

Intervention Report Thambuttegama Traders' Association

The MSE Forum mechanism of solving regulatory issues pertaining to MSEs

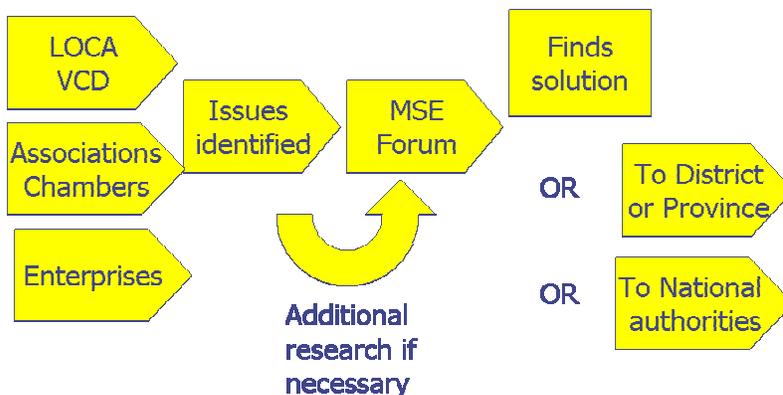
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1. Background

One of Enter-Growth's themes is policies and regulations, which includes encouraging stakeholders in the project Districts to identify regulatory issues for MSEs and try to solve them. These efforts of identifying and solving regulatory issues are integrated in the main activities facilitated by the project such as the District level MSE Forums, LOCA¹ and value chain development (VCD). They are participatory planning and implementation tools to bring MSEs, the public sector and NGOs together to identify common objectives and come to joint action.

Regulatory issues are identified in LOCAs and VCDs or directly by Small Business Associations (SBAs), Chambers of Commerce or individual enterprises. The definition of regulatory issues in this context is issues/problems/constraints with a specific regulation in a certain business sector but it can also apply to more than one sector. The idea is that identified issues are brought to the MSE Forum, which includes stakeholders that can take action to solve the issues. Complex issues may require additional research, which Enter-Growth can facilitate, in order to be presented to decision makers. Regulatory issues that cannot be solved by the MSE Forum members can be referred to a National level Forum for Enterprise and Export Development, which has been set up by the Ministry for Enterprise Development and Investment Promotion, independently from the project. They can also be taken up directly with the national authorities concerned.

The MSE Forum mechanism of solving regulatory issues pertaining to MSEs



¹ LOCA is known as PACA (Participatory Appraisal of Competitive Advantage) elsewhere in the world. It is a product of Mesopartner. See www.mesopartner.com.

The Thambuttegama Traders' Association (TTA) is an SBA in Thambuttegama Division in Anuradhapura District and is a member of the Anuradhapura District MSE Forum. The enterprises in Thambuttegama face problems with land and tax regulations. Some of these problems are common to all MSEs in Sri Lanka but many of the problems originate from the fact that Thambuttegama is part of the Mahaweli H division and therefore covered by the Mahaweli Authority jurisdiction (which administrates the country's largest irrigation scheme). TTA has brought a number of issues to the District MSE Forum where the issues have been discussed among stakeholders and decisions on actions taken.

Thambuttegama Traders's Association
<ul style="list-style-type: none"> • Business Association in Thambuttegama Division (Anuradhapura District) • Started in 1984 • Members: 90 enterprises from different sectors. The Association also includes businesses from other Divisions (Galnewa, Bulnewa, Meegalawea, Galkiryagama, Madatugama, Aukana, Vijirhapura, Eppawala, Thalawa, Nochchiyagama, Rajanganay) • Services and Activities: Raise voice, lobbying, legal advice, business management advice, improved sanitary and health conditions • Membership: The members pay a registration fee of Rs. 1000 and then a monthly fee of Rs. 100

2. Identified regulatory issues and actions taken in the MSE Forum

The regulatory issues identified by the TTA have to do with taxes and landownership. Land ownership/title is a problem for entrepreneurs since without it, they do not have the permission to change or develop the land according to their business ideas or use the land as security when taking business loans. Taxes and tax rates for businesses are particularly complex in the Mahaweli areas. Within the framework of the MSE Forum, the following actions have been taken on regulatory issues:

Table of issues

Identified issue and involved organisations	Progress made within the MSE Forum framework
<p>1. Secure permanent land titles. Business people in the Mahaweli area face problems in accessing loans because the land titles have a validity of one year only.</p> <p>Organisations: TTA, Export Development Board, Land Ministry, Mahaweli Authority, Enter-Growth</p>	<p>The Provincial Industrial Secretary met with the President of Sri Lanka and took the opportunity to present the problem. Then, Mahaweli Authority agreed that the Act "To release permanent land titles" (Sri Lanka Mahaweli Authority Act No.23 of 1979) must be changed.</p> <p>Recently, after a staged protest, TTA again met the Minister of Mahaweli who promised to prepare the cabinet paper to get this problem solved as soon as possible.</p> <p>Status: No progress after this agreement.</p>
<p>2. Delayed issuance of long-term lease agreements to business people. As a temporary solution to the problems in issue 1, long-term lease agreements (30 years) are supposed to be issued, which would help businesses to access loans and sell the land.</p> <p>Organisations: TTA, Export Development Board, Land Ministry, Mahaweli Authority, Enter-Growth</p>	<p>All the involved organisations had a meeting at the Export Development Board in Colombo where the Land Ministry and the Mahaweli Authority agreed to issue new lease agreements valid for 30 years on two conditions: The entrepreneurs have to pay the rest of their unpaid taxes and have to use the land for business purposes.</p> <p>Status: Some lease agreements have been issued after the entrepreneur has paid the taxes.</p>
<p>3. Double taxation of enterprises in the Mahaweli area. Enterprises in the Mahaweli Area have to pay double taxes (the usual taxes, plus those of the Mahaweli Authority, which administrates the country's largest irrigation scheme) on a) the land they are residing b) the business premises c) the business they are engaged in.</p> <p>Organisations: TTA, Export Development Board, Land Ministry, Mahaweli Authority, Enter-Growth</p>	<p>Recently, after a staged protest, TTA again met the Minister of Mahaweli who promised to prepare the cabinet paper to get this problem solved as soon as possible.</p> <p>Status: No progress after this agreement.</p>
<p>4. Tax anomalies in the Mahaweli area. Instead of one tax rate for all enterprises, there are different tax rates, varying from enterprise to enterprise, this includes VAT, Income Tax, Business Turnover Tax, Land Premises Tax, Local Government Tax. Businesses owners demand the same rate for all enterprises.</p> <p>Organisations: TTA, Export Development Board, Land Ministry, Mahaweli Authority, Enter-Growth</p>	<p>Involved organisations had a meeting where it was agreed to solve the problem. Four cases of affected entrepreneurs proved their case to the Land Ministry on National level and the tax rate was amended for them.</p> <p>Status: The four mentioned cases were solved but the overall problem is not solved.</p>
<p>5. Tax rates on land and buildings are automatically increased by 50% every five year (currently 6%) and based on the current market price of the assets. Businesses demand that it is based on the basic value instead of the commercial value and that the rate is 4% instead of 6%.</p> <p>Organisations: TTA, Export Development Board, Land Ministry, Mahaweli Authority, Evaluation Department, Enter-Growth</p>	<p>The issue has been brought to the attention of the Minister of Mahaweli, who has promised to prepare a cabinet paper to reduce the current amount to 4% (now it is 6%) and to assess the value base.</p> <p>Status: No progress after the promise to prepare a cabinet paper.</p>

3. Staged Protest

The identified issues have existed for a long time but the new President of Thambuttegama Traders' Association, Mr Premarathna, who is a member of the MSE Forum, started working on these problems in 2006 when he became President of the TTA. As a result, there are ongoing formal discussions with the Director of the Mahaweli Authority and the National Minister of Mahaweli and some progress is achieved as indicated in the table. However, despite this progress, the President of TTA claims that it is difficult to achieve any formal commitment or have decisions taken through formal channels.

As a complementary action, TTA therefore organised, together with the opposition party UNP, a protest where all the business people in Thambuttegama closed their business for one day and a peaceful demonstration/campaign was carried out. During this protest, a petition containing all the issues mentioned in the table was handed over to the Mahaweli Authority. As a result of the demonstrations (indicated in the table, issues 1 and 3), the Mahaweli Authority promised to arrange two meetings with the National Minister of Mahaweli within 3 months. In addition, the Mahaweli Authority promised to write a cabinet paper with a copy to the TTA. So far, one meeting has taken place with the Minister but still no cabinet paper has been prepared.

According to the business community in Thambuttegama Division, the outcome of the protest was a great achievement and six neighbouring Divisions want to collaborate and be included in the petition.

4. The impact of the District MSE Forum for TTA

According to the President of the TTA, the District MSE Forum has been an important forum where key stakeholders together have addressed these issues. The main advantage of the MSE Forum, is that it provides a valuable network of important officials. For example, the President of the TTA, has thanks to the MSE Forum, now a close collaboration with the District Secretary, which he did not have before. TTA has also with the assistance of Enter-Growth brought forward issues to the national Enterprise and Export Development Forum where one outcome was that the delayed long-term lease agreements were promptly issued for some businesses.

However, the President of the TTA emphasises that it is difficult to address regulatory issues through formal pressure and official processes. Even though the TTA had access to key stakeholders and decision makers through the MSE Forum, very few concrete results were achieved until the protest took place. On the other hand, the President of the TTA says it was the support from the MSE Forum members that gave TTA the courage to carry out the protest. Being a member of the MSE Forum gave it the power and authority to initiate this type of protest. In addition, the successful activities of TTA have built confidence among other traders' association in the Mahaweli H division which now seek to cooperate with TTA, contributing to local empowerment.

As the table of issues indicates, some progress was made through formal channels, with the help from the MSE Forum but in terms of final solutions on these issues, the result is so far limited. However, the issues on tax systems and land ownership, identified by TTA, are very complex issues that cannot be solved on District and Provincial level. The Anuradhapura MSE Forum has been able to solve other less complex regulatory issues (not mentioned here) both within the MSE Forum and through the National level Enterprise and Export Development Forum. The President of TTA also says that Enter-Growth, which has provided assistance and guidance regarding contacts with relevant officials as well as presentations to the EDB, Mahaweli Authority and Land Ministry, have been very important for the progress made.

Overall, the important achievement is that public-private dialogue has become a reality through the MSE Forum, and that it is a mechanism for addressing MSEs' regulatory issues. It indicates that such dialogue can be productive and result in business environment improvements that are of direct benefit to local MSEs. It may also contribute to creating local joint actions and solidarity vis-à-vis national level officials and politicians.

As a next step, TTA is planning a second protest in order to remind the Minister to take action as promised after the first protest.