

Researching livelihoods and  
services affected by conflict

# Policy dissonance in enterprise development programming in Sri Lanka

Working paper 67

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Cover photo: Gayathri Lokuge, Sri Lankan fabric shop, 2018.



# Preface



The Secure Livelihoods Research Consortium (SLRC) aims to generate a stronger evidence base on state-building, service delivery and livelihood recovery in fragile and conflict-affected situations. It began in 2011 with funding from the UK's Department for International Development (DFID), Irish Aid and the European Commission (EC).

## Phase I: 2011 - 2017

SLRC's research can be separated into two phases. Our first phase was based on three research questions on state legitimacy, state capacity and livelihoods, developed over the course of an intensive one-year inception phase. Findings from the first phase of research were summarised in [five synthesis reports](#) produced in 2017 that draw out broad lessons for policy-makers, practitioners and researchers.

## Phase II: 2017 - 2019

Guided by our original research questions on state legitimacy, state capacity, and livelihoods, the second phase of SLRC answers the questions that still remain, under three themes:

- Theme 1: What are the underlying reasons for continued livelihood instability in post-conflict recovery situations?
- Theme 2: How does the experience of conflict link to how people experience trust, fairness and expectations of the future as part of their recovery?
- Theme 3: How does service delivery influence the negotiation of state legitimacy?

## Theme 1: Livelihoods instability

This paper is one of eight pieces of research from Theme 1 conducted in Afghanistan, Nepal, Pakistan, Sri Lanka and Uganda. The research was conducted by the Afghanistan Research and Evaluation Unit (AREU), Centre for Poverty Analysis (CEPA - Sri Lanka), Feinstein International Center (FIC, Tufts University - Uganda),

Nepal Institute for Social and Environmental Research (NISER), Overseas Development Institute (ODI) and the Sustainable Development Policy Institute (SDPI - Pakistan). The research lead was Vagisha Gunasekara.

The studies under this theme question currently held assumptions about the nature of exchange and economic behaviour in rural economies. These studies demonstrate that livelihoods in conflict and post-conflict settings are in socially embedded economies - driven by patron-client relationship and non-contractual obligations.

In Afghanistan, we delve into the role of informal borrowing as a buffer in sustaining livelihoods. In Sri Lanka, we examine the suitability of 'entrepreneurship' promotion as a development intervention for people in war-affected areas. The study in Nepal looks at work and livelihood patterns of women in migrant households. The Pakistan study investigates how households access credit, the impact of indebtedness on families, and develops a framework that explains household indebtedness and its impacts. Lastly, the research in Uganda focuses on the internal migration of young people and their experiences with employment, the livelihoods realities of the war-wounded, and how livelihood trajectories of the war-affected influence decisions related to education of young people.

The evidence generated by the studies offers a number of insights into why people in conflict settings can no longer sustain their own lives through direct access to a living wage, why policies and aid interventions aimed at socio-economic recovery fail and the mechanisms people use in order to stay afloat within these economies.

For more information on who we are and what we do, visit: [www.securelivelihoods.org/about-slrc](http://www.securelivelihoods.org/about-slrc)

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at the SLRC café organised by CEPA, for Sujanthi Sri Sureshkumar for coordinating the data collection and for the assistance in the field provided by K. Tharshini within the Trincomalee district and Yasir Arsath within the Batticaloa district. CEPA also wishes to thank Vagisha Gunasekara and Dyan Mazurana for reviewing the paper prior to publication.

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# Acronyms and glossary



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<b>ADB</b>	Asian Development Bank
<b>CEPA</b>	Centre for Poverty Analysis
<b>DCS</b>	Department of Census and Statistics
<b>GDP</b>	Gross domestic product
<b>GIZ</b>	German International Cooperation
<b>GoSL</b>	Government of Sri Lanka
<b>HCR</b>	headcount ratio
<b>HIES</b>	Household Income and Expenditure Survey
<b>ILO</b>	International Labour Organisation
<b>IOM</b>	International Organisation for Migration
<b>KPI</b>	Key Person Interviews
<b>MOF</b>	Ministry of Finance
<b>MSE</b>	Micro- and small-sized enterprise
<b>MSME</b>	Micro-, small- and medium-sized enterprise
<b>NCGI</b>	National Credit Guarantee Institution
<b>NHREP</b>	National Human Resources and Employment Policy
<b>REEP</b>	Reconciliation Focused Economic Empowerment Programme
<b>Rs</b>	Sri Lankan Rupee
<b>SDGs</b>	Sustainable Development Goals
<b>SME</b>	Small- and medium-sized enterprise
<b>UNDP</b>	United Nations Development Programme
<b>WUSC</b>	World University Service of Canada

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# Executive summary



Since the turn of the century, there have been a series of deliberate policy attempts by Sri Lanka's government to exploit the potential of and promote the small- and medium-sized enterprise (SME) sector. SMEs are seen as the 'solution' to a range of post-war development challenges the country is facing. In a market economy where the state plays a minimum role in regulating the market, they are being advocated as a way to alleviate poverty, promote regional economic development and generate employment. However, clear analysis is lacking on the impact of these enterprise development programmes in Sri Lanka and their ability to achieve the expected results, especially in directly war-affected areas.

Through a qualitative in-depth analysis of 28 micro- and small-enterprises (MSEs) in the war-affected Batticaloa and Trincomalee districts, and of policy documents related to the sector, this working paper analyses the dissonance between the expectations and experiences of those who engage in enterprises, and the policy formulas, framings and assumptions in enterprise development policy in post-war Sri Lanka.

## Main findings and recommendations

Continuities of war still shape the lives and livelihoods of men and women in the directly war-affected areas of the country. We thus recommend that any development programming in these areas take this impact into account in the design and implementation stages. Alongside post-war recovery programming that focuses on economic recovery, rights-based issues such as justice for missing persons and basic needs like housing should be addressed.

Entrepreneurship is sometimes born out of a desperate need to survive rather than a deliberate choice that

involves risk-taking, competition and innovation. Before developing policies and programmes to support SMEs, it is thus crucial to first understand the nature and motivations of these 'survival' enterprises and their specific needs.

Specific policies and programmes are needed to target micro-enterprises, identified as those who:

- maintain a multiple-livelihood portfolio as needed
- continue to spread risk across livelihood activities of an individual as well as livelihoods within a household
- engage in the enterprise from their home as needed

These micro-enterprises should be given targeted policy assistance as a distinct enterprise group. These policies should not expect entrepreneurs to specialise and show results in one enterprise through support provided and allow them to spread risk across multiple livelihoods as needed.

Despite considerable financial investment, the lack of clear understanding about the impact of entrepreneurship development programming in Sri Lanka means that nationally representative data is needed to link poverty levels, ownership of an enterprise and employment generation.

Finally, outsourcing the 'risk' of failure or success to the individual entrepreneurs, specifically in a post-war rebuilding context in directly war-affected areas with minimum intervention in market dynamics, may lead to further vulnerabilities of men and women recovering from the prolonged war. Lack of sufficient attention paid to social safety nets and the nature of employment that MSEs create will exacerbate these vulnerabilities. Therefore, we recommend that social safety nets are put in place to target vulnerable groups directly affected by the war.

# 1 Introduction

Despite moving on to lower-middle-income status, the post-war Sri Lankan economy is under pressure to perform ‘satisfactorily’ given the high debt to the Gross Domestic Product (GDP) ratio<sup>1</sup>, which at present is 60%. Sri Lanka’s post-war growth rate, which was 5%-6%, dropped to under 4% in the last six consecutive quarters and was 3.8% in the first quarter of 2018. Economists say strong growth is needed to lower the country’s debt ratios (Ranawana and Senn, forthcoming).

Poverty levels have shown a steady decline in the last few years, with only 4.1% of the population living below the poverty line (the headcount ratio (HCR)) in 2016, a drop from 8.9% in 2009/2010, when the country’s three-decade-long civil war ended (Department of Census and Statistics, 2017). However, some of the directly war-affected districts in the Northern and Eastern Provinces remain well above the HCR. They are the: Northern districts of Kilinochchi (18.2%) and Mullaithive (12.7%) and Eastern districts of Batticaloa (11.3%) and Trincomalee (10.0%). Therefore, regional development, particularly of the directly war-affected areas in the Northern and Eastern parts of the country, has become a pressing policy concern. In a study of post-war Sri Lanka’s political economy, Bastian notes that the dominant discourse for rural development focusses on various forms of self-employment that boosts ‘endless’ entrepreneurial activity in the agricultural sector (2013).

Within this political-economic context, government policies that promote SMEs feature strongly, with the aim of fulfilling a wide range of objectives:

***SMEs [...are] seen as a driver of change for inclusive economic growth, regional development, employment generation and poverty reduction. It is properly shown in Sri Lankan economy; as it accounts for more than 75 percent of the total number of enterprises, provides 45 percent of the employment and contributed to 52 percent of the Gross Domestic Production (GDP) (Department of Development Finance, 2016:3).***

However, these policy discourses overlook the differentiated and complex experiences, expectations, motivations and strategies of men and women who engage in enterprises. This is especially the case for those in directly war-affected areas characterised by multiple displacements and losses. Therefore, this paper

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<sup>1</sup> A country’s national debt against its Gross Domestic Product (GDP).



focuses on the dissonance between the expectations of the SME policies as a post-war livelihood recovery and regional development programme and the lived reality of some of the entrepreneurs being targeted by these policies and programmes.

### 1.1 Policies on enterprise development in Sri Lanka

In Sri Lanka, successive governments since its independence in 1948 have introduced various programmes to boost the growth of the SME sector, however, 'there were no deliberate policy efforts to exploit the full development potential of the SMEs' until the turn of the century (Wijesinha and Perera, 2015:1). Since 2002, there have been a proliferation of state policies for the SME sector, starting with the: National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka White Paper (2002); followed by the National Human Resources and Employment Policy for Sri Lanka prepared by the Secretariat for Senior Ministers in (2012); the National Policy Framework for Small and Medium Enterprises Development prepared by the Ministry of Industry and Commerce in (2016); and the most recent, Enterprise Sri Lanka Programme prepared by the Department of Development Finance (2018). This is yet to be written out as a policy but was alluded to repeatedly in the 2018 Budget Speech (Budget Speech 2018, 2017).

The 2002 White Paper sees SMEs as a necessity for regional development and is one of the first leading policy documents to link poverty alleviation alongside SME growth. It states that the document provides the necessary requirements to enable an environment for 'the achievement of a broad based, resilient and internationally competitive SME sector' (Task Force for Small and Medium Enterprise Development Program, 2002: 2) that would, in turn, be able to integrate local SMEs with global markets. From this point on, Sri Lankan policies on SMEs and SME development have had a strong or underlying necessity to develop SMEs for the country's benefit, rather than merely assisting the livelihood and social development of persons that rely on SMEs for their daily activities.

The end of the civil war in Sri Lanka in 2009 gave fresh impetus to this interest of developing SME policy as highlighted in 'The National Human Resources and Employment Policy for Sri Lanka' (Secretariat for Senior Ministers, 2012). An important policy document for a country emerging from a twenty-six-year civil war and a longer period of political and social unrest,

this document makes explicit mention of the war and what could be done to improve the war-affected areas of the country. The policy also identifies an important group often discussed in post-war Sri Lanka: women. It includes an entire section on women and gender discrimination, describing the difficulties and vulnerabilities that women from the war-affected Northern and Eastern regions face.

Further, 'social cohesion' as a concept became a part of mainstream socio-political discourse post-2015, following the coming into power of the 'Good Governance' government. The terminology of social cohesion is paired with poverty alleviation via SME-promotion. To this end, two policy documents that specifically focus on reconciliation and social cohesion through promotion of SMEs are the Reconciliation Action Plan (2017) and the National Action Plan on Women Headed Households 2017-2019 (2017).

***They [SMEs] are seen also as entities promoting social cohesion and contributing greatly in the area of poverty alleviation. The improvement of the environment in which these SMEs operate is imperative (Secretariat for Senior Ministers, 2012: 29).***

Global trends provided further impetus to the increasing interest in SME promotion in Sri Lanka. Within the sustainable development agenda, entrepreneurship is promoted as a conduit for 'transforming' production and is increasingly being identified as the 'panacea' for many social and environmental concerns (Hall, Daneke and Lenox, 2010: 489). Goal 9 of the Sustainable Development Goals (SDGs) leans heavily on the possibilities of innovation brought about by entrepreneurship that can drive economic growth. The theory is that entrepreneurship provides a viable strategy for upward social mobility as a 1% increase in entrepreneurship is said to decrease the poverty rate by 2% (Sullivan, 2017: 1). Global literature argues that entrepreneurs, especially those who own SMEs, are seen as drivers of economic growth as they broaden and diversify the domestic economy, thus making it less susceptible to external and internal shocks (Lemmon, 2012). In developing countries, 90% of the poor are employed in MSEs, which makes up more than half the GDP and is a key driver of economic growth (Schneider, 2006; Ayyagari et al, 2011). Furthermore, own-account workers represent half or more of the informal sector in low-income countries (de Mel, McKenzie and Woodruff, 2008: 1).

The National Policy Framework for SME Development (2016) reflects these global dialogues and reflects Goal 8 ‘Decent Work and Economic Growth’ of the SDGs, under which SME development is included as a target.

***Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services (United Nations Conference on Trade and Development, 2016).***

Influenced by these national and global trends, at present, the enterprise development policy is premised on the policy formula ‘maximum support but minimum intervention’, within which the government is expected ‘not to interfere in the market, and provide only a favourable macro-economic environment, institutional support and infrastructure facilities’ (Task Force for Small and Medium Enterprise Development Program, 2002: iv). Furthermore, by developing enterprises, post-war reconciliation and economic development (especially by poverty alleviation) is expected to be achieved.

In keeping with this formula, the successive post-war governments have enlisted the support of prominent financial and development organisations to provide assistance in boosting Sri Lanka’s SME economy, particularly by facilitating access to credit and providing training. The National Policy Framework for SME Development (2016) spells out the following policy implementation strategies and provides the action plan for implementing the policies on SME development.

The government has undertaken several initiatives to facilitate financing for the development of the sector. The 2018 budget allocated a total of Rs14 billion for enterprise development and many bilateral and multi-lateral agencies poured finances into it. A Loan Agreement was signed between the Ministry of Finance (MOF) and the Asian Development Bank (ADB) in 2016 to obtain a USD 100 million loan to fulfil the capital requirement of the SME sector at an affordable rate. ADB went on to select 10 banks, including both private and state sector banks through which this loan was to be implemented (Department of Development Finance, 2016, p. 8). In 2012, the German International Cooperation (GIZ) provided a grant amounting to Euro 2.785 million for implementation of the SME Sector Development Programme. This was extended until December 2016, with an additional budget of Euro 3 million to look into policy, and access to technology and finance. ‘SME Sector Development in Sri Lanka II’ was implemented in January 2017 with Euro 3 million, which financed additional areas such as access to markets, innovation and entrepreneurship (Department of Development Finance, 2016: 9-10). In addition, ADB provided a USD 100 million loan facility to establish the National Credit Guarantee Institution (NCGI). Therefore, within the period of a single year, ADB had invested USD 200 million in SME development. The United Nations Development Programme (UNDP) transition recovery programme (initiated at the end of the war in 2009) reports grants given to 682 beneficiaries to expand or restart their business, and the training of 2,603 individuals in the North and East on business planning and enterprise development skills (Secretariat for Senior Ministers, 2012: 17). A range of agencies such as International Organisation for Migration (IOM), International Labour Organisation (ILO), Sewalanka, National Enterprise Development

**Table 1: National Policy Framework for SME Development- Implementation Strategies**

Implementation Strategy	Responsible Ministry
1. Enabling Environment	Ministry of Industry and Commerce
2. Technology and Innovation	Ministry of Science, Technology and Research
3. Entrepreneurial Culture and Skills Development	Ministry of Skills Development and Vocational Training
4. Access to Finance	Ministry of Finance and the Central Bank
5. Market Facilitation	Ministry of Industries & Commerce Ministry of Development Strategies & International Trade
6. Research and Development	Ministry of Science, Technology & Research Ministry of Higher Education & Highways, State Universities

Source: The National Policy Framework for SME Development (2016)

Authority, and Ministry of Women and Child's Affairs engage in entrepreneurship development programming using different approaches (see Kodikara, 2018 for an overview of these interventions).

## 1.2 Entrepreneurs in post-war Eastern Sri Lanka

Let us now turn to the narratives of the men and women being targeted by these policies, action plans, and financing formulas and models. Muriel<sup>2</sup>, a 67-year-old Tamil woman from the Trincomalee town area shared the below extract with us. It depicts the ups and downs of her life, enmeshed in the reality of the war and its aftermath. She is the mother of three daughters and two sons, of which only two daughters are alive. The third daughter is recorded as 'missing' and Muriel's alcoholic husband is dead; her sons and sons-in-law were killed by different parties in the war. Muriel's family has been displaced multiple times due to the war. She said the times they lived in refugee camps were the lowest points in her life. They survived on dry rations and lived in sometimes damaged temporary shelters.

***We have gradually improved in our life. But as we were coming up in our life, the war and the loss of my children and my sons-in-law made us fall off again. Then again when we were trying to move up my daughter was lost in the final war and my son-in-law was shot and died. So I had to bring up their children. In this situation my husband also passed away. I did not get any support. And I went to the same situation as before. But as I have this house built, I am living with peace at this place. Now only I am recovering myself (Muriel, 67, home-based female miller, Trincomalee).***

Various types of livelihoods and small businesses later, Muriel is now grinding rice flour, roasting it, packaging it and selling it to retail shops in her village. She claimed that receiving the milling machine on a half-subsidy through the Department of Agriculture was a turning point in her economic life. With the machine, she managed to set up her own mill and increase her earnings. Her success has been complemented by the free trainings she received from both government and non-government entities, which, she says, helped her raise her family. She also claims that her second daughter's deceased husband's army salary is the main income supporting her family.

In her words, the respect she gets from others has increased because 'I am involved in a job and take care of my expenses by myself and my grandchildren have found jobs for themselves and can fulfil their needs by themselves.'

Another entrepreneur we met, Riyaz, manufactures shoes and employs 14 people in the Eastern town of Batticaloa. He started his business with relatives and then branched out on his own. During the war, despite national-level open market policies, the economies of the areas directly affected by war in the North and East of the country were 'closed' due to security concerns of travelling and the need to get through check points operated by the government military and other factions at the entry borders. This constrained buyers and sellers outside these areas from interacting with the markets and circulation of goods. Therefore, during this time, Riyaz's manufacturing business thrived and he scaled-up. However, as he explains below, the end of the war brought an end to security concerns, opening up the market for products from outside the district (especially for much cheaper Chinese and Indian products). Therefore, demand in the province or district for shoes from his factory in Batticaloa decreased, and his profits have gone down. At present, he is only able to maintain his business at its current scale without any further growth or job creation – he has had to put his expansion plans on hold.

***I bought this land with the business plan, but it won't work out now. I wanted to establish a factory here with the high-end machinery, but then the Indian and Chinese products caught the market. I had to think of something else...now I am floating in the business, I have huge plans (for future expansion) (Riyaz, 43, male shoe factory owner, Batticaloa).***

Muriel's, Riyaz's and many other similar stories from our 10-month-long field work in two war-affected districts in Sri Lanka raise many policy-related questions: How do state policies and support programmes identify, differentiate and support enterprises like Muriel and Riyaz's? How cognisant are state and non-state actors who work on enterprise development of the broader socio-political and economic factors that affect such enterprises? If Muriel's family did not receive the steady and secure income of her deceased son-in-law's state security benefit, would the income from her enterprise

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<sup>2</sup> All the persons' names in this paper have been anonymised to ensure confidentiality of the respondents.

be sufficient to support a family? If men and women like Muriel are using the income from an enterprise only to supplement their household income, would they still be counted as ‘entrepreneurs’ by the government and non-governmental organisations? If they are, what kind of support do the policy frameworks and strategies (especially those focusing on enterprise development that expects men and women affected by war to generate an income outside of state support and employment) provide for them? What kind of market access do men and women like Muriel have and who do they have to ‘compete’ with? Finally, for how many more years are Muriel, and others like her who are approaching old age, expected to generate an income? What types of safety nets exist for people like them to live a dignified life in old age?

Going back to the stories of Muriel and Riyaz, framed within the policy formula briefly presented above, the key question that arises is: can SME development programmes alleviate poverty, enable economic development – including in the regions – and help attain reconciliation and social cohesion, especially in a post-war society? Through an empirical analysis of life histories of 30 micro- (employing less than 10 workers) and small-sized (employing between 10-50 workers) enterprise owners, this working paper first analyses the dissonance between the expectations and experiences of those who engage in enterprises and the policy formulas, framings and assumptions in enterprise development policy in post-war Sri Lanka.

Following a brief presentation of research methods, this paper discusses the findings related to the experiences and ‘lived realities’ of male and female entrepreneurs in war-affected Eastern Sri Lanka, as narrated to us. The paper then discusses these narratives against the policy discourses, while highlighting gaps and dissonances. Finally, the paper provides recommendations for facilitating enterprise development in post-war contexts such as Sri Lanka.

### **1.3 Methods**

The study employed an iterative approach over a 10-month period, using qualitative tools such as in-depth biographical histories and narratives that chart engagement in livelihood recovery, social, political and cultural/religious networks, participant observations

of production and market spaces, and informal engagements. This data collection process was complemented by other data sources such as secondary literature, policy documents, key person interviews in Colombo and in the study regions, and tracking of media articles and programmes on the topic.

#### **1.3.1 Primary data collection**

For the primary data collection component of this study, we mainly used an iterative method, building livelihood and life trajectories, with the aim of understanding socio-economic changes within individuals, MSEs and ultimately the households within which they operate. In the war-affected areas, MSEs are ‘embedded’ within the household socio-economy (Kodikara, 2018). Therefore, this study is methodologically framed on the premise that the study of enterprises and entrepreneurs are inextricably linked with household dynamics.

The Centre for Poverty Analysis (CEPA) and its researchers interacted with a panel of 28 ‘entrepreneurial’ households from micro- (employing less than 10) and small-sized enterprises (employing 10-50), over the course of 10 months.<sup>3</sup> To choose the 28 ‘entrepreneurial’ households, CEPA had to find respondents willing to speak to our researchers at length over a ten-month period. 42 respondents were initially interviewed in both Trincomalee and Batticaloa. This sample included 16 females and eight males in the Trincomalee district (all Tamil), and two females and 16 males (two Tamil and 16 Muslim) in the Batticaloa district. The sample size was then reduced to 28 respondents based on their willingness to continuously engage with the researchers, ensuring a mix of MSEs stemming from primary production (agriculture, dairy), retail and the service sector. The sample tried to include, as much as possible, entrepreneurs of both genders and an ethnic (Tamil and Muslim) mix. War-affectedness was a key criterion for the sample, with respondents with varying degrees of war-affectedness included. The ultimate sample was then rechecked to make certain that the different categories of entrepreneurs, based on their scale, sector and motivations for engaging in the industries, were included. The selected households or the in-depth follow-up were from different socio-economic backgrounds as well as from different genders, ethnicities, locations and religions. The final sample included 17 people that were Muslim (16 males, one female) and 12 people that were Tamil (three male, nine female).

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<sup>3</sup> To understand the livelihood and life trajectories, two experienced research assistants were hired locally from Trincomalee and Batticaloa in the directly war-affected Eastern Province of the country, working in close collaboration with CEPA researchers.



The entrepreneurs interviewed were diverse and included petty traders like women selling food outside fuel stations, women grinding flour to sell to villagers, and women who own tea shops and create tiny crafts and food items (cookies, *vadai*, breakfast and lunch items) to support their family. The sample included factory-based manufacturers from different sectors, including people that owned small-scale garment (shirt) factories and small-scale shoe factories that are able to sell their products in various parts of the country, and agri-based producers (those who owned cattle and milking farms producing daily milk and yogurt), and people that owned juice factories. There were many cottage industries included in the sample, many of which were for food products or small-scale sewing businesses, with equipment provided by the government, a donor organisation or through relatives. The sample includes both men and women who mainly belong to the Tamil and Muslim ethnic communities.

The narratives of entrepreneurs presented in this paper highlight the main analytical threads and findings. This paper is one in a series of two working papers based on the same primary data.

### 1.3.2 Mapping of policy and implementation strategies

We primarily gathered policies, documents and speeches (budget speeches) that focused on SMEs and SME development. After a thorough scanning process, we identified a few sections within the policies and documents that needed further clarification. As such, CEPA reached out to various institutions and ministries such as the Ministry of Trade and Commerce, Chamber of Commerce, World University Service Canada (WUSC) and Biz Plus supported by GIZ. Though several attempts were made to get in touch with the Ministry of National

Policies and Economic Affairs, we were unable to secure an interview.

We kept up to date on entrepreneurial trends within Sri Lanka by tracking media articles both online and in print. This gave us insight into various SME projects taking place across the country conducted by the Government of Sri Lanka (GoSL) and various private institutions. While state projects focused mostly on presenting awards and boosting 'entrepreneurs' working within primary production and retail and services, the private sector (particularly in Colombo) focused on start-ups and introducing different investment schemes to a younger, more IT-focussed group of entrepreneurs. CEPA attended a few such events that disseminated entrepreneurial know-how and technology usage to up-and-coming entrepreneurs in Colombo. Regionally, at a district and divisional level, CEPA conducted interviews with people from National Enterprise Development Authority, Industrial Development Board, regional chambers of commerce and financial institutions such as micro-finance institutions to comprehend the structure within which SMEs function/allowed to function and schemes that are provided to assist these entrepreneurial activities. We also interviewed officers from technical training departments such as *Vidatha* to understand the implementation processes on the ground level.

CEPA also met with key people within the communities including doctors, religious leaders, presidents of charity funds and trade unions, prominent businessmen, and people who have attempted to encourage entrepreneurial activity among their communities. Several follow-up field visits were conducted with the field researchers and CEPA researchers to gain a better understanding of support systems both socially and through various organisations, and in understanding the importance of family support in 'successful' entrepreneurial activities.



## 2 Findings

### 2.1 Continuities of war and impacts on life and livelihood trajectories of entrepreneurs

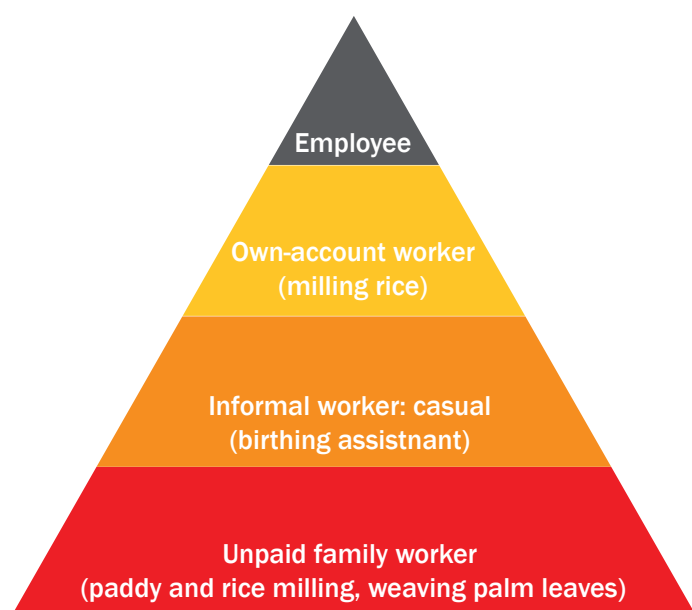
For Muriel and many others we spoke to during this study, the boundary between war and post-war is non-existent. During the war she lost her two sons and after the war ended, she lost two sons-in-law and a daughter at the hands of state military and para-military actors. She has managed to send one of her widowed daughters with her three children in a boat to Australia (irregular migration seeking asylum) by paying an ‘agent’ with money that she borrowed. Muriel now has to pay off her debt through her rice flour milling business.. As the excerpt below illustrates, she is still waiting for her missing daughter to return home.

***I do not want to go anywhere else. My family was broken down and destroyed. If my lost daughter would come again how will she find me if I go somewhere else? So I will not go anywhere else. (Muriel, 67, female, home-based female miller, Trincomalee).***

Almost 10 years since the war ended, Muriel and her family’s lives remain bound by its impact. Not only her past memories, but her hopes for the future are interwoven with past events. As a great-grandmother, while admitting she is content to be where she is at present in life, whatever progress she has made in her economic life is completely overshadowed by the personal losses she has suffered. She blames the state for not doing enough to find her missing daughter. For people like Muriel, what is important is information and justice for the war-related experiences they have had to go through. She says she is tired of all the difficulties she has faced, yet she goes on, showing great flexibility in adapting to the conditions she finds herself in.

Figure 1 maps Muriel’s livelihood trajectory that has taken her from being an unpaid family worker to an own-account worker over the years, including her stays in refugee camps in the Northern Province of the country. She has always supplemented the family income; even as a child she helped her mother grind rice flour and weave palm leaves for roofing. Since her husband died, she has been the main breadwinner, supporting her grandchildren. She has engaged in a diverse portfolio of work over the years. She was not able to pursue her dream of becoming a nurse due to her husband’s insistence that she be a ‘housewife’, but to make up for this lost dream, she has acted as a midwife (birthing assistant) in the multiple locations she has lived.

**Figure 1: Muriel's livelihood trajectory and the current income portfolio**



However, a lack of formal training and the necessary paper qualifications make it impossible for her to perform midwife tasks as a 'regular' and recognised job. She migrated to the Gulf twice for work, when the family most needed the income, and she ran tea shops in the places she was displaced to. Now engaged in rice flour milling, roasting, packaging and selling within the village and surrounding areas, she is clear she does not want to expand her enterprise to the level of being an employer and she is not interested in 'graduating' to the next level of the enterprise. She is content to 'survive' on the incomes the household is generating.

The story of Jothy, aged 60, from Trincomalee is also a tale of multiple displacements within the country due to war-related violence, migration abroad three times due to economic hardships, and the loss of a son to the war and a daughter-in-law and her babies still missing. Over her life, she has engaged in many livelihoods, depending on where she is living and the needs of her family. She has worked in a factory close to the capital, engaged in gingelly grinding and making gingelly toffee, selling fried casava chips, a clothes retail business, and making and selling curd.

***Then we got to know that my son had died in Vanni on 12 December 2008. We did not even get his body. We wept a lot. We were not able to go there even. We did all the final rites for the body based on what they told us ... (Jothy, 60, female, retail ready-made garments, Trincomalee).***

For people like Jothy, severely affected by war, their expectations from the government in the form of livelihood assistance is non-existent, as the below extract shows. Instead, what men and women like Jothy and Muriel demand is justice for their dead or missing family members. However, faced with the lack of recourse by the government in this, during the war and at present, support in the forms set out in enterprise development policies will not reach the men and women thus affected by war.

***No. The government did not help us. We also did not expect [them to]. I pleaded with the government authorities when my children went missing. But no one took any effort to find them. Why should we expect any support from the government now? (Jothy, 60, female, retail ready-made garments, Trincomalee).***

Lasting impacts of war-related violence hindering individual, family and business growth manifest not only for self-employed businesses, they also impact small industries that employ 1-10 workers. As Faizal, a shirt factory owner from Batticaloa, explained to us, his family business, managed by his father during the war, faced continuous setbacks. Combined with his father's failing health, the family business had failed completely, and he had resorted to migrating to the Gulf to accumulate sufficient savings for a fresh start.

***War also affected our business as well during 1987, our shop situated near the market area, very often LTTE (Liberation Tigers of Tamil Eelam) shoots at the market, when the fire comes we used to run away leaving the store as it is, when we come back we do lose money and other items. LTTE robbed the place, there are high chances people also could have utilise the situation and make use of it. (Faizal, 40, male shirt factory owner, Batticaloa)***

War-related violence, markedly across ethnic lines and ethnicised neighbourhoods and communities within the Eastern Province, meant that certain areas were inaccessible for groups from certain ethnicities. This is especially so for small businesses in the food and beverages sector, like Iqbal from Batticaloa, whose business produces fruit juice in packs and markets it within the district. Iqbal's story also highlights his risk averse business strategy during the war when he maintained his business in a survival state. However, the 'closing' and 'opening' of markets during and after the war differs based on the product, as the story by Riyaz, the shoemaker illustrates.

*During the war we couldn't reach the local retail shops or market as we do now, we were also afraid of going to Tamil villages, there were incidents of kidnappings as well. I was only focusing on weddings and other event orders. We also provided items for Tamil events too, they used to come and get the items. After the war, only we could reach the local market, retail shops. So, ending of the war broadened our market. (Riyaz, 43, male shoe factory owner, Batticaloa).*

As discussed in the Introduction, the 2018 Budget and the policies on SME development, while focusing on enterprise development, do not focus specifically on enterprise development of the war-affected areas. Instead, a blanket approach is taken, not only in terms of recognition of war affectedness, geographical and regional disparities, but also in the different types of enterprises, including those who engage in an enterprise for survival. The latter will be discussed in more detail in the next section.

Continuities of war, such as war-related trauma and mental and physical health factors, still play a role in people recovering from and rebuilding their economic, social and emotional lives in the directly war-affected regions (Somasundaram & Sivayokan, 2013). Muriel's loss of family members from violence, loss of property, and her eldest daughter's fate as 'a missing' person, strongly shape her present. This raises the question of whether men, women and youth affected by decades of war are in the right frame of mind to be motivated by the more commonly accepted defining characteristics of entrepreneurs, as stated by Schumpeter (1934): a) the will to found a private kingdom b) the impulse to fight, to prove oneself superior to others and c) the joy of creating ... seeks out difficulties, changes in order to change and delights in ventures.

## **2.2 Definitions and categories: Multiple units of production and MSMEs within the household**

Sameena's story, a Muslim woman who continues to act as the 'shock absorber' through her *Abhaya*<sup>4</sup> sewing business at home, raises the question of the 'unit of operation' of the micro, small and medium-sized enterprises (MSMEs), specifically in a post-war economy such as Northern and Eastern Sri Lanka. Following

the complete breakdown of a family-run business in Batticaloa due to war-related violence and the Indian Ocean Tsunami in 2004, Sameena's husband migrated to the Gulf. While her husband was away, she started an *Abhaya* sewing business and financed the family expenses through it, saving the money remitted by her husband for the future venture. She relied on her husband's business and personal contacts to source the raw material for her own business and to access markets, at first within her village and then in the city centre. Her financial acumen and skills enabled her and her husband to set up a shirt factory employing 12 workers at present. She continues the *Abhaya* business, employing two girls and has specialised in embroidering and hand-painting them. For about two months during the height of the 'season', close to *Ramadan*, her three children are left in her mother's care and she hires extra help at home for household chores. She keeps up with fashion trends through the internet on her smartphone. Both she and her husband shared with us their plans to expand both businesses. Sameena's business is not registered at any of the government agencies, and therefore would not be considered for any support. Both Sameena and her husband were not interested in the registration process as they felt it was not helpful for their businesses.

In instances like these – where one 'unit of production' is closely interwoven with other economic activities within the household, and where one has played a more dominant role generating an income than the other at given points of time – identifying, categorising and supporting such enterprises for growth and related governmental objectives like provision of employment becomes difficult. Is it the household that the policies and programmes should target? Or is it the businesses, as is the usual practice? What would targeting households entail and what would targeting an individual business within the household entail, at the expense of the other?

## **2.3 Definitions and categories: Complex and interlinked multiple livelihood portfolios and enterprises**

Sathiya, a 37-year-old woman from Muththur in Trincomalee, is engaging in multiple forms of work at the same time, at present, although she started those livelihoods at different points in her life. She employs three workers in the cultivation. Her story is a clear example of where training provided by non-governmental

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<sup>4</sup> Outer garment commonly worn by Muslim women

**Table 2: Livelihood portfolio of Sathiya**

Type of livelihood	Income per month	Capital and training	Reasons for starting up	Market
Poultry	Rs50,000	USAID (grant) and Viluthu (training/advice)	Make use of the training provided by USAID and the ability to do it from home	Sold within the sub-district (Divisional Secretariat area)
Ready-made garments business	Rs15,000	Pawning jewellery when necessary	Earn an income when in displacement	Within the district
Home garden	Rs10,000	Berendina and Caritas (loan)	Eat organic food and make an additional income	District market place and in the locality
Paddy Cultivation	Rs50,000 (per season)			Buyers from outside the district

organisations as well as the provision of capital (either in the form of grants or loans) has enabled her to reach a better position in life where she can 'support herself' as the table below illustrates. She has now managed to broaden her market base from the village to the sub-district and district. She engages in multiple livelihoods at the same time, including primary production and retail business.

Sathiya's and similar narratives within our study illustrate the strategies used by individuals and households in fragile contexts such as war to diversify their income sources to avoid risk posed by external factors. She engaged in retail business, which does not require fixed assets or property to earn an income, when she was in a refugee camp and on return, once she had access to her cultivable land, she started the agriculture-related livelihoods. Men and women like Sathiya supplement their household income through these different livelihoods throughout the year or season. In a sense, their 'dynamism', 'innovativeness' and 'ability to withstand external shocks' (qualities the SME policies envision for SMEs) come from their ability to diversify, change and spread risk.

However, the dynamism and innovativeness that the SME policies envision for the sector take a very different form. The 'vision' for the SME sector as set out in the 2002 White Paper assumes a **'dynamic, robust and innovative SME sector ...** that is able to respond dynamically to domestic and international market signals. They need the ability to withstand sudden adverse shocks in a **robust** manner' (Task Force for Small and Medium Enterprise Development Program, 2002: 11 – emphasis of original authors).

On the other hand, by framing or categorising one of these activities as an MSE to be supported by

external interventions such as training or provision of credit, there is an expectation of enterprise owners to perform, to specialise, to yield results and ultimately to graduate to the next level. However, the enterprise owners prefer to retain their multiplicity – part of their risk-spreading strategy – rather than specialise and focus in on one activity; as a result, they are not willing to graduate or expand.

## 2.4 Definitions and categories: Necessity entrepreneurs

A representative from a Women's Development Society in Trincomalee explained how some women have been made to take up a livelihood 'with or without their desire', as a direct result of the war, as the following extract illustrates. These women engage in 'survivalist' self-employment; the most precarious forms of work. They eke out a living from day to day and are stuck in a vicious cycle where they are unable to save to scale-up their livelihood activity.

***Before the war families were headed by men. But after the war female-headed families increased. They were put into a situation where they had to find their livelihood by themselves. They are in a situation where they have to do a job with or without their desire. Most of them do a job where they get their money immediately after they give their products. They cannot earn a big profit as they need to have a big capital for that and they cannot afford it. If they cook and sell food today they buy the needed things for tomorrow with the money that they earn today ... They cannot save any money. And with this cost of living they cannot save anything. (Key Person Interview, Women's Rural Development Society, Trincomalee)***



Some women in the directly war-affected areas engage in such survivalist, precarious forms of work throughout their lives. Their war-affectedness and the differentiated household needs (depending on the household demographics and life-cycles) make them engage in different forms of ‘self-employment’ or enterprises. For example, Malar, a 64-year-old widow, lost all her productive assets, her husband and 16 of her family members, including her brother and nephew (who supported her budding business in 1985) due to the riots. Following a few experiences of internal displacement during the war, they left for India in 1990, lived in refugee camps in India until 1996, then returned to Trincomalee. As the below extract illustrates, she has alternated between working for a wage and engaging in an enterprise on her own all her life. At present, she makes snacks and sells them at the roadside to continue to support her grandchildren. At one point, faced with the need for extra cash to be given as dowry, she decided to migrate to the Gulf region as a housemaid; other than that, however, she has worked in different roles close to her hometown. She has no savings nor social safety nets to protect her when she is older and not able to work anymore.

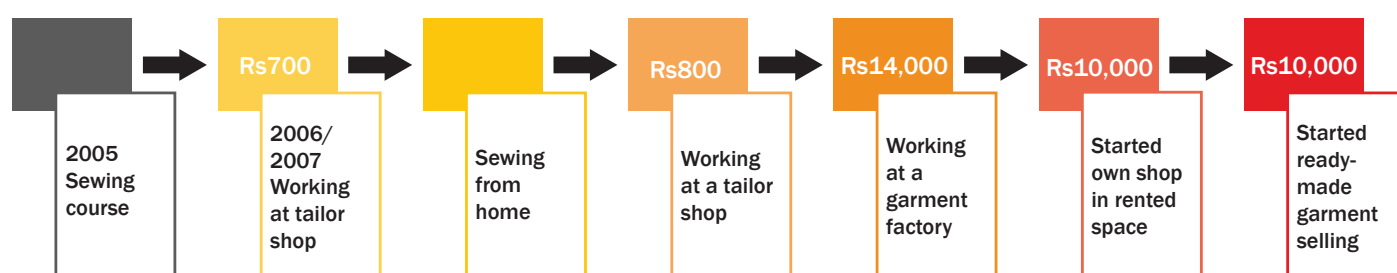
*I started a small tea shop at a village called Muthur in 1983. Later I changed to a small restaurant. I started this with my husband ... My husband was killed by the Sri Lankan army in the 1985 riot. Also, my shops, houses and all the belongings were burnt ... (they had left for India as refugees in 1990). Later, in 1996, after we came back from India, I made hoppers in the morning and sold them to shops and houses because of my economic difficulties in bringing up my children. After that I worked in a canteen at a school. I made all the snacks there by myself. Also I made lunch packets for order as well. I took all the orders somehow and did everything in the early morning as I had to bring up my children. After that I went abroad as I had to give dowry for my children. After coming back from there I worked as a housemaid at a home*

*for a monthly wage. Then, as I could not do household work, I went asking to manage the canteen. But I did not get it. So I made and sold snacks (Malar, 64, female, making snacks and selling, Trincomalee)*

For men and women like Malar, who work in precarious, survivalist jobs out of necessity, engaging in enterprises is not going to help them out of poverty. Rather, these are short-term subsistence activities and they are vulnerable to falling into absolute poverty, given the absence of formal or informal safety nets. In Malar’s case, her husband and other male family members who could have supported her financially (a potential informal safety net), were lost in the war. On the other hand, micro-enterprises are not going to be able to generate more employment nor will they be broadening their market or product base and thus contributing to the regional economic growth as expected by the SME policies.

On the other hand, there are stories of ambition, of a drive to scale up and grab opportunities. Consider Gita from Trincomalee town, for example. Her work history reveals how she gradually managed to come up in life economically, despite at one point being a single parent supporting her family. Her trajectory, illustrated in the figure below, illustrates how different types of job experiences in the same sector can culminate in economic success. In contrast to the other women entrepreneurs discussed in this paper, Gita has managed to accumulate savings for her child, has bought gold jewellery (which is considered an investment in Sri Lankan culture) and considers the six sewing machines she now owns as her asset base. Furthermore, she has clear plans for expansion; by increasing her savings, she plans to purchase a space of her own to conduct her business ventures and to start a sewing training centre. At present, she claims she is better off than when she started her business and that her once-estranged husband has returned to the family because of her perseverance in earning a decent living and supporting the family through the hardest times of their lives.

Figure 2: Livelihood trajectory of Gita





**Table 3: Definitions of the MSMEs**

Size/sector	Criteria	Medium	Small	Micro
Manufacturing	Annual Turnover	Rs.Mn. 251-750	Rs.Mn. 16-250	Rs.Mn. 15 or less than Rs.Mn. 15
	Number of Employees	51-300	11-50	10 or less than 10
Service Sector	Annual Turnover	Rs.Mn. 251-750	Rs.Mn. 16-250	Rs.Mn. 15 or less than Rs. Mn. 15
	Number of Employees	51-200	11-50	10 or less than 10

Source: Ministry of Industry and Commerce, 2016:4

As Table 3 illustrates, the commonly employed criteria for defining small industries include number of employees, amount of fixed investment, nature of the business and the sector (formal or informal). However, in transitioning or fragile economies such as those in the regions directly affected by protracted war such as the Northern and Eastern Province of Sri Lanka, these commonly applied criteria may not be meaningful.

Our analysis above highlights other characteristics beyond what is captured so far in policy documents in defining or categorising MSMEs, especially in fragile and war-affected contexts. For example, an important consideration here should be the motivation to start and engage in an enterprise. An entrepreneur who started a business because she has no other choice given her childcare responsibilities, and an entrepreneur who started a business because she wanted to innovate and be 'her own boss' will have different support systems at home to facilitate the enterprise, expectations from the enterprise and plans for scale up or expansion and different levels of external support needs.

On the other hand, Key Person Interviews (KPIs) in Colombo with sector experts highlighted how the relevant policy discussions have not acknowledged the lack of an overarching frame to identify and measure the impact of success in MSMEs. The lack of employing a uniform definition, categories and frames has resulted in an inability to provide an outlook of the sector at a national level and in the directly war-affected regions in the country. For example, the Department of Census and Statistics (DCS), the national data bureau for the country, has employed two different ranges in two consecutive rounds of data collection – in the year 2000 (less than 25 employees) and in 2003/4 (less than 10 employees) – to identify small industries. In such instances, time series data-based analysis becomes impossible and as such, understanding the impact of these enterprises for the household incomes is not possible.

Furthermore, having identified a lack of sufficient capital for starting an enterprise, government policies have provided a range of micro-credit packages, as discussed in the section on policies. However, these schemes, along with others not linked to enterprise development, have been identified as disrupting the household economies in war-affected areas (Mallet and Pain, 2017; Sanguhan and Gunasekara, 2017; Kadirgamar and Kadirgamar, 2018; Ranawana and Senn, forthcoming). Analysing the phenomenon and practice of micro-credit (specifically linked to enterprise development) by using the same data set as this paper, highlights how multiple borrowings to boost the consumer culture popular in war-affected areas have left people engaging in more than job. Moreover, lack of access to physical markets is driving debt and the intense financialisation of the directly war-affected areas are 'normalising' debt and multiple borrowings. Therefore, elements of 'outsourcing of risk' to women, and female entrepreneurs in particular, by providing them with micro-credit, stands in stark contrast to their daily struggle to make a living.

## 2.5 Open market policies and entrepreneur expectations: 'After the end of the civil war, business war started'

*Current challenge is, government motivation for the small industries are very limited these days. There is no marketing support from government. Government could give us technology to produce standard production. Government give cows, like that they could give us machines without tax. (Riyaz, 43, male shoe factory owner, Batticaloa).*

The negative manifestations of the war on enterprises are manifold, as discussed. However, for certain products and for those manufacturers that fall within the category of small industries, the ending of the war and resulting market dynamics have created a stagnation in their business, if not a negative turn. As Riyaz, the

shoe factory owner from Batticaloa who employs 14 people, explained to us, the ending of war, combined with the government economic policy of open market strategies has created competition. During the war, the production from the Northern Province was at its minimum, and buyers from the Northern Province came to their culturally and geographically close neighbours – the producers in the Eastern Province. As a result, in areas like urban Batticaloa and its suburbs, production thrived, further fuelled by the abundant labour flowing into the area in the form of internally displaced people from the interior of the Eastern Province. Riyaz's description below illustrates the socio-economic status he enjoyed during the war. However, in his words 'following the civil war, business war started'.

***To be specific there was no effect of war in our business, actually the business was thriving at that time. After the war ended, it is not doing that well. During the war people didn't have much access to the North; they couldn't reach Jaffna area as they were afraid of the war. Since we were born here, we got used to the bullet sounds ... for you and me we are not that afraid of the shooting or bombing sounds. At that time, we got many buyers from Vavuniya and Mannar [Northern Districts of the country]. Normally the buyers purchased 50 pairs [of shoes] in a single design. They went to do whole sale in the areas where the war was happening ... During the days of the war, we earned a lot, with the 2 lakhs money I was able to accumulate more than 7 lakhs within 2 years and I sent my parents to Haj. I purchased a vehicle with seettu [informal group savings] money, but the situation changed in 2010. Now everything is like war; following the civil war, business war started. We are not making a loss, we only manage to survive. Now there is no money floating. (Riyaz, 43, male shoe factory owner, Batticaloa).***

One of the main reasons cited by various industry owners in Batticaloa for the 'business war' was the increase of imports from countries like China and India. Although the government's open market policies were in place for decades, they were more closely felt by the directly war-affected North and East post-2009; only with the ending of the war did the markets in these areas become more accessible. There was an economic embargo in place in the Northern Province of the country, with the goods coming into and going out of the region closely regulated by the government and other armed factions. Although this was not the case in the Eastern Province, security concerns and sometimes lack of road infrastructure

restricted access of goods from outside entering the Eastern market places.

Riyaz cites the example of a shoe brand named VKC currently dominating the market in the region. He states that the manufacturing of men's shoes in the region has almost completely stopped because of this. Instead, shoe manufacturers have shifted to ladies- and kids-wear. These sentiments were closely interwoven with reflections of the closed, protectionist economic policies of the 1970s' political regime, during which local manufacturing in sectors like handloom flourished. The industry continues to this day, adapting to the market challenges (brought in by export products such as sarees and sarongs from India) by accessing the high value, niche markets in Colombo. However, marketing challenges prevail.

***Following peace, import business developed and economic policy of the government also changed, so more products came from India and China, specifically the VKC brand. They have a fine finish and modern designs, so people bought more of those items. VKC brand didn't come to Sri Lanka till the war ended, following the peace only it became famous. (Riyaz, 43, male shoe factory owner, Batticaloa).***

These challenges have meant these entrepreneurs have become more risk averse in the current context. Some industry owners like Riyaz were very clear they were content not to expand or specialise their business further, but to maintain it at the current standard. He mentioned land he had purchased with the intention of setting up another factory, which he has left vacant now, and a machine for assembling the soles of men's shoes that is collecting dust because he has no use for it anymore. The shirt factory owner, Faizal, was weighing his options of product and market expansion. Instead of an outsourced outfit, he is considering purchasing his own material and starting an independent brand, but he is still not sure whether he can absorb the market risk of the need for waiting for a few months at least for payments for his goods from his wholesale buyers. As an outsourced production unit, this risk is also outsourced for him right now.

***Recently I was thinking of getting the raw materials on my own and produce the final product, but there is a huge risk of marketing. I was thinking of producing different items as well, such as ladieswear, saree skirts, housecoat, Abaya as well (Faizal, 40, shirt factory owner, Batticaloa).***

### 3 Dissonance between policy discourse and expectations and experiences of micro and small entrepreneurs

The few studies (de Mel et al, 2008; Gamage, 2014; Kodikara, 2018) available on entrepreneurship in Sri Lanka question the assumptions behind enterprise development initiatives and question the promotion of it as the magic bullet for poverty alleviation, employment creation and regional economic growth.

#### 3.1 Post-war continuities and MSMEs

Following the civil war's end in 2009, the use of MSME promotion to incorporate several aspects of cohesion, development and reconciliation into one basket has not resulted in positive outcomes for the men and women in the directly war-affected areas. Gamage (2014: 362) notes that 'economic growth through transforming conflict and promoting reconciliation is a viable strategy in respect to the growth of SMEs' focusing on the directly war-affected Northern and Eastern Provinces of Sri Lanka. According to the Budget speech for 2018, a total of Rs 14 Billion (14,340,000,000) has been allocated for SME development, with a specific focus on vulnerable groups, such as women-headed households and those with disabilities. While it is mentioned that areas in the North and East need extra assistance as they were affected by the war, there is no specialised package or plan to help promote and develop small level businesses in this area. Enterprise Sri Lanka programme, catering specifically to the government's Vision 2025, fails to specify and include entrepreneurs in the war-affected areas in a scheme designed to better the future of Sri Lankan citizens.

Muriel's story of waiting for her eldest daughter to return echoes Kodikara's (2018) work in Mullaithive. Her example of Hamber and Wilson (2002) particularly parallels the story of Muriel and Jothyin in the way in which survivors continue to go on in hope of their loved ones returning, because to do otherwise is considered extremely disloyal. For people like Muriel, her 'own productive labour was materially, temporally, spatially and affectively entangled with and circumscribed by the extraordinary labour of remaking their lives after war' (Kodikara, 2018: 2). She continued searching for her missing daughter while supporting her other daughters' families through her milling business and by borrowing money from a range of institutions. Her main preoccupation at the moment is obtaining information about her daughter from the authorities. She is happy to continue her small business at its current scale, irrespective of how precarious her income is. However,

the government vision for enterprise development for people like Muriel requires an innovativeness that is able to 'aggressively adapt and adjust ideas and technologies of all kinds' (Task Force for Small and Medium Enterprise Development Program, 2002: 11). Therefore, the question is whether targeting such women for entrepreneurship development programmes (that are strongly characterised by innovation and risk-taking) would help achieve the overall well-being of such war-affected families.

### 3.2 Definitions and categories of MSMEs in post-war contexts

Despite the high volume of finances being invested in developing the SME sector, and there being an understanding within policy on a certain level that not all entrepreneurs are equal, there seems to be a lack of desire for a clear definition of an entrepreneur. While there was a struggle to define MSMEs and what constituted an MSME, there seems to be no substantial definition of an entrepreneur that is used by the state (See Gamage, 2014: 359-360, for a useful overview of definitions used by different agencies).

However, this is problematic given the fact they are at very different skill levels, are motivated by different factors to engage in 'enterprises', have access to different levels of financial capital and are part of different social networks.

Currently, in terms of building capacities, most SME development policies are IT-centred, with education and training provided to entrepreneurs who wish to use technology to develop their businesses. The National Policy Framework for Small Medium Enterprise Development 'recognize[s] and reward[s] innovative and technology leading SMEs and assist[s] them to participate in foreign trade fairs, exhibitions and technology demonstration platforms' (Ministry of Industry and Commerce, n.d.:6) However, when micro enterprises operate with a 'survivalist' rationale, as discussed above, their current training requirement or capacity to absorb is not of IT-related skills.

### 3.3 Women in MSMEs in post-war contexts

While government policy documents such as the Policy Framework for SME Development and the 2018 Budget do not specifically focus on micro-enterprises operated in the war-affected areas of the country, the Reconciliation Action Plan (2017) and the National Action Plan on Women Headed Households 2017-2019

(2017) focuses on promotion of SMEs in the directly war-affected areas and people. The former contains a Reconciliation Focused Economic Empowerment Programme (REEP) and a village-based enterprise programme for development of MSEs. The latter focuses on strengthening self-employment and entrepreneurship opportunities for women-headed households.

The National Human Resources and Employment Policy (NHREP) is one of the few policy documents on SME development that shows a specific focus on women. The NHREP has a section dedicated to gender which discusses methods through which women can be empowered, and also difficulties faced by women in employment. A recurring stance is the promotion of entrepreneurship development among women to enhance their access to credit, technology, business knowledge and markets. The policy discusses the establishment of a social security system considered for the benefit of self-employed women. The 'considered' social security system is to be set up through a fund maintained through contributions of self-employed women. This mention comes directly after a clause in which the GoSL recognises that it is the government's responsibility to provide for a large group of women made vulnerable by the civil war.

In contrast, the 2002 White Paper, considered to be the foundation for the development of SMEs in the country has only one reference to gender and none at all to women throughout the policy. Gender is mentioned in relation to the social development potential of SMEs along with equity. Furthermore, the paper states the need for a distinction to be made between criteria required for social policies and 'achieving globally competitive SME sector' (Task Force for Small and Medium Enterprise Development Program, 2002: 11). However, the critical problem of the vulnerable men and women engaged in enterprises in the directly war-affected areas of the country is their need for such social policies and not their need to engage in a globally competitive SME sector. The government policy dissonance on SME development lies partly in this.

### 3.4 Impact of open markets on MSMEs

As mentioned above, the White Paper (Task Force for Small and Medium Enterprise Development Program, 2002: iv) that provided direction for the National Policy Framework for Small and Medium Enterprise Development is based on the policy formula 'maximum support but minimum intervention', within which



the government is expected 'not to interfere in the market, and provide only a favourable macro-economic environment, institutional support and infrastructure facilities'. In other words, it expects to outsource the risk of entrepreneurship to others (Mader, 2015). Examples from other post-crisis countries, such as the case of Bosnia critiqued by Bateman (2001) and Pupavac (2005), show the impact of structural adjustments and the neo-liberalisation of the economy by promoting micro-enterprises and skills training. In Sri Lanka, Buddhadasa (2011: 119) argues that 'entrepreneurs cannot create economic development by themselves alone'. Therefore, in post-war contexts, where would the minimum intervention policy of the government lead to, in terms of policy objectives and expected results? This consideration applies not only to the micro, survivalist types of entrepreneurs, but to the small industries discussed above, who thrived during the relatively 'closed' economy during the war.

The narratives from Trincomalee and Batticaloa presented above highlight how 'after the end of the civil war, the business war started'. The open market policies in place for decades in Sri Lanka were felt most acutely by the Northern and Eastern Provinces (the main theatre of the 28-year war), only after the war ended in 2009. The improved connectivity and mobility facilitated access to markets in those areas not only for the local actors, but for international actors as well. The local producers could not compete with the lower prices of these goods from outside the district or the country that flooded the markets of the directly war-affected areas. A specific example is a particular shoe brand from India dominating the local regional markets, crowding out the local manufacturers who were thriving during the war. There are many other similar stories, such as ready-made garments, agri-based products and handicrafts, pointing to the cognitive dissonance or ignorance of the policy makers who promote such enterprises without being sensitive to the inability of such products to compete in the market.

As mentioned above, one of the main objectives of promoting entrepreneurship is to 'provide employment to uplift the living standards of people' (Ministry of Industry and Commerce, 2016: 4). More specifically, NHREP (2012) claims that the 'focus on SMEs is usually guided

by their usefulness for raising employment numbers as the capital investment needed in this sector to provide an additional work place on average is normally substantially less than in large enterprises' (Secretariat for Senior Ministers, 2012: 1). However, scholars argue that informal activities, represented by more than half of own-account workers or self-employed, arise from 'the failure of the economic system to create enough productive employment (Tokman, 2007, cited in de Mel et al, 2008). Therefore, the question is: what is the quality of the livelihoods these MSEMs provide? What is the impact of these livelihoods on household-level incomes and poverty levels? Although the NHREP mentions that the quality of such employment needs to be enhanced, concrete steps to address this issue are lacking.

A response to the questions raised above, based on nationally-representative statistical analysis, is not possible in Sri Lanka at present due to the unavailability of data categories in the Household Income and Expenditure Survey (HIES) conducted by the Department of Census and Statistics (DCS). The HIES does not recognise MSEs across the sectors, rather they are spread across the categories of own-account workers, self-employed and employers; isolating the impact of industries on household income is not possible. Therefore, the few available empirical studies in Sri Lanka use different categorisations and definitions such as own-account workers and self-employed to study the sector.

Using a sample of 450-620 own-account workers in a panel survey in Sri Lanka, De Mel et al. (2008) claim that two-thirds to three-quarters of own-account workers will not become employers or generate more employment, directly contradicting the assumption of employment creation outlined in the 2002 White Paper. Gamage (2014) states that the environment in the war-affected regions are not conducive for enterprise development. Kodikara (2018) questions the common sense of the development industry of considering promotion of self-employment as the magic bullet for alleviating poverty. Globally, while some who receive support for enterprises may succeed, at times beyond expectations, many do not. Instead they end up in survival activities (Haan, 1989; de la Rocha, 2001a; Kabeer, 2012; cited in Kodikara, 2018), or petty commodity trade and production strategies (de la Rocha 2001a, 2001b, 2007: 50, cited in Kodikara, 2018).



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## 4 Conclusions

The lives, and livelihoods, of men and women in the war-affected areas of Sri Lanka have been affected differently by the continuities of these conflicts. Absence of safety nets in the form of social security adds to this complexity, especially for the older generation, single-parent households and women. If the criteria for developing a globally competitive SME sector and social policies differ, as stated by the 2002 White Paper, there is a clear need for the government to reconsider promoting SMEs among war-affected vulnerable communities.

Further, adapting a 'war affectedness lens' in development programming in these areas is required. Such a lens includes integrating economic development needs of the war-affected populations and their rights-based needs such as justice. More specifically, this means not only the provision of livelihood support, but also facilitating information of missing family members, provision of basic needs such as housing, and release of lands still held under the military control in the directly war-affected areas of the country.

Entrepreneurship is sometimes a desperate need, rather than a choice, especially in war-affected contexts. The need for daily cash flow for subsistence means that men and women engage in precarious employment. It is sometimes a coping strategy in their livelihood trajectories, sometimes other coping strategies such as migrating abroad for work are used to cope with the loss of an enterprise. Therefore, in certain cases, an enterprise trajectory may take a cyclic form rather than a linear progression from start-up to scale-up.

This calls for a differentiated understanding of the motivations and specific needs of MSEs, rather than a categorisation of enterprises based on annual turnover and number of employees. To address these issues, researchers, policy-makers and development actors need to analyse and understand the typology of micro-entrepreneurs in the directly war-affected areas. Defining characteristics for such a typology could be: their motivation for starting and engaging in an enterprise; the sector that they operate in (agriculture, manufacturing, services); their income and poverty levels; the types of resources they can access including savings, access to markets, and quality of social capital in the form of networks; and the household and individual demographics of the owner.

As a specific ‘type of entrepreneur’, this paper presents a nuanced analysis on the category of ‘necessity’ entrepreneurs in the directly war-affected areas. These entrepreneurs are often those who should be part of state social security benefits (‘Samurdhi’ in Sri Lanka) given their relatively lower economic status, operating from their private space, without any formal business registrations, in the primary production sectors such as agriculture or in petty trade.

Further, meaningful integration of ‘necessity’ or ‘survival’ micro-entrepreneurs into the definitions, policy frameworks and development programming, including their specific needs, is required, as illustrated by these key points:

- Ability to maintain a multiple-livelihood portfolio if required, rather than expecting entrepreneurs to specialise and show results in one enterprise through support provided
- Ability to continue to spread risk across livelihood activities of an individual as well as livelihoods within a household
- Ability to engage in the enterprise from their home if they desire to do so

- Opportunities provided for apprenticeships with pay, re-training and upskilling, when required by the entrepreneurs

These factors should be included within a comprehensive framework to identify and measure ‘success’ of MSEs. Such a comprehensive framework should take into account the specific needs of entrepreneurs in directly war-affected areas and typologies of entrepreneurs as discussed, including necessity entrepreneurs. Furthermore, national statistical surveys should be aligned to these typologies and definitions used in policy frameworks, and the data and analysis generated by such surveys should be used in policy decisions regarding MSE development in Sri Lanka.

Finally, the government policy stance of facilitating MSEs that are expected to be innovative, dynamic and able to withstand shocks, specifically in a post-war rebuilding context in the directly war-affected areas, should be reconsidered. These enterprises, especially at the micro level, will only generate precarious jobs in the short term and will not enable those who engage in these jobs to come out of poverty.

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