

Sri Lanka
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Chapter 9
Small and Medium Enterprises: Key to Inclusive
Private Sector Development

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9. Small and Medium Enterprises: Key to Inclusive Private Sector Development

9.1 Introduction

The nature and dynamics of inclusive growth in the specific context of private entrepreneurship and SMEs in post-conflict Sri Lanka hinges on two inter-related strands: the process of participatory development and equal opportunity in accessing the benefits of growth.

The analysis in this Chapter pivots on three central constructs. First, policy experience in post-conflict situations around the world suggests that the private sector is one of the most resilient and adaptable institutions for socio-economic reconstruction and revival in the face of systemic shocks.¹ In Sri Lanka, the relative composition of private and public industries as a percentage of the total industrial sector has been 97 and 3, respectively, from 2007-09.² Second, industrial growth still matters for employment generation, competitiveness and inclusive socio-economic development even in services-oriented emerging economies; international experience suggests that a robust industrial policy is in fact essential to realize the full potential of services-led growth.³ These dynamics are particularly relevant to public policy when the pattern of intra-country growth points to significant geographical disparities, as is the case in Sri Lanka.

SMEs play a particularly significant role in enhancing the impact of private sector activity on broader socio-economic development outcomes

Third, cross-country policy research shows that SMEs play a vital role in job creation and socio-economic growth, particularly in low-income countries.⁴ There is no standard definition of an SME in Sri Lanka, with different organizations using varied measures ranging from the number of employees and the magnitude of capital investment to the type of business that a firm

¹ Mac Sweeney, N., 2008, "Private Sector Development in Post-Conflict Countries: A Review of Current Literature and Practice", The Donor Committee for Enterprise Development at: <http://www.enterprise-development.org/page/current-work>.

² CBSL, *Annual Report 2010*.

³ Sulaman, H., and S. Hassan, 2010, "Services-led Industrial Policy for Inclusive Growth and Competitiveness", *Competitiveness Review*, Vol. 20, No. 2.

⁴ See for instance Ayyagari, M., A. Demircuc-Kunt, and V. Maksimovic, 2011, "Small vs. Young Firms across the World: Contribution to Employment, Job Creation, and Growth", Policy Research Working Paper No.5631, World Bank, Washington D.C.

is engaged in. However, a fairly accurate notion of the scope and contribution of the SME sector to the Sri Lankan economy can be gauged from the data published by the DCS. The data for 2008 indicate that industrial establishments are largely concentrated in the Western Province and that around 91 per cent of industries can be classified as SMEs, with these entities accounting for around 26 per cent of total industrial sector employment.⁵ These estimates re-emphasise the importance of bridging regional disparities through the geographical expansion of SMEs and growing SMEs to a level where they are competitive in both domestic and international markets as a key to inclusive private sector development, particularly in the context of post-conflict growth in Sri Lanka.

The rest of this Chapter is organized as follows. Section 9.2 briefly sets out the status quo with respect to the policy objectives and initiatives pertaining to industrialization and the role of the private sector in general, and the SME sector in particular, in post-conflict Sri Lanka. Section 9.3 discusses policy solutions pertaining to identified gaps, addressing key issues including facilitating an enabling institutional environment for private sector participation in post-conflict growth, creating the right incentives to bridge regional disparities in industrialization, and implementing workable strategies to build a competitive SME sector. Section 9.4 revisits the political economy of the reform process, looking at issues such as participatory decision-making, stakeholder dynamics and sustainable policy buy-in. Section 9.5 provides concluding remarks.

9.2 Private Sector Enabling Environment and SME Development

9.2.1 Industrialization and Private Entrepreneurship: Policies, Institutions and Trends

Sri Lanka's industrial sector - defined as including mining and quarrying, manufacturing, electricity, gas and water, and construction - contributes to around 28 per cent of GDP, with the manufacturing sub-sector accounting for around 17 per cent of this total.⁶ The vast growth potential inherent in the industrial sector has been duly recognized by the government's economic policy framework.⁷ With the implementation of strategies and plans to develop the industrial sector,⁸ the aim is to facilitate an average annual industrial growth rate of around 11 per cent and raise the share of this sector to around 40 per cent of GDP by 2020. Whilst achieving this laudable objective will entail significant challenges, they can be met with strategic public policy solutions (as will be discussed later). The spatial pattern of current industrial development in Sri Lanka in terms of the size and geographic spread of industrial entities, reinforces the claim that industrialization is largely concentrated in the Western Province (Table 9.1).

Government policy on the role of the private sector in Sri Lanka's post-conflict growth spells out the need to create a level playing field, where public infrastructure investment is expected to play a key role in providing a supportive environment for private sector economic activity.⁹ The policy thrust on industrial development also emphasises a mixed

⁵ DCS, *Annual Survey of Industries 2008*.

⁶ CBSL, *Annual Report 2010*.

⁷ Department of National Planning, 2006, *Mahinda Chinthana: Vision for a New Sri Lanka: A Ten Year Horizon Development Framework 2006-2016*, Ministry of Finance and Planning.

⁸ Ministry of Industry and Commerce, 2010, *Five Year Plan (2011-2015)*.

⁹ *Ibid.*

Table 9.1
Distribution of Industrial Establishments by Size and Provinces

Industry Size	Small Industries (2003/04) ^a (%)	Medium & Large Industries (2003/04) ^b (%)	Total (%)	No. of Establishments (2008) ^c (%)
Province				
Western	28.1	44.4	29.3	42
North Western	18.8	16.2	18.6	20
Southern	12.0	8.0	11.7	8
Central	10.8	10.8	10.8	12
Sabaragamuwa	10.4	8.0	10.2	6
North Central	5.8	4.3	5.7	4
Eastern	5.8	3.3	5.6	3
Uva	4.4	2.6	4.3	3
Northern	3.8	2.3	3.7	2

Notes: a: Less than 10 employees as classified in the *Census of Industry 2003/04*; b: More than 10 employees as classified in *Census of Industry 2003/04*; c: With 5 or more persons employed as classified in *Annual Survey of Industries 2009*.

Source: Compiled using data from DCS, *Census of Industry 2003/04*, and *Annual Survey of Industries 2009*.

approach, combining both domestic enterprise growth and FDI, underpinned by

"integrating the positive attributes of the free market economy with domestic aspirations in order to ensure a modern and balanced approach where domestic enterprises can be supported while encouraging foreign investment".¹⁰

The literature on the links between FDI flows and inclusive and sustainable industrial development show mixed results.¹¹ FDI as an effective conduit for business knowledge and technology transfer, enhanced firm competitiveness, and access to international markets and global production networks, is associated with specific country conditions - including policies, institutions and the enabling business environment; the nature of the industrial sector - interactions between large and small domestic enterprises; and,

state-market relationships. In short, domestic country conditions are significant in shaping outcomes; and, whilst cross-country findings are useful in developing industrial strategies, blind policy transfer may well produce adverse results.

The debate on the role of and strategies relating to FDI in post-conflict Sri Lanka is an ongoing one. In a nutshell, the status quo pertaining to FDI flows and industrial development is as follows. First, the recovery in FDI flows in post-conflict Sri Lanka has been slow; net inflows stood at US\$ 435 million in 2010, recording an increase of only US\$ 55 million from that of 2009.¹² Second, whilst the manufacturing sector accounted for around 31 per cent of total FDI flows in 2010 (with the textile and apparels, leather products, chemical, coal, petroleum, and plastic products sub-sectors accounting for a majority of this investment), the services

¹⁰ *Ibid.* pp. 68.

¹¹ See for instance: Wade, R., 2010, "After the Crisis: Industrial Policy and the Developmental State in Low-Income Countries", *Global Policy*, Vol. 20, No. 2.

¹² CBSL, *Annual Report 2010*.

sector - led by the telecommunications sub-sector continued to dominate the inflow of investment.

This leads to a number of key policy questions including: a) what needs to be done to increase FDI flows; b) although the broad policy vision is to encourage both local and foreign investment, what is required to ensure that these investments are inclusive - that both the bigger domestic private firms and foreign investors/multi-national corporations (MNCs) have an incentive to forge backward linkages with SMEs; and, c) the extent to which selective intervention in terms of both industrial development and FDI flows is a feasible and sustainable option in Sri Lanka.

9.3 SMEs in Sri Lanka: Policy and Institutional Framework

The aftermath of the global financial crisis of 2008/09 witnessed a renewed interest in SMEs as an engine of inclusive growth in countries around the world. As pointed out earlier, cross-country research indicates that SME development is a key to increased production, job creation and sustainable socio-economic development. As Sri Lanka emerges from a long conflict that has left in its wake serious issues of socio-economic disparities and significant gaps in regional development, the need for SME development has re-surfaced on the country's reform agenda. Debates amongst key stakeholders in Sri Lanka highlight the importance of participatory development - providing the opportunity for all citizens to engage in the process and outcome of socio-economic growth - in terms of post-conflict reconciliation, reconstruction and rehabilitation. Given

the profile of Sri Lanka's industrial sector as set out in Table 9.1, SME development is recognized by the government as a crucial component of the drive to bridge regional disparities and facilitate inclusive growth.

As documented in research on the subject of SMEs in Sri Lanka,¹³ successive policy regimes have developed various strategies and established a number of institutions targeting the SME sector. Whilst a detailed analysis of these initiatives is beyond the scope of this discussion, selected policies and institutions that pertain to impediments to SME development in Sri Lanka will be discussed.

The overarching policy on SMEs at present, suggests a focus on entrepreneurship development, improvements to marketing opportunities - through sub-contracting arrangements - by promoting backward and forward linkages between large scale and foreign enterprises, provision of financial assistance, etc.¹⁴ At present, the institutional framework for industrial policy, including SME development, consists of numerous ministries such as the Ministry of Industry and Commerce, the Ministry of Traditional Industries and Small Enterprise Development, the Ministry of Economic Development, the Ministry of Local Government and Provincial Councils and the Ministry of Finance and Planning. Whilst it could be argued that each of these institutions has its own, unique mandate, in practice, the functions of these entities tend to overlap and send confusing signals to entrepreneurs and investors. Field work suggests that entrepreneurs perceive the absence of a coherent and co-ordinated policy framework to be a significant obstacle to doing business.¹⁵ The transaction costs of a fragmented policy framework - including

¹³ Based on research carried out by the IPS for the Ministry of Industry and Commerce in preparing a National SME Policy.

¹⁴ Ministry of Industry and Commerce, 2010, *Five Year Plan (2011-2015)*; Department of National Planning, 2010, *Sri Lanka: The Emerging Wonder of Asia*, Ministry of Finance and Planning.

¹⁵ Findings emerging from Private-Public Dialogues (PPDs) on local enterprise development constraints conducted by the IPS and The Asia Foundation for a study on 'Local Economic Governance'. PPDs were held in the second half of 2010, with participants from the Central, North Central, Southern, Sabaragamuwa, Eastern, and Northern Provinces.

time spent meeting the bureaucratic requirements of each ministry, and red tape and delays associated with coordinating business plans and getting approvals to set up enterprises with the different ministries - are perceived as high by entrepreneurs.

The powers of the National Enterprise Development Authority (NEDA), established in 2006 and currently functioning under the Ministry of Industry and Commerce, to develop the SME sector and to serve as a one-stop shop for industrialists to network with policy makers appear to be diluted with its mandate being divided amongst other institutions. Policy responsibility pertaining to industrialization and to SME development is now shared amongst the Ministry of Traditional Industries and Small Enterprises Development (the Industrial Development Board and NEDA), the Ministry of Economic Development (BOI and all regional development programmes including district development programmes), the Ministry of Local Government and Provincial Councils (government functions relating to Local Authorities and all matters relating to Provincial Councils), and the Ministry of Finance and Planning (local loans and Development Fund, the co-ordination of public and private sector activities, and the facilitation of the private sector for economic development).¹⁶

The need for a more robust SME policy is also highlighted in recent research findings that compare the strategies set out in the 'National Strategy for SME Sector Development White Paper' of 2002,¹⁷ with those in

the 'Draft SME Policy 2010' developed by NEDA. As illustrated in Figure 9.1, the Draft SME Policy 2010 appears to have both neglected critical strategies and re-invented the wheel with respect to a number of strategies detailed in the White Paper of 2002.

A closer look at public policy trends in Sri Lanka indicates that re-inventing the policy wheel is not confined to a specific sector or associated with any particular political regime. The volumes of reports spanning a wide range of socio-economic issues combined with path dependence in the gaps between policy rhetoric and policy implementation across successive regimes, suggest that the policy reform is often impeded by back-peddling and the lack of political will. The following discussion addresses some critical policy constraints to the development of private entrepreneurship and SME growth in Sri Lanka.

9.4 Towards Inclusive Private Sector Development and SME Growth: Key Policy Challenges

9.4.1 Creating an Enabling Environment for Inclusive Private Sector Growth

The international literature on drivers of private investment in developing economies suggest that governance measures such as voice and accountability, regulatory quality, political stability and control of corruption,¹⁸ as well as ease of doing business measures such as those set out in the 'Doing Business Indicators' developed by the World Bank,¹⁹ have a significant impact on both FDI and

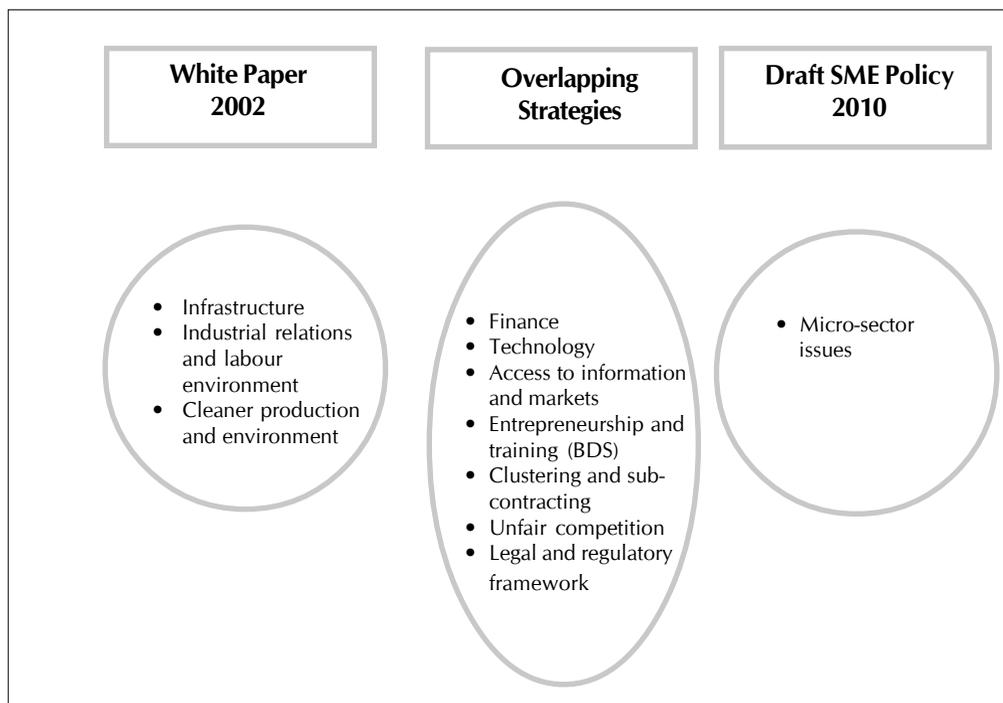
¹⁶ The Gazette of the Democratic Socialist Republic of Sri Lanka Extraordinary, No.1651/20. Friday, April 30, 2010 at: http://www.priu.gov.lk/news_update/Current_Affairs/ca201005/1651_20E.pdf.

¹⁷ At: http://www.ips.lk/publications/series/gov_reports/sme_white_paper/sme_white_paper.pdf.

¹⁸ See Udomkerdmomgkol, M. and O.Morrissey, 2008, "Political Regime, Private Investment, and Foreign Direct Investment in Developing Countries", Research Paper No.2008/109, WIDER, United Nations University.

¹⁹ See <http://www.doingbusiness.org>.

Figure 9.1
SME Policies in Sri Lanka: Re-inventing the Wheel



on domestic private investment. Indeed, as highlighted by the CBSL,

"...performance in the stages of Dealing with Construction Permits, Registering Property, Paying of Taxes and Enforcing Contracts is particularly weak as it ranks below 100 of the 183 countries considered and therefore, pulls down the country's overall ranking. In fact, in the areas of Dealing with Construction Permits and Registering Property, it fares worse than the worst performing country, Chad. Out of the economies considered, Sri Lanka's performance falls below 10, namely Singapore, Hong Kong, South Korea, Thailand, Malaysia, Mongolia, Vietnam, China and even the South Asian countries like Pakistan and

*Maldives. As some of Sri Lanka's competitors in trade are included in this group, it is a matter of concern that Sri Lanka performs worse than them."*²⁰

Cross-country research findings also suggest that there is a positive correlation between FDI flows and domestic private investment.²¹ Facilitating a predictable and credible enabling environment for private enterprise development is particularly critical in post-conflict conditions such as those that prevail in Sri Lanka, where perceptions on country risk are bound to prevail for some time.

Over the last decade, Sri Lanka has seen average FDI inflows that amounted to just 1.5 per cent of GDP, and whilst post-

²⁰ CBSL, *Annual Report 2010*, pp. 24-25.

²¹ See Ndikumana, L., and S.Verick, 2008, "The Linkages between FDI and Domestic Investment: Unraveling the Developmental Impact of Foreign Investment in Sub-Saharan Africa", IZA Working Paper No.3296.

conflict optimism affords a significant window of opportunity to draw in investment, building an enabling environment for sustainable business development remains a critical policy challenge. Opportunities for rent-seeking can be greater in the presence of large-scale infrastructure projects. In spite of the various methodological limitations attached to aggregate cross-country rankings such as the 'Doing Business Indicators', these scores do impact on stakeholder perceptions, and more often than not, investment decisions are driven by perceptions.

The macro-investment climate pertaining to domestic and foreign investment is relevant to SME development, given the potential for forward and backward linkages between SMEs, larger domestic private enterprises and FDI-driven industries. However, these factors are necessary but not sufficient conditions for SME growth. Sustainable SME development hinges on elements such as establishing formal ties/sub-contracting with larger domestic industries in the short to medium term, and partnering with foreign investors either via their larger domestic counterparts or on their own in the long term; partnerships that would facilitate technology and knowledge transfer, business development skills (BDS), access to competitive domestic and international markets and opportunities to move towards higher value-added manufacturing processes and outputs. The need to promote linkages between SMEs and larger domestic industrial entities and MNCs, brings in the role of the state in the industrialization process.

The comparative advantage of the Sri Lankan state lies in facilitating business rather than in growing business, as evidenced from policy experiments over the decades with state-led, private sector-led and mixed private and pub-

lic sector-led development strategies. The role of the state in the industrialization process and in SME development will be revisited later in the discussion in the context of selective intervention, access to credit and collective decision-making for inclusive socio-economic growth. In the specific context of creating backward and forward linkages between SMEs and larger industrial entities, however, the initiatives taken by the Malaysian state to incentivize larger corporates to provide technical training to SMEs in exchange for the purchase of parts and components, could well be a workable, strategic solution for Sri Lanka.

The enabling local government environment is also crucial to regional private enterprise growth which, as discussed previously, hinges largely on SME development. The importance of local governance factors in efforts to bridge regional disparities is highlighted in the research findings. For instance, a study based on a set of economic governance indices (EGIs) developed to capture perceptions of stakeholders in the local government policy space, finds that in the case of Sri Lanka,

*"EGI analysis shows that even though structural conditions, such as quality of infrastructure in a locality, tend to dominate the business environment, improvement in economic governance can substantially alter the business environment from one area to another. Improvement in certain areas of economic governance such as reduction of informal charges, transparency, and participation can have an important impact on the overall business climate in the country."*²²

Another important insight coming out of the cross-country experience (Indonesia, Cambodia, Vietnam, Sri Lanka and Bangladesh) with the EGI, is that country specific local condi-

²² The Asia Foundation, 2009, "Measuring Economic Governance at the Local Level: The Experience of the Asia Foundation in Indonesia, Vietnam, Cambodia, Sri Lanka, and Bangladesh" at: <http://asiafoundation.org/publications/pdf/41> <<http://asiafoundation.org/publications/pdf/41>>

tions matter; as emphasized previously, policy transfer needs to be aligned with domestic political economy factors in order to secure stakeholder buy-in and ensure sustainable reform outcomes.

9.4.2 Revisiting Strategic Industrial Policy

As evidenced in the international development literature, the debate on the nature and dynamics of industrial policy is an ongoing and evolving one.²³ The objective of the following discussion is to look at industrial strategies such as selective intervention ('picking winners') and FDI policies as they pertain to inclusive private sector growth in post-conflict Sri Lanka. As such, the discussion set out below is based on the definition of industrial policy as,

*"a policy aimed at particular industries (and firms as their components) to achieve the outcomes that are perceived by the state to be efficient for the economy as a whole."*²⁴

The principal arguments for industrial policy hinge on three much-debated constructs: the infant industry rationale, the view that industries generating positive knowledge spill-overs should be promoted using targeted incentives, and the position that coordination failures are more likely when investment decisions are made by a number of independent agents. The underlying assumptions associated with all these positions are that market failures are more recurrent than government failures in developing economies, and that issues of informational externalities and the free-rider problem are best addressed through strategic state intervention in the industrialization process.

These assumptions, however, run contrary to ground realities in countries that lack good economic and regulatory governance practices; countries where public policy is based on political economy realities, with interest group dynamics, populist ideologies and rent-seeking opportunities driving the policy process; and countries that lack the space for collective action, voice and participatory decision-making. These assumptions also disregard the realities of the symbiotic relationship between state and markets; and, the dynamics of state-societal links - embedded autonomy - in shaping the policy process.

In terms of facilitating inclusive private sector entrepreneurship in Sri Lanka - given the country's political economy realities discussed previously - industrial policy that focuses on 'picking winners' is not a feasible option for Sri Lanka. A better approach would be to focus on enhancing the general environment for doing business; strategies that would enable the private sector to discover areas of comparative advantage. Similarly, industrial policy in Sri Lanka should focus on identifying the constraints to SME development and facilitate an enabling environment that effectively targets these gaps. For instance, as discussed previously, Sri Lanka lacks a co-ordinated SME policy, strategies aimed at developing a culture of entrepreneurship, innovation and networking through effective BDS activities, and as will be discussed below, effective strategies to address access to credit issues that are a common and persistent problem faced by SMEs in Sri Lanka, as well as in several other developing economies.

Strategic industrial policy also includes a country's approach to FDI flows; as discussed

²³ See for example, Lin, J. and H.Chang, 2009, "Should Industrial Policy in Developing Countries Conform to Comparative Advantage or Defy it? A Debate Between Justin Lin and Ha-Joon Chang", *Development Policy Review*, Vol. 27, No. 2.

²⁴ Chang, H., 2003, *Globalisation, Economic Development and the Role of the State*, Zed Books, London, pp. 112.

earlier, increasing FDI flows is important for sustainable and inclusive growth in post-conflict Sri Lanka. However, as indicated in the literature, cross-country case studies point to a positive correlation and complementarity between domestic private investment and FDI. Developing a strong industrial base with SMEs as the key to inclusive private sector growth, hinges on the robustness of large-scale domestic private industries, strategic joint ventures between domestic and foreign entrepreneurs, and workable backward and forward linkages between large domestic corporates, MNCs and SMEs. As such, FDI policies for emerging economies like Sri Lanka must be based on a level playing field in terms of incentives for domestic and foreign investment, at least in the short to medium run. A selective approach to investment should only be adopted once positive spill-overs such as technology transfer and BDS capacity, are embedded to the extent that an industry can compete in domestic and international markets.

9.4.3 Access to Credit: Unleashing the Potential for SME Growth

Lack of adequate and affordable access to finance is a key impediment to SME growth in Sri Lanka.²⁵ In spite of the various SME loan schemes developed by successive policy regimes over the years, focus group discussions with business persons at the local government level and one-on-one interviews with small and medium scale entrepreneurs, clearly indicate that the cost and access to finance remains a huge constraint to the growth of the sector.

The access to credit problem has two dimensions. On the supply side, traditional financial institutions are reluctant to lend due to

the lack of requisite collateral and to perceptions that new and small enterprises are more likely to default on loan repayments than entities with a proven credit record. On the demand side, SMEs lack the skills required to develop feasible business plans that would be acceptable to lending institutions or to establish sub-contracting and other linkages with larger and more established enterprises. Given that most entrepreneurs in the post-conflict areas have been disconnected from established markets for years, with a number of them still being displaced, issues of collateral and BDS capacity are likely to be exacerbated in these regions.

Access to credit constraints is not unique to Sri Lanka, with several countries in South and South-East Asia facing very similar impediments to SME growth. An analysis of best practice solutions adopted by affected countries, points to a number of useful and workable strategies to tackle the problem. For example, both India and Malaysia have established credit registries and credit ratings on SMEs to provide banks, other financial institutions and potential business partners with the information required to reduce the risk of defaults and to promote linkages between business entities.

As discussed earlier, what Sri Lanka lacks is a comprehensive and informative SME policy that sets out a clear direction, and pragmatic solutions relating to issues including access to credit, BDS, the legal and regulatory framework, facilitating workable backward and forward linkages, and access to markets. The end of a prolonged conflict presents Sri Lanka with an enormous opening to grow the SME sector and move towards inclusive private sector development. However, the piecemeal

²⁵ 'Access to Credit: Critical Issue for Conflict-Affected Enterprises', *Talking Economics*, 6th October 2010, <http://ipslk.blogspot.com/2010/10/access-to-credit-critical-issue-for.html>; 'Private Enterprise Growth in the Regions: What is Slowing it Down?', *Talking Economics*, 29th November 2009, <http://ipslk.blogspot.com/2009/11/private-enterprise-growth-in-regions.html>.

policy framework, combined with overlapping institutional functions, and a regulatory regime that is not aligned with the dynamics of the market, may well close this window of opportunity.

9.5 Conclusion

Development work in post-conflict conditions around the world has, to a large extent, revolved around nation-building, relief efforts and security concerns. Post-conflict reconstruction programmes have for the most part, overlooked the crucial fact that economic deprivation, marginalization and inequalities play a key role in instigating and perpetuating conflicts. Similarly, the development community has only recently begun to focus on private sector development as a key pillar in post-conflict recovery efforts. However, private sector activity has proven to be one of the most resilient forces of development in Sri Lanka, even in the face of conflict and even when social and political institutions have been weakened. It is in this context that private sector development is seen as crucial in achieving post-conflict inclusive growth.

SMEs play a particularly significant role in enhancing the impact of private sector activity on broader socio-economic development outcomes. The development literature posits that SMEs are crucial in terms of job creation and socio-economic growth in low-income countries. In the Sri Lankan case, the prevalence of regional disparities resulting from a combination of a long conflict-situation and policy gaps in getting to balanced development, underscores the importance of SME growth as a key to inclusive socio-economic development. However, growing the SME sector and positioning it as a vital component to inclusive private sector development entail significant policy challenges. In addition to those highlighted in the preceding discussion, the focus here will be on a few issues relating to the political economy of reforms and inclusive develop-

ment, defined as both a process and an outcome variable.

Inclusive development as a process requires transparent and collective decision-making, with equal opportunity accorded to all members of the polity to participate in the public policy process. However, the political economy realities of policy making in Sri Lanka spanning successive political regimes, suggests that policy decisions are for the most part, shaped by powerful interest groups, seeking to maximize opportunities for rent. Given that development policy that is not founded on participatory decision-making rebuts visions of inclusive growth, there is an imminent need to broaden the space for stakeholder dialogue.

Stakeholder dialogue in the context of inclusive private sector growth, SME development, and industrial policy, points to the need for effective state-business relations, where the state and the market are seen not as substitutes but rather as complementing each other in moving towards inclusive growth. Whilst the need for the state to be open to dialogue and collective decision-making in the development process has been emphasized right through the discussion, a similar onus lies on the private sector. The Sri Lankan private sector - specifically the larger domestic establishments - tends towards collusive, as opposed to collaborative and participatory, decision-making. Moreover, to a large extent, the culture of private entrepreneurship in Sri Lanka is one that lacks dynamism and leans on a patriarchal state, with only a few pro-active members of the business community engaging in policy dialogues. If inclusive private sector growth through SME development is to be more than policy rhetoric, the private sector needs to actively participate not only in the outcomes but also in the process of public policy.