

Business Development Services as Collaterals for Granting Micro and Small Enterprises – A Case Study in Sri Lanka

A.H.M.S.W.B. Abeyrathne
International Centre for Underutilised
Crops, Colombo, Sri Lanka and
Practical Action, Colombo 5, Sri Lanka
sampath.abeyrathne@practicalaction.org.lk

Jayantha Gunaseekara and Nilantha
Athapattu
Practical Action, Colombo 5, Sri Lanka

J.A.S. Jayasuriya
Enterprises Services Division, Sarvodaya
Economic Enterprises Development
Services (SEEDS), Moratuwa, Sri Lanka

Hannah Jaenicke
International Centre for Underutilised
Crops, Colombo, Sri Lanka

Keywords: micro and small enterprises, credit services, business development service providers

Abstract

Agro processing micro and small enterprises (MSEs) are deemed to bring economic benefits to urban and rural communities. Low start-up rate of new enterprises is a serious issue hampering the growth of this sector. Extended business development services (BDS) are claimed to improve the start-up rate. However, credit issues limit the survival rate. Higher interest rates and requirements for collaterals of micro credit institutes compelled MSEs to deal with more costly informal sector. This study examined how extended business development services are used as collaterals to grant loans for MSEs. We will present an exploratory case study with special reference to novel approaches adopted by Practical Action Sri Lanka (a development NGO) and the International Centre for Underutilised Crops (ICUC). For the purpose of sampling, Kandy, Nuwara Eliya, Galle, Kurunegala, Badulla and Puttalam Districts were considered as the physical boundary of the case study. 35 BDS recipients including 8 group enterprises were surveyed. In depth interviews were conducted with their stakeholders including credit institutes as an important part of this study. Results indicated that, despite the reduced failure risk, the credit institutes are reluctant to accept business development services as collaterals unless the BDS providers directly intervene the loan recovery process. However, credit institutes preferred granting BDS recipients over non-recipients. This knowledge has led to a new project in which Practical Action and ICUC joined hands with a micro credit institute (Sarvodaya Economic Enterprise Development Services) to further examine the effectiveness of BDS as collaterals.