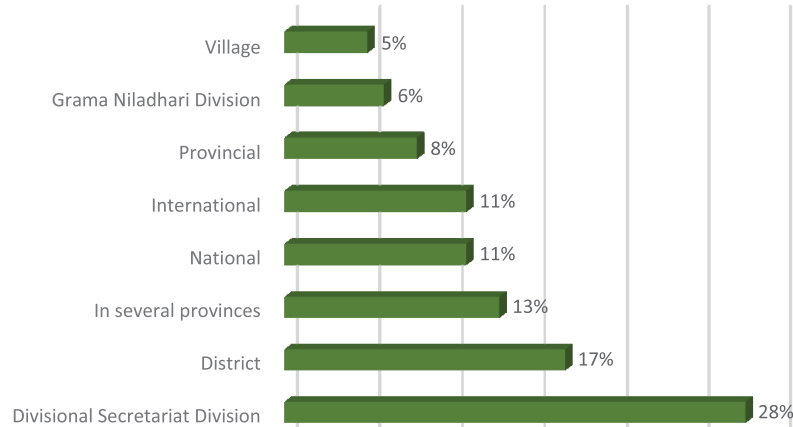
**Figure 18: Respondent organisations' operations by district**



A relatively large number of respondent social enterprises predominantly operate at a sub-national level, mainly at the Divisional Secretariat level (28 per cent). Around 11 per cent work at the national level, and another 11 per cent operate internationally. Additionally, eight per

cent work at the provincial level, while 13 per cent work across several provinces. What is more, five per cent work at the village level and six per cent work at the Grama Niladhari (Village Officer) level (see Figure 19).

**Figure 19: Reach of respondent organisations**





## Characteristics of organisations

As is the case in many other countries, there is presently no distinct legal form or mechanism by which companies can register themselves as social enterprises. According to the data presented in Table 10, sole proprietorship is the preferred legal form for 32 per cent of survey respondents<sup>42</sup>, while four per cent of organisations are not formally constituted. The least common legal

form used by social enterprises are trusts and public limited companies (one per cent). Smaller organisations prefer to adopt less cumbersome legal forms such as sole proprietorship and association or society, mainly due to the low registration cost (government registration fees and legal fees) and simple reporting procedures. Many for-profit or income generating entities are more likely to register as limited companies or co-operatives, particularly in view of formal fundraising and business transactions.

**Table 10: Legal status of respondent organisations**

	Number	Percentage
Sole proprietorship	114	32%
Association or society	84	23%
Private limited company	60	17%
Co-operative society limited	46	13%
Partnership	15	4%
Limited by guarantee company	14	4%
Not formerly constituted	14	4%
State owned enterprise	7	2%
Public limited company	3	1%
Trust	2	1%
Other (specify)	0	0%

## Objectives and functions

Survey participants were asked about their key objectives, and they were given the option of providing multiple answers. The most commonly reported objective, chosen by 77 per cent of respondents, is creating employment opportunities (including for members). The second most common objective, cited by 70 per cent of respondents, is improving a particular community, while providing access to

quality products or services and protecting the environment are also common objectives. Fewer organisations focus specifically on discrete social problems, such as the provision of affordable housing, fighting social inequalities, supporting vulnerable women and young people, and promoting education and literacy (see Table 11).

<sup>42</sup> According to World Bank, sole proprietorship is the most commonly used among all businesses (Sri Lanka Country Profile, 2011).

**Table 11: Key objectives of respondent organisations**

Objective	Number	Percentage
Creating employment opportunities (including for members)	284	77%
Improving a particular community	258	70%
Providing access to quality products or services	199	54%
Protecting the environment	196	53%
Supporting vulnerable people	117	32%
Improving health and wellbeing	135	37%
Supporting women and girls/gender equality	105	29%
Promoting education and literacy	69	19%
Promoting societal change	55	15%
Supporting vulnerable children and young people	54	15%
Fighting inequalities	45	12%
Addressing financial exclusion	43	12%
Promoting another model for work	35	10%
Supporting other social and solidarity economy organisations	30	8%
Providing affordable housing	7	2%
Other (specify)	1	0%

Respondent organisations operate across three key sectors: manufacturing (36 per cent), agriculture (22 per cent) and culture and creative

industries (13 per cent). No social enterprise reported working in the housing, transport, childcare, construction, business support/consultancy or workspace sectors (see Table 12).

**Table 12: Focus sectors of respondent organisations**

Sector	Respondents (%)
Manufacturing	36%
Agriculture	22%
Culture and creative industries	13%
Environmental — recycling, reuse, awareness	4%
Health care	4%
Services	4%
Education	3%
Fisheries	3%
Energy and water	3%
Financial support and services	2%
Retail/wholesale trading	2%
Hospitality, tourism and leisure	1%
Employment and skills	1%
Social care	1%
Housing	0%
Workspace	0%
Business support/consultancy	0%
Childcare	0%
Transport	0%
Construction	0%
Other (please specify)	0%

The majority of the social enterprises surveyed (62 per cent) maintained strong links with external organisations and networks at the local (51 per cent), national (31 per cent) and international levels (nine per cent) — multiple responses were allowed. The responses show that social enterprises operating at a national level are less likely to network with public bodies, while those operating at a regional or rural level have better links with the public and voluntary sectors.

## Social impact

Over a third (69.3 per cent) of survey respondents state that they measure their impact, although many admit that they do not have a system in place to capture the impact of their work.

Yet 46 per cent report that they do use external evaluation processes, while 49 per cent use internal assessment systems. Organisations linked to national and international organisations are more likely to use external assessment systems, while many others didn't demonstrate a common understanding of what is meant by impact measurement.

The study participants have a diverse customer base, from the village level to international markets. Among them, 23 per cent and 18 per cent catered to customers within their own district and Divisional Secretariat levels

respectively. Some 17 per cent report having customers from multiple provinces, while 15 per cent operate nationally, and 13 per cent operate at an international level (see Table 13). The majority of those operating internationally are private companies and producer organisations supported by INGOs.

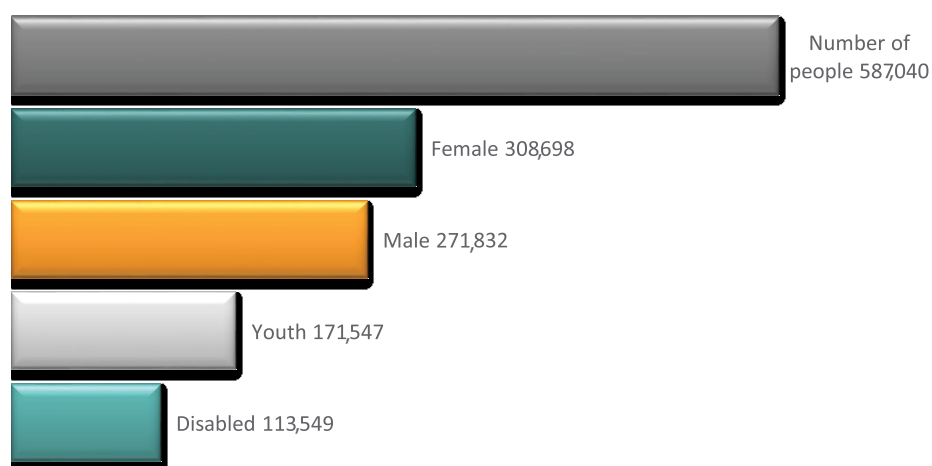
**Table 13: Customer bases of respondent organisations**

Type	Number	Percentage
Village	10	3%
Grama Niladhari division	21	5%
Divisional Secretariat division	66	18%
District	85	23%
Provincial	21	6%
Across several provinces	62	17%
National	54	15%
International	49	13%

As the data shows, the organisations surveyed have together reached over 587,000 people across the country. Just over half of these beneficiaries are women (52 per cent), and a

significant number of young people (29 per cent) and disabled people (19 per cent) have also benefited from the work of social enterprises (see Figure 21).

**Figure 21: People reached by respondent organisations**



As shown in Table 14, 70 per cent of respondents supported women as their primary group of beneficiaries, while 61 per cent target poor and low-income people. Furthermore, 53 per cent of respondents report that their beneficiaries are the long-term unemployed people, while 45 per cent support young people.

There are very few social enterprises that explicitly support the most vulnerable segments

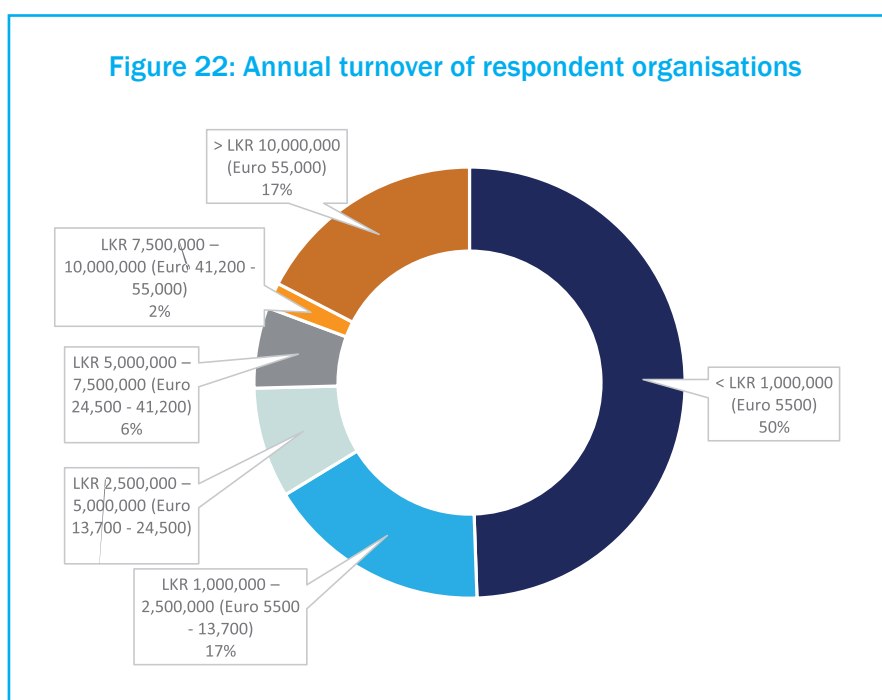
in society (e.g. the homeless, domestic violence victims, people coming out of offending, drug addicts, young people with delinquencies, and returning migrants). The reasons behind this include the social stigma often attached to vulnerable groups, a lack of expertise in dealing with vulnerable groups, and the fact that many religious groups and some local NGOs conduct their own rehabilitation programmes focusing on such groups.

<b>Table 14: Target beneficiary groups of respondent organisations</b>		
Type	Number	Percentage
Women	258	70%
Poor and low-income people	224	61%
Long-term unemployed	196	53%
Young people	164	45%
Older people	86	23%
Individuals with a physical disability	68	18%
Children	56	15%
Conflict affected people	36	10%
Individuals with a learning or mental disability	38	10%
Homeless/coming out of homelessness	17	5%
Domestic violence victims	18	5%
People coming out of offending	14	4%
Refugees and asylum-seekers	13	4%
Returning migrants	10	3%
Drug addicts	9	2%

## Financial performance, growth plans and barriers

As part of the survey, 362 social enterprises reported information on their financial turnover. Among the respondents, 49 per cent reported having a turnover of below Rs.1 million (£5,000); 17 per cent reported having a turnover of

between Rs.1 million (£5,000) and Rs.2.5 million (£12,000); and 17.4 per cent had turnover exceeding Rs.10 million (£50,000) (see Figure 22).



Participants were asked about their profitability over the past year, with 70 per cent reported having made a profit or surplus, 20 per cent reported breaking even, and just four per cent reported having made a loss. Surprisingly, some respondents (six per cent) reported that they were unaware of whether they had made profits or not.

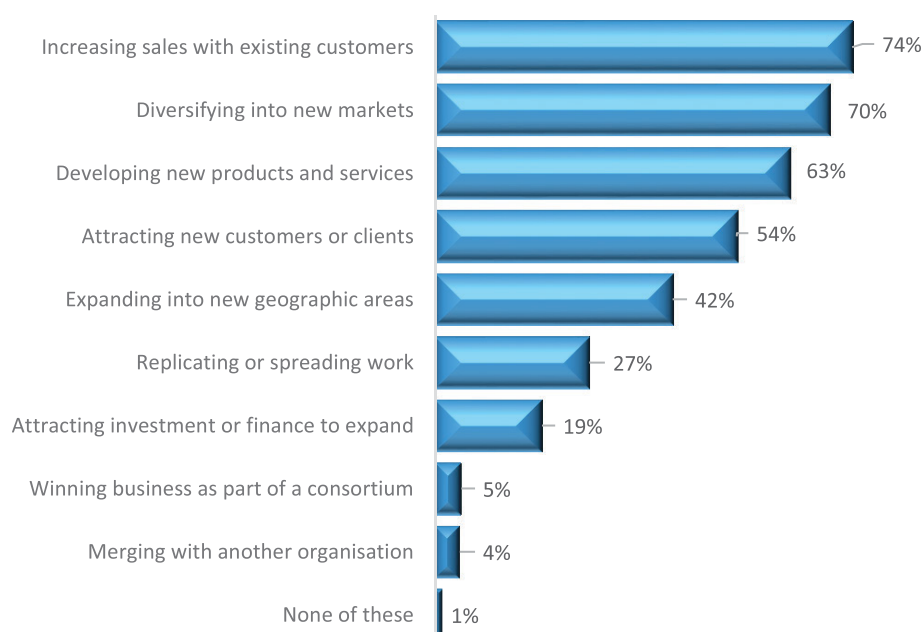
Social enterprises in Sri Lanka are confident and forward looking. Expectations for turnover growth over the next year are high, with 84 per cent of respondents expecting their turnover to increase substantially over the next year. Only five per cent project a decrease in turnover, while 11 per cent expect their turnover to remain the same.



An extremely high 95 per cent of participants say they have plans for growth, with the most common plan being to increase sales with existing customers (74 per cent). The least popular strategies are winning business as part of a consortium and merging with another organisation. Approximately 70 per cent of

respondents are interested in diversifying into new markets, while 63 per cent plan to develop new products and services. Other popular growth strategies are attracting new customers or clients (54 per cent), and expanding into new geographical areas (42 per cent) (see Figure 23).

**Figure 23: Growth plans of respondent organisations**

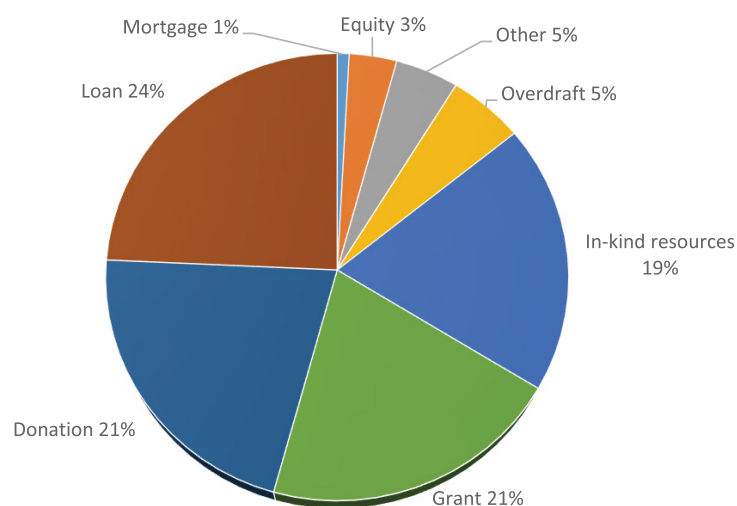


## Sources of funding and finance

The majority of the social enterprises taking part in the survey have drawn upon external funding sources in their business ventures, with 24 per cent having accessed loans and 21 per cent having received donations. Another 21 per cent

report having received grants in the last year. Just one per cent have taken out a mortgage (see Figure 24). Limited liability companies and co-operatives are more likely to have used formal credit, while non-profit entities are more likely to have received donations or grants (see Table 15). There are very few examples of hybrids or subsidiaries bringing in revenue.

**Figure 24: External funding sources accessed by respondent organisations**

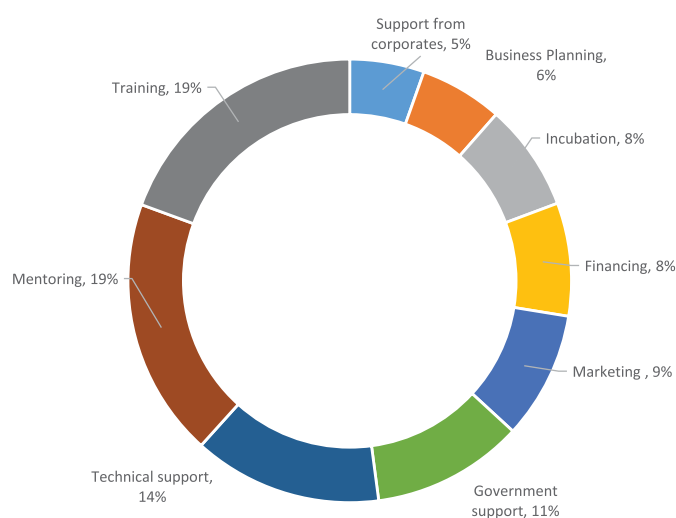


## External support

A total of 278 respondents (76 per cent) have received various forms of support from external service providers, the most common of which are training, mentoring and technical support services. Support from the corporate sector,

advice on developing and implementing business plans, and incubation services are the least common forms of assistance received (see Figure 25).

**Figure 25: External support services accessed by respondent organisations**



## Barriers to growth

The issues and constraints faced by social enterprises are largely no different from those being faced by SMEs and corporates, with the most common barriers being obtaining finance

(50 per cent) and obtaining grants (39 per cent). Other common barriers to growth are government regulations and administrative burdens, a lack of awareness of social enterprise in Sri Lanka and a shortage of business skills (see Figure 26)<sup>43</sup>.

<sup>43</sup> The World Economic Forum's Global Competitiveness Report rates the most challenging factors in doing business in countries around the world. In the 2016-17 report the key issues highlighted in Sri Lanka were policy instability, access to financing, inefficient government bureaucracy, tax rates, tax irregularities, inadequate supply of infrastructure, inflation, attitudes to work, corruption and insufficient capacity to innovate.

**Figure 26: Barriers to growth faced by respondent organisations**

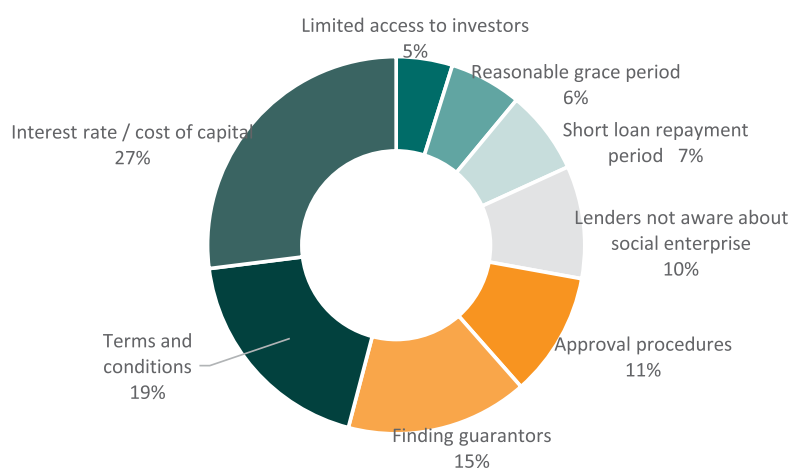


## Financial constraints

Access to finance is the main barrier facing social enterprises in Sri Lanka. Many social enterprises operate with low profit margins and do not possess bankable assets, which makes obtaining finance a challenge. Survey participants state

that the most common financial constraint is the available interest rate or cost of capital (27 per cent), with terms and conditions and finding guarantors also being major financial constraints (19 and 16 per cent respectively) (see Figure 27).

**Figure 27: Financial constraints faced by respondent organisations**



# Conclusion and Recommendations

A striking revelation of this study is the high level of youth involvement and youth leadership in social enterprise. Indeed, 51 per cent of social enterprises started after 2000 were founded by or are led by young people aged between 25 and 44. This is quite significant in light of the widespread criticism of the lack of youth entrepreneurship in Sri Lanka.

Sri Lanka's social enterprise sector also has a higher proportion of female leaders than mainstream business. While the majority of traditional enterprises in Sri Lanka are still led by men, social enterprises may represent an important outlet for female entrepreneurs, and understanding this phenomenon in more detail could help support wider gender equality.

Social enterprises tend to be clustered in the Western and Central provinces and are less common in other provinces. This may be due to the availability of facilities and access to support services and networks in the Western and Central provinces. Many of the enterprises headquartered in the Colombo district also operate in other provinces.

Almost half of the respondents report having a turnover of less than Rs.1 million, and a low number generate a turnover of more than Rs.10 million. The most significant challenges to growth include securing finance and obtaining grants, followed by government regulations and administrative burdens. High interest rates are the biggest constraint when it comes to obtaining financial support.

Despite challenges, there has been a spike of social enterprise start-ups over the last five years. This upward trend should be leveraged to improve the social enterprise ecosystem and provide more necessary support services.

These findings from the basis of the following policy recommendations for the government and key sector support organisations:

- Recognise social enterprises as a key economic driver at the policy level, and include them in the government's economic development agenda.
- Develop policies and support interventions specifically for social enterprises and other businesses set up to address social and environmental issues. Recognise social enterprises and businesses set up to address social and environmental issues at the policy level:
  - o The government could establish formal responsibility for social enterprise at the ministerial level (under the Ministry of Industry and Commerce or Ministry of Finance, for example).
  - o The government could recognise and support an ongoing social enterprise support programme that profiles, promotes, educates and informs the wider public about social enterprise, in order to develop a deeper awareness of the role of social enterprise and to facilitate collaborative opportunities with the sector.

- o Expand the capacity and access to existing enterprise development services delivered by various ministries, government agencies and provincial councils to enhance business support for, and the investment readiness of, social enterprises. This should be coupled with awareness-raising efforts for government officials and encouragement for collaborative programmes across ministries and agencies.
- Build a more supportive regulatory framework, giving social enterprises a greater degree of flexibility to pursue social business models that generate both social and financial return:
  - o The government could create an explicit legal and regulator framework that recognises social enterprises as a unique legal entity and helps to protect their social purpose. The current system forces social enterprises to choose between models that are more appropriate for raising private investor finance on the one hand, or which demonstrate a commitment to social purpose on the other.
  - o The government could introduce a special legal provision to register or recognise/identify social enterprises in Sri Lanka. These laws can take inspiration from the Community Interest Company model in the United Kingdom and may involve simple adjustments to existing company law and Inland Revenue provision for tax concession.
- o Expand the provision of legal aid to include social enterprises in their start-up phase, or introduce a separate free or subsidised legal assistance programme for new social enterprises.
- Create easy access to markets and capital in order to increase the supply of finance and initiatives to facilitate access to markets:
  - o More appropriate funding options for social enterprises of various sizes and growth stages, potentially including small-scale seedcorn grants and no interest loans.
  - o Grants and concessionary loans through state and private banks taking into account the problems for social enterprises in providing collateral thus limiting their ability to create impact.
  - o Government bank guarantees for social enterprises without financial track records and/or sufficient collateral required by lending institutions.
  - o Mechanisms for increased private and philanthropic investment in social enterprise to increase social enterprises' access to capital and/or to lower core costs, such as premises and insurance.



- Establish a central web-based hub to provide information about social enterprise in Sri Lanka, networking opportunities for Sri Lankan social entrepreneurs, and links to learning resources, networks and support organisations in Sri Lanka and overseas.
- Develop a targeted development programme for Sri Lankan social enterprises, responding to the identified need for hands-on assistance and networking, particularly in the early stages of starting a social enterprise.
- Develop and intergrate an appropriate system for measuring and managing the impact of social enterprises, and increase the wider awareness of this system among relevant government agencies and businesses.
- Foster awareness of social enterprise in schools through the curriculum and career guidance with emphasis on starting social enterprises.
- Encourage and facilitate the private sector to work with social enterprises in supply chains and partnerships and through investments.

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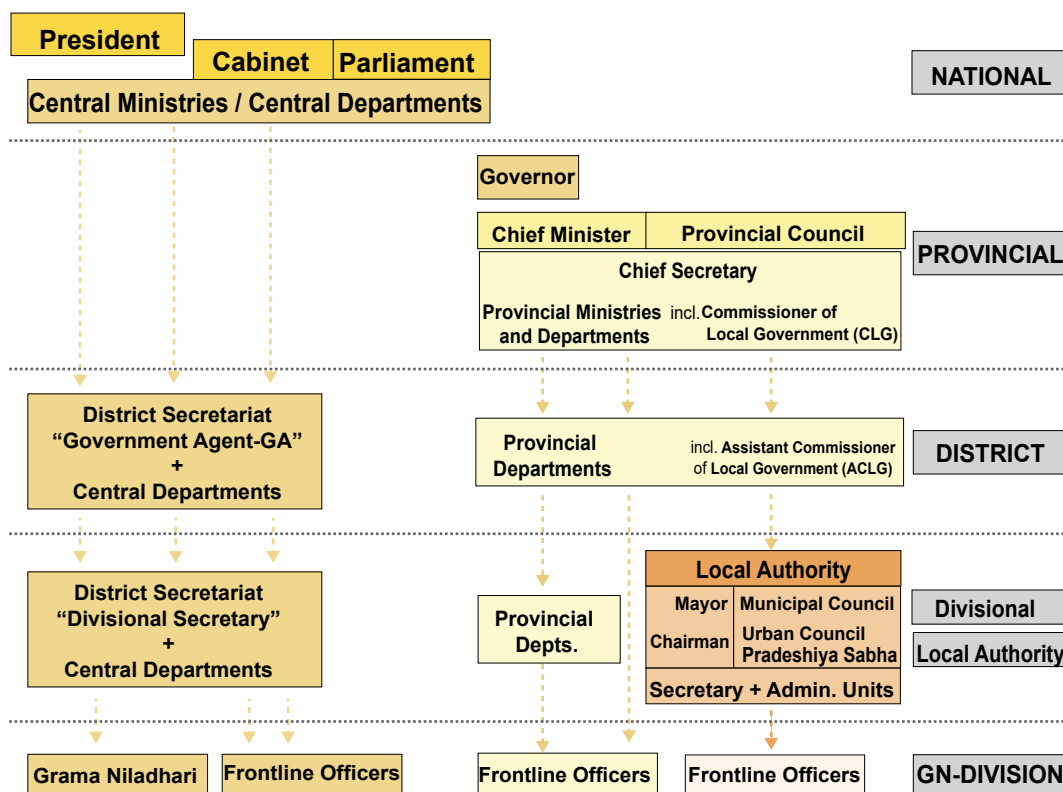
# Annex 1: The National Policy Framework for SME Development

The National Policy Framework for SME Development of Sri Lanka recognises SMEs as the backbone of the economy, as SMEs account for more than 75 per cent of the total number of enterprises, provides 45 per cent of the employment and contributes to 52 per cent of the Gross Domestic Production. The government has assigned a high priority to the SME sector.

The SME policy focuses on the following aspects:

- Promoting high-potential, viable and promising sectors.
- A cluster approach for SME Development to support and promote the entire value chain, from input supply to processing and export w.
- Promoting enterprises with high value added and encouraging enterprises using local raw materials, as they offer strong comparative advantages.
- Motivating and encouraging export-oriented or import-substitution enterprises and industries.
- Encouraging and promoting flagship SME sectors with high potential spillover effects, to facilitate job creation or employment generation.
- Promotion and relocation of industries in the less developed regions to reduce urban-rural imbalances.
- Transforming the landscape of SMEs, away from mere trade and commerce, towards production and manufacturing, with a special focus on high value added, innovation and the use of modern technology.
- Strengthening the SME sector in order to enhance inclusive economic development and thus provide opportunities for better employment and higher incomes.
- Achieving regionally balanced growth across Sri Lanka.
- Promoting resource efficiency at all levels including the use of green technology.

# Annex 2: Government of Sri Lanka administrative government structure



Source: German Society for International Cooperation supported Performance Improvement Project-PIP, Sri Lanka

# Annex 3: Interviewees and consultation workshop participants

## Outreach events and workshops

Prior to the start of the survey, a stakeholder consultation session was held in January 2017, in Colombo. Twenty people attended, representing the public, non-governmental, private, social enterprise and banking sectors, and was moderated by the British Council. The discussion focused on questionnaire design and identifying social enterprise data sources and key actors/stakeholders.

A second consultation session was conducted in May 2017 to discuss the questionnaire and methodology and to seek assistance from stakeholders for data collection. Around 15 participants attended the session. A representative from SEUK moderated the session.

## Key stakeholders/key informants interviewed

Role/name	Organisation
<b>Additional Secretary</b>	Ministry of National Policies and Economic Affairs
<b>Chairman &amp; Director General</b>	National Enterprise Development Authority
<b>Director</b>	National Enterprise Development Authority
	Department of Co-operative Development
	NGO Secretariat
<b>Director</b>	Good Market
	Lanka Impact Investing Network
<b>Prof. Sarath Dassanayake</b>	Department of Management of Technology, University of Moratuwa
<b>Assistant Governor</b>	Central Bank of Sri Lanka

# Annex 4: Survey questions

## PART 1- Basic information about the organisation

What is the name of your organisation?

In what year did your organisation begin operating? \_\_\_\_\_

In which Province and District does your organisation have its headquarters?

[Note: Single response allowed tick the district]

Province	Response (✓)	Districts	Response (✓)
North		Jaffna	
		Killinochchi	
		Mullativu	
		Mannar	
		Vauniya	
North Central		Anuradhapura	
		Pollonnaruwa	
North Western		Puttalam	
		Kurunegala	
Central		Matale	
		Kandy	
		Nuwara Eliya	
Uva		Badulla	
		Moneragala	
Sabaragamuwa		Kegalle	
		Ratnapura	
Eastern		Trincomalle	
		Batticalloa	
		Ampara	
Southern		Hambantota	
		Matara	
		Galle	
Western		Gampaha	
		Colombo	
		Kalutara	

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In which area/s does your organisation operate? [Note: Multiple responses allowed tick the districts]

Province	Response (✓)	Districts	Response (✓)
North		Jaffna	
		Killinochchi	
		Mullativu	
		Mannar	
		Vauniya	
North Central		Anuradhapura	
		Pollonnaruwa	
North Western		Puttalam	
		Kurunegala	
Central		Matale	
		Kandy	
		Nuwara Eliya	
Uva		Badulla	
		Moneragala	
Sabaragamuwa		Kegalle	
		Ratnapura	
Eastern		Trincomalle	
		Batticalloa	
		Ampara	
Southern		Hambantota	
		Matara	
		Galle	
Western		Gampaha	
		Colombo	
		Kalutara	

## PART 2: Activities and Characteristics

What is the widest geographical area across which your organisation operates? [Make a tick (✓). Only single response]

Village <input type="checkbox"/>	Gramaniladhai Division <input type="checkbox"/>
Divisional Secretariat Division <input type="checkbox"/>	District <input type="checkbox"/>
Provincial <input type="checkbox"/>	In several provinces <input type="checkbox"/>
National <input type="checkbox"/>	International <input type="checkbox"/>

How would you describe your organisation? [Tick (✓) as many as you like]

Social enterprise	<input type="checkbox"/>
Co-operative	<input type="checkbox"/>
Private enterprise	<input type="checkbox"/>
Society or Association	<input type="checkbox"/>
Community/farmer organisation	<input type="checkbox"/>
Non-Governmental Organisation / Voluntary Organisation	<input type="checkbox"/>
Other [specify]	<input type="checkbox"/>

Have you heard of the concept of 'social enterprise'?

Yes ☐ No ☐

For you, what are the defining characteristics of 'social enterprise'? [Multiple responses allowed / Tick (✓) all that apply]

Have a clear mission on social and/or environmental activities	<input type="checkbox"/>
Majority controlled in the interests of the social mission	<input type="checkbox"/>
Generate much of their income through trade	<input type="checkbox"/>
Direct most of their profits to a social mission	<input type="checkbox"/>
Direct all profits to a social mission	<input type="checkbox"/>
Autonomous of the state	<input type="checkbox"/>
Accountable and transparent	<input type="checkbox"/>
Participative or democratic governance	<input type="checkbox"/>

Is your organisation a subsidiary of another?

Yes ☐ No ☐

As what legal form is your organisation registered? [Note: Single responses allowed / Tick (✓) only one that apply]

Sole proprietorship	<input type="checkbox"/>
Partnership	<input type="checkbox"/>
Private Limited Company	<input type="checkbox"/>
Limited by Guarantee Company	<input type="checkbox"/>
Public Limited Company	<input type="checkbox"/>
Co-operative	<input type="checkbox"/>
Association or Society	<input type="checkbox"/>
Trust	<input type="checkbox"/>
State owned enterprise	<input type="checkbox"/>
Other (Specify)	<input type="checkbox"/>

What are your organisation's overall objectives? [Note: Multiple response: Tick (✓) all that are applicable]

Improving a particular community	<input type="checkbox"/>
Creating employment opportunities (including for members)	<input type="checkbox"/>
Supporting vulnerable people	<input type="checkbox"/>
Improving health and wellbeing	<input type="checkbox"/>
Promoting education and literacy	<input type="checkbox"/>
Addressing financial exclusion	<input type="checkbox"/>
Protecting the environment	<input type="checkbox"/>
Supporting women and girls / gender equality	<input type="checkbox"/>
Supporting vulnerable children and young people	<input type="checkbox"/>
Providing affordable housing	<input type="checkbox"/>
Supporting other Social and Solidarity Economy organisations	<input type="checkbox"/>
Providing access to quality products/services	<input type="checkbox"/>
Fighting inequalities	<input type="checkbox"/>
Promoting societal change	<input type="checkbox"/>
Promoting another model for work	<input type="checkbox"/>
Other (Specify)	<input type="checkbox"/>

What is the main sector you operate in? / What is the principal trading activity of your organisation? [Note: Single response only/ Tick (✓) only one that apply]

Manufacturing	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>
Fisheries	<input type="checkbox"/>
Housing	<input type="checkbox"/>
Retail /whole sale trading	<input type="checkbox"/>
Services	<input type="checkbox"/>
Workspace	<input type="checkbox"/>
Business support / consultancy	<input type="checkbox"/>
Childcare	<input type="checkbox"/>
Culture and leisure	<input type="checkbox"/>
Social care	<input type="checkbox"/>
Health care	<input type="checkbox"/>
Hospitality, Trade & Tourism	<input type="checkbox"/>
Employment and skills	<input type="checkbox"/>
Creative industries (Web, design, print)	<input type="checkbox"/>
Financial support and services	<input type="checkbox"/>
Education	<input type="checkbox"/>
Environmental – recycling, reuse, awareness	<input type="checkbox"/>
Transport	<input type="checkbox"/>
Energy	<input type="checkbox"/>
Construction	<input type="checkbox"/>
Other (Please specify)	<input type="checkbox"/>

If 'Creative industry' is ticked: Your business belongs which category [No: Multiple response: Tick (✓) all that are applicable]

Art	<input type="checkbox"/>
Crafts	<input type="checkbox"/>
Fashion	<input type="checkbox"/>
Films	<input type="checkbox"/>
Music	<input type="checkbox"/>
Interior design	<input type="checkbox"/>
Performing Art	<input type="checkbox"/>
Graphic design	<input type="checkbox"/>
Advertising	<input type="checkbox"/>
Food	<input type="checkbox"/>
Publishing	<input type="checkbox"/>
Software/Games/IT	<input type="checkbox"/>
Video & Photography	<input type="checkbox"/>
Other (Please specify)	<input type="checkbox"/>

Does your organisation have national or international certification? (Tick (✓) as many as you like)

Patent	<input type="checkbox"/>
Fair Trade Certification	<input type="checkbox"/>
Organic certification	<input type="checkbox"/>
GMP	<input type="checkbox"/>
HACCAP	<input type="checkbox"/>
ISO	<input type="checkbox"/>
GAP	<input type="checkbox"/>
SLS	<input type="checkbox"/>
Other (Please specify)	<input type="checkbox"/>

Where do most of your customers come from? [Note: Multiple response: Tick (✓) all that are applicable]

Village	<input type="checkbox"/>
Grama Niladhai Division	<input type="checkbox"/>
Divisional Secretariat Division	<input type="checkbox"/>
District	<input type="checkbox"/>
Provincial	<input type="checkbox"/>
Across several provinces	<input type="checkbox"/>
National	<input type="checkbox"/>
International	<input type="checkbox"/>

Are you a member of any local/regional/national associations/networks? Yes ☐ No ☐

If yes, at what level? [Note: Multiple response, Tick (✓) all that are applicable]

Village	<input type="checkbox"/>
Grama Niladhari Division	<input type="checkbox"/>
Divisional Secretariat Division	<input type="checkbox"/>
District	<input type="checkbox"/>
Provincial	<input type="checkbox"/>
Across several provinces	<input type="checkbox"/>
National	<input type="checkbox"/>
International	<input type="checkbox"/>

### PART 3: Economic data

What was your organisation's annual turnover in the previous financial year? [Note:

Tick (✓) Single response only]

< LKR 1,000,000	<input type="checkbox"/>
LKR 1,000,000 – 2,500,000	<input type="checkbox"/>
LKR 2,500,000 – 5,000,000	<input type="checkbox"/>
LKR 5,000,000 – 7,500,000	<input type="checkbox"/>
LKR 7,500,000 – 10,000,000	<input type="checkbox"/>
> LKR 10,000,000	<input type="checkbox"/>

What do you expect to happen to your organisation's turnover next financial year?

[Note: Tick (✓) single response only]

Increase	<input type="checkbox"/>
Decrease	<input type="checkbox"/>
Remain same	<input type="checkbox"/>

In the last year, did you make a profit or surplus? [Note: Tick (✓) single response only]

Made a profit/surplus	<input type="checkbox"/>
Made a loss	<input type="checkbox"/>
Break-even Point	<input type="checkbox"/>
Don't know	<input type="checkbox"/>

How is your profit/surplus used? [Note: Multiple response: Tick (✓) all that are applicable]

Job creation	<input type="checkbox"/>
Investment in mission	<input type="checkbox"/>
Distribution to employees	<input type="checkbox"/>
Distribution to members	<input type="checkbox"/>
Return to the parent organisation	<input type="checkbox"/>
Distribution to owners	<input type="checkbox"/>
Other (Please specify)	<input type="checkbox"/>

#### PART 4: Sources of funding

What forms of finance and funding have you received in the last year? [Note: Multiple response: Tick (✓) all that are applicable]

Grant	<input type="checkbox"/>
Donation	<input type="checkbox"/>
Loan	<input type="checkbox"/>
Equity	<input type="checkbox"/>
Mortgage	<input type="checkbox"/>
Overdraft	<input type="checkbox"/>
In-kind resources	<input type="checkbox"/>
Other	<input type="checkbox"/>

What proportion of your total income came from grants/donations in the last financial year? [Note: Tick (✓) Single response only]

>10%	10% - 30%	30% - 50%	50% - 75%	<75%
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

#### PART 4: Employment & Volunteers

How many paid full time (8 hours per day) employees currently employed?

Total: \_\_\_\_\_ Male: \_\_\_\_\_ Female: \_\_\_\_\_

How many paid part time (less than 8 hours per day) employees currently employed?

Total: \_\_\_\_\_ Male: \_\_\_\_\_ Female: \_\_\_\_\_

How many volunteers? Total: \_\_\_\_\_ Male: \_\_\_\_\_ Female: \_\_\_\_\_

How many disabled people work in your organisation?

Total: \_\_\_\_\_ Male: \_\_\_\_\_ Female: \_\_\_\_\_

#### PART 5: Community/ social and environmental goals

Does your organisation place emphasis on: [Note: Tick (✓) Single response only]

Profit first,	<input type="checkbox"/>
Collective benefit/social/environmental mission first	<input type="checkbox"/>
Both jointly?	<input type="checkbox"/>

Do you consider any of the following groups to benefit directly from your organisation's core business activities? [Note: Multiple response / Tick (✓) all that apply]

Long-term unemployed	<input type="checkbox"/>
Individuals with a physical disability	<input type="checkbox"/>
Individuals with a learning or mental disability	<input type="checkbox"/>
Homeless / coming out of homelessness	<input type="checkbox"/>
People coming out of offending	<input type="checkbox"/>
Refugees and asylum-seekers	<input type="checkbox"/>
Drug addicts	<input type="checkbox"/>
Domestic violence victims	<input type="checkbox"/>
Trafficking victims	<input type="checkbox"/>
Children	<input type="checkbox"/>
Women	<input type="checkbox"/>
Older people	<input type="checkbox"/>
Young People	<input type="checkbox"/>
Poor Low Income people	<input type="checkbox"/>
Conflict Affected People	<input type="checkbox"/>
Disable People	<input type="checkbox"/>
Returning migrants	<input type="checkbox"/>
Other (Please specify)	<input type="checkbox"/>

How many people have you supported in the last 12 months? [Note: Multiple response and give the number]

Number of people	
Male	
Female	
Youth	
Disabled	

How do you measure your social and environmental impact? Yes ☐ No ☐

If yes, How? [Note: Multiple response / Tick (P) all that apply]}

External evaluation	<input type="checkbox"/>
Internal assessment	<input type="checkbox"/>
We don't	<input type="checkbox"/>

#### PART 6: Leadership

How many Board Members does the organisation have?

Total: \_\_\_\_\_ Male: \_\_\_\_\_ Female: \_\_\_\_\_



What is the level of education of the person leading your organisation? [Note: Tick (✓)  
Single response only]

Post-graduate	<input type="checkbox"/>
Graduate	<input type="checkbox"/>
Diploma	<input type="checkbox"/>
Vocational/Trade Certificate	<input type="checkbox"/>
GCE A/L	<input type="checkbox"/>
GCE O/L	<input type="checkbox"/>
None of the above	<input type="checkbox"/>

What is the position / job title of the leading person in charge your organisation?

What is the gender of the person currently in charge of your organisation? [Note: Tick (✓) Single response] Yes ☐ No ☐

In what age range is the person currently in charge of the organisation? [Note: Single response / Tick (✓) that's apply]

15-25 Years	25-35 Years	35-55 Years	55-60 Years	<60 Years
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

#### PART 7: Future planning/expectations

Do you have expectations for growth over the next year? [Note: Single response / Tick (✓) that apply]

Yes	No	Don't Know
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If yes, how does your organisation plan on achieving growth over the next year? [Note: Multiple response: Tick (✓) all that are applicable]

Increasing sales with existing customers	<input type="checkbox"/>
Diversifying into new markets	<input type="checkbox"/>
Expanding into new geographic areas	<input type="checkbox"/>
Developing new products and services	<input type="checkbox"/>
Attracting new customers or clients	<input type="checkbox"/>
Replicating or spreading work	<input type="checkbox"/>
Attracting investment or finance to expand	<input type="checkbox"/>
Merging with another organisation	<input type="checkbox"/>
Winning business as part of a consortium	<input type="checkbox"/>
None of these	<input type="checkbox"/>

What are the major barriers which your organisation faces? [Note: Multiple response: Tick (✓) all that are applicable]

Obtaining grants	<input type="checkbox"/>
Obtaining other forms of finance	<input type="checkbox"/>
Cash flow	<input type="checkbox"/>
Recruiting staff or volunteers	<input type="checkbox"/>
Shortage of business skills	<input type="checkbox"/>
Time pressures	<input type="checkbox"/>
Lack of access to business support and advice	<input type="checkbox"/>
Lack of awareness of social and enterprise in Sri Lanka	<input type="checkbox"/>
Government regulations and administrative burdens	<input type="checkbox"/>
Availability of suitable premises or workspace	<input type="checkbox"/>
Poor commissioning and procurement of public services	<input type="checkbox"/>
Lack of technical Support	<input type="checkbox"/>
Taxation	<input type="checkbox"/>
Business Registration	<input type="checkbox"/>
Other (Please specify)	<input type="checkbox"/>

What are your organisation's top three constraints for accessing external finance? [Note: Multiple response: Tick (✓) any three constraints that are applicable]

Finding Guarantors	<input type="checkbox"/>
Interest rate / cost of capital	<input type="checkbox"/>
Terms and conditions	<input type="checkbox"/>
Approval procedure	<input type="checkbox"/>
Loan period	<input type="checkbox"/>
Grace period	<input type="checkbox"/>
Lack of understanding of nature of the enterprise	<input type="checkbox"/>
Other (Please specify)	<input type="checkbox"/>

Has your organisation benefited from any support programmes? Yes ☐ No ☐

Which kind of support was it? [Note: Multiple response: Tick (✓) all that are applicable]

Mentoring	<input type="checkbox"/>
Incubation	<input type="checkbox"/>
Training	<input type="checkbox"/>
Technical support	<input type="checkbox"/>
Marketing	<input type="checkbox"/>
Business Planning	<input type="checkbox"/>
Support from corporates	<input type="checkbox"/>
Government support	<input type="checkbox"/>
Other (Please specify)	<input type="checkbox"/>

Are you happy for this information to be shared publicly? Yes ☐ No ☐

Contact details - please provide contact details even if you do not want to share them publicly. If you are happy to be contacted again by any of the partners on this project, please provide following information.

**Contact information**

Name:

Position in organisation:

Organisation Address:

Phone Number:

Email:

Website / Social Media:

If you are happy to be contacted again by any of the partners on this project, please indicate here.

Yes ☐ No ☐

**Enumerators information**

Name of the Enumerator:	
Date Survey Conducted:	
Starting time:	
Ending time:	
Signature of the Enumerator:	

## Annex 5: Reporting and caveats

Data from the survey was subjected to second-level analysis, by region, age of organisation, gender of leader, size (by turnover and jobs) and sector. Findings have only been presented where there are significant or interesting distinctions to be drawn through disaggregation.

For the purposes of the study, the term ‘funding’ is used to mean grants, revenue and income, and the term ‘finance’ is used to mean debt, equity, investment and capital.

Survey results have been rounded off to zero decimal places, due to which some figures may not add up to 100 per cent. Some survey questions allow for multiple answers (such as organisations operating in more than one sector or facing multiple barriers), and responses in these cases will add up to more than 100 per cent.

The survey responses are self-declared. Data was not systematically verified with the respondents. However, outlying results and gaps were verified with respondents over the phone. Data on beneficiaries is self-reported and has not been verified. No further definition of ‘beneficiary’ was provided with the survey questions.

It is likely that the survey results contain biases due to the nature of outreach and sampling. It is expected that there is a higher proportion of social enterprises located in cities and with access to networks and a stable Internet connection than is nationally representative. It is also expected that responses are far higher from areas where events and outreach activities were conducted, so, again, the regional spread is not representative.

The estimates of total social enterprise numbers were challenging to compile. Accessing SME and NGO databases did not yield comprehensive results. Moreover, the absence of harmonised terminology to define SMEs was problematic. The samples were also very small and neither random nor representative, and the survey relied on self-reporting.