



FAYYAZ ISMAIL
MINISTER FOR ECONOMIC DEVELOPMENT

BUILDING AN INCLUSIVE ECOSYSTEM FOR SMEs

The government recognises the potential of Small and Medium Enterprises (SMEs) development and the importance of building a more resilient and diversified economy. Against this backdrop, and in line with the ministry's mandate in enacting policies pertaining to SME developments, the current policies are geared towards bridging the gaps and reshaping our business ecosystem, to create a more hospitable environment for small businesses.

SMEs form the backbone of the Maldivian economy, with around 80% of the registered businesses in each atoll being SMEs. It also plays a crucial role in channelling the country towards inclusive growth by creating employment opportunities and improving the livelihood of small island communities. Despite their huge contribution and importance, SMEs have long been under-served. It has not been easy for small businesses to grind through their daily business operations and thrive in a fragmented business environment.

Lack of access to finance is one of the main constraints hindering the growth of SMEs in the Maldives. Although the financial system in the country has improved in the past decade, there exists a financing gap when it comes to SME funding, mostly because of the risk aversion factor. Apart from the high cost of finance, financing options do not serve slow growth, high risk and moderate-return businesses.

To re-tune the financial system and bring new models to cater to SME financing needs, we established the SME

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Development Finance Corporation (SDFC) in 2019. As a specialized financial institution providing targeted financial products and ancillary services to small businesses and start-ups, it has been offering products to key developmental areas such as local tourism, fisheries and agriculture, manufacturing, information communication and technology (ICT), construction and transport at affordable interest rates. Over the past two years, the institution has provided over MVR 900 million financing to a total of 715 SMEs in the country. When we provide loans, we give priority to young entrepreneurs and those businesses owned by women or jointly owned by men and women. Most prominently, it has played an instrumental role in assisting and supporting small businesses that struggled during the pandemic.

Higher operational and administrative costs faced by small businesses is another factor that is hampering SME growth, but the issue has always been marginalised in our business ecosystem. With the formation of the Business Center Corporation (BCC), small businesses are now able to obtain a wide range of professional business development services such as preparing business start-up proposals and business planning, free of charge. Currently, BCC operates and manages 12 business centers across the country.

Moreover, the potential capacity of SMEs is often not fully realized due to their small-scale nature. For many SMEs, lack of resources such as technology, market access, networking as well as lack of economies of scale has been a challenge. To mitigate this, BCC has been introducing new ventures such as co-workspace (SEEDS by BCC) and co-shared kitchen facility, curated to cater SME needs. For instance, co-shared kitchen will be a great opportunity for home-based workers looking to scale up their production but are financially unable to expand their business as they may not be able to rent large spaces and acquire commercial-grade equipment.

Digitalization is another powerful engine that will unleash opportunities for small businesses to scale up their production, reduce costs and increase productivity. The advent of the internet is creating a more enabling environment for SMEs to cut the marketing barriers that prevented them from broadening their customer base and entering to large markets all these years. There has been an impressive growth in the use of e-commerce by small businesses over the past few years in the Maldives. By

reducing the internet charges, we have made a great stride towards making broadband and internet more affordable to everyone. Small businesses will now be able to gradually calibrate their business for the digital age and leverage the benefits of information technology.

An effective regulatory framework is another area that will provide encouragements for the proliferation of start-ups and SMEs as it will provide confidence in the system. With the amendment brought to the SME Act in July 2021, the SME categorization criteria has been revised to make it more reflective to the local context. Along with the reforms brought to the public procurement regulation, it will create a fairer environment for SMEs to compete and will also make public bidding opportunities more accessible to small businesses.

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As the COVID-19 pandemic has also shed renewed light on the importance of building resilience in the Maldivian economy, there is an utmost requirement for bridging these gaps in our business ecosystem. Therefore, our policy priorities are re-oriented towards building a more holistic approach in addressing these challenges, including easier access to finance, promoting productivity and technology through ICT training, and strengthening the regulatory and institutional framework that will build a more favourable business environment for SMEs to emerge and flourish.

