

**Micro Enterprises in Sri Lanka: An Analysis of their
Potential for Poverty Alleviation**

by

Madduma Arachchige Shantha Wijesinghe

(GS / SS / 929 / 2000)



**Thesis submitted to the University of Sri Jayewardenepura
for the award of the Degree of Doctor of Philosophy
in Geography on 26th June, 2008.**

DECLARATION BY CANDIDATE

The work described in this thesis was carried out by me under the local supervision of Senior Professor M.M. Karunanayake, and a report on this thesis has not been submitted in whole or in part to any university or any other institution for another Degree or Diploma.

Wijesinghe.....

M. A. Shantha Wijesinghe,
Senior Lecturer Grade I,
Department of Geography,
University of Sri Jayewardenepura,
Nugegoda,
Sri Lanka.



Date: 2008.04.20

DECLARATION BY LOCAL SUPERVISOR

I certify that the above statement made by the candidate is true and that this thesis is suitable for submission to the university for the purpose of evaluation.

M.M. Karunanayake.....

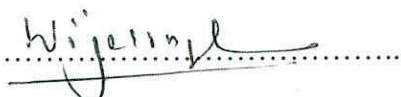
~~Senior~~ Professor M.M. Karunanayake,

Department of Geography,
University of Sri Jayewardenepura,
Nugegoda,
Sri Lanka.

Date: 2008.04.20

DECLARATION BY CANDIDATE

The work described in this thesis was carried out by me under the foreign supervision of Associate Professor Ali Najib, Department of Social and Economic Geography, Uppsala University, Sweden. A report on this thesis has not been submitted in whole or in part to any university or any other institution for another Degree or Diploma.



M. A. Shantha Wijesinghe,

Senior Lecturer Grade I,

Department of Geography,

University of Sri Jayewardenepura,

Nugegoda,

Sri Lanka.

Date: 2008.05.02

DECLARATION BY FOREIGN SUPERVISOR

I certify that the above statement made by the candidate is true and that this thesis is suitable for submission to the university for the purpose of evaluation.



Associate Professor Ali Najib,



Kulturgeografiska Inst.
Box 513
SE-751 20 UPPSALA

Department of Social and Economic Geography,

Uppsala University,

Sweden.

Date: 2008-06-05

Table of Content

<u>Chapter 1 – Introduction</u>	01 – 22
1.1 Understanding poverty	01 – 02
1.2 Nature of poverty in Sri Lanka	02 – 07
1.3 Poverty alleviation strategies in Sri Lanka	07 – 10
1.4 Micro enterprise development as a poverty alleviation strategy	11 – 14
1.5 Statement of the problem undertaken for research	14 – 15
1.6 Objectives of the study	15 – 16
1.7 Justification	16 – 19
1.8 Limitations of the study	19 – 22
<u>Chapter 2 – Survey of Literature</u>	23 - 70
2.1 Literature on micro enterprises / small enterprises	23 – 62
2.2 Discussion on relevant literature	62 – 68
2.3 Focus of the Thesis	68 – 70
<u>Chapter 3 – Micro Enterprises in Sri Lanka</u>	71 - 88
3.1 Definitions and types of micro enterprises	72 – 78
3.2 Relative significance of micro enterprises	78 – 83
3.3 Institutional support for the micro enterprise sector	83 – 88
<u>Chapter 4 – Methodology</u>	89 - 106
4.1 Conceptual framework	89 – 93
4.2 Study area	93 - 94
4.3 Village selection	94 – 98

4.4 Defining villagers' perception	98 – 99
4.5 Sampling	99 – 100
4.6 Data sources and techniques applied	100 – 103
4.7 Measurement of qualitative data	103 – 104
4.8 Analysis and interpretation	105 – 105
4.9 Testing of hypothesis	105 – 106
<u>Chapter 5 – Social Stratification and Distribution of Micro</u>	
<u>Entrepreneurs in the Two Villages</u>	107 - 142
5.1 Location, demographic and socio economic characteristics of the two villages	107 – 113
5.2 Social stratification and the nature of the poor and the non-poor in Akkarawatta and Balantota villages	114 - 126
5.3 Sources of income of the poor and the non-poor households in the two villages	127 – 138
5.4 Distribution of micro entrepreneurs among the social strata in the two villages	139 – 142
<u>Chapter 6 – Characteristics of the Micro Enterprises</u>	143 - 179
6.1 Types of micro enterprises	143 – 148
6.2 Distribution of micro enterprises	148 – 149
6.3 Employment and family labour utilization of micro enterprises	149 – 153
6.4 Use of raw materials	154 - 158
6.5 Nature of market	158 - 168
6.6 Life cycles of micro enterprises	169 – 179

<u>Chapter 7 – Analysis of the Findings</u>	180 - 212
7.1 Demographic and educational characteristics of the sample	180 – 185
7.2 Training and experience	185 – 188
7.3 Life path changes	189 – 205
7.4 Social capital environment for credit investment and reinvestment	205 – 206
7.5 Nature of business work	206 – 207
7.6 Business mind, encouragement and enthusiasm	207 – 208
7.7 Family support	208 – 209
7.8 Market strategies	209 – 212
<u>Chapter 8 – Micro Enterprises and Poverty Alleviation</u>	
<u>in the Two Sample Villages</u>	213 - 269
8.1 Household income	213 – 221
8.2 Human economic aspects	221 – 230
8.3 Vulnerability	231 – 242
8.4 Family as a unit of production	242 – 258
8.5 The concept of sustainable livelihood	258 – 269
Chapter 9 – Conclusions	270 – 289
Bibliography	290 – 306
<u>Appendix</u>	
Appendix I – Format used in the collection of qualitative data	I – X
Appendix II – Analysis of Variance for the income data – Akkarawatta	XI
Appendix III – Analysis of Variance for the income data – Balantota	XII

Appendix IV – Chi-squared Test – Akkarawatta	XIII
Appendix V – Chi-squared Test – Balantota	XIV
Appendix VI – Descriptive statistics for the income – Akkarawatta	XV
Appendix VII – Descriptive statistics for the income – Balantota	XVI

List of Tables

1.1 Consumption Poverty in Sri Lanka by Sector	05
1.2 Poverty Incidence by Province	06
3.1 Relative Significance of Micro Enterprises in Sri Lanka	79
3.2 Comparative Significance of Micro Enterprises in terms of the Output	81
3.3 Relative Significance of each Industrial Sector	82
4.1 Sample Structure of Two Villages	100
4.2 Sources of Primary Data	101
5.1 Main Sources of Income of Poor Households in Akkarawatta	129
5.2 Main Sources of Income of Non-poor Households in Akkarawatta	130
5.3 Main Sources of Income of Poor Households in Balantota	133
5.4 Main Sources of Income of Non-poor Households in Balantota	136
5.5 Distribution of Micro Entrepreneurs within the Social Strata	139
6.1 Types of Micro Enterprises Located in Akkarawatta	144
6.2 Types of Micro Enterprises Located in Balantota	145
6.3 Number of Employees and the Type of Labour Utilization of Micro Enterprises in Akkarawatta Village	150
6.4 Number of Employees and the Type of Labour Utilization of Micro Enterprises in Balantota Village	151
7.1 Age Structure of Two Groups in Akkarawatta	181
7.2 Age Structure of Two Groups in Balantota	182

List of Tables

7.3 Educational Level of the Two Groups in Akkarawatta	184
7.4 Educational Level of the Two Groups in Balantota	184
8.1 Relationship between Two Groups in Akkarawatta with respect to Sufficiency of Income	217
8.2 Relationship between Two Groups in Balantota with respect to Sufficiency of Income	218
8.3 Change in Living Pattern of Micro Entrepreneurs after Establishing Micro Enterprise	219

List of Figures

4.1 Location of Akkarawatta Village	96
4.2 Location of Balantota Village	97
4.3 Income & Expenditure Tree of Family (Household)	104
6.1 Nature of Stages in Business Cycles of the Enterprises in Two Villages	171
8.1 Average Monthly Income of Two Groups in Akkarawatta	234
8.2 Average Monthly Income of Two Groups in Balantota	235

Acknowledgement

I am very much indebted to my local supervisor Emeritus Professor M. M. Karunanayeka for the guidance, encouragement, and the assistance given to me since I became a Ph.D. candidate of the Sida/ SAREC Research Co-operation Project. I spent many valuable hours with him discussing my research problems and exchanging useful ideas relating to the topic of this thesis

I am also very much indebted to my foreign supervisor, Prof. Ali Najib, as this study was also pursued under his constant supervision, encouragement and patient advices. He was helpful to me in many respects and I particularly like to acknowledge his generous help, as he was so kind to give me the instructions over the phone from Sweden. When I was in Uppsala he guided my studies well by sending me to Jonkoping Business School for further studies.

I should particularly be thankful to Prof. Axellson who gave me valuable instructions when I was studying in Jonkoping Business School. Furthermore, I wish to express my sincere appreciation to Prof. Sune Berger who generously helped me when I was in Karlstad.

I wish to express my sincere thanks to Dr. Clas Lindberg for giving instructions from time to time. He was particularly helpful to me in providing various facilities when I was in Uppsala.

My special thanks must go to Dr. C.K.M. Deheragoda for his kind co-ordination and the generous support given to complete this thesis. My thanks would also be incomplete if I do not mention the support given by Prof. M.D.C. Abayarathna, Prof. Mrs Y.A.D.S. Wanasinghe and Prof. W.P. Wilson.

I also acknowledge with gratitude the financial support provided by Sida/ SAREC Research Cooperation project on Regional Development and Poverty Alleviation.

Turning to my field area, I wish to express my gratitude to my field assistants, Messrs. Iroshana Gamlathge and Upendra Ihalahewa who carried out discussions and interviews with villagers in the study areas. Most of all I owe to all the villagers in Akkarawatta and Balantota who treated me with hospitality and warmth. I wish to acknowledge my thanks to village level officers and villagers who provided valuable information to produce this thesis.

I owe a special debt to Mr. M. Ariyathilake and Mrs. A. Ranaweera for editing the manuscripts and to Mr. H.P.M. Janaka Hadunpathiraja for the preparation of maps. My acknowledgement would be incomplete without mentioning my deep gratitude to all the staff members in the Department of Geography in Uppsala University and the University of Sri Jayewardenepura.

Last but not least, I am deeply indebted to my family and especially to my only daughter: Nimasha. Words are inadequate to express my deep gratitude to Ananda Aiya and Jayanthi Akka. Finally this thesis is gratefully dedicated to my mother who cheerfully made many sacrifices to complete it well.

**Micro Enterprises in Sri Lanka: An Analysis of their
Potential for Poverty Alleviation**

M. A. Shantha Wijesinghe

ABSTRACT

Poverty is a widely discussed phenomenon in many development forums today. It is a complex and multifaceted phenomenon with many forms and causes. Income-based poverty is the traditional way of understanding poverty but there are many more aspects to poverty and deprivation other than income including vulnerability, powerlessness, isolation and humiliation. In a poverty alleviation strategy it is essential to place considerable importance to qualitative aspects such as independence, security, self-respect, identity, close and non exploitative relationships and legal and political rights.

During recent decades the developing countries particularly in Asia and the Pacific have launched different kinds of programmes with the prime objective of reducing and alleviating poverty. Sri Lanka has also followed various strategies relating to social welfare and income generation but the problem of poverty is still a widespread phenomenon in the country.

However, since independence the development of the micro enterprise sector has been used as an instrument to alleviate poverty in Sri Lanka. Micro enterprises have the potential to generate income and employment opportunities for those with few options particularly in the rural sector. These enterprises also help to address various qualitative values such as security, self-respect, independence etc. related to poverty.

Thus, the objective of this thesis is to examine the extent to which the micro enterprise sector can contribute to alleviate poverty in Sri Lanka. Priority has been given here to examine its potential to address various qualitative aspects related to poverty. The potential of micro enterprises to generate more income and employment opportunities, to utilise family labour and to reduce vulnerability were examined and evaluated in this regard. In addition, its significance regarding human economic aspects, family work strategy and sustainable livelihood strategy were also evaluated.

For the evaluation, qualitative research techniques such as observation, in-depth interviews, discussions, case studies and histories were used in two selected villages in the Central Province of Sri Lanka. Some quantitative techniques such as Difference of Mean Test, Coefficient of Variation were also used to understand the variation of household income, vulnerability and its related aspects.

Findings of this research indicate that micro enterprise sector gains significance particularly within the household economy in different aspects. It is evident that this sector plays a vital role within the household economy particularly in terms of income generation, family labour utilization, human economic values, reducing vulnerability, family work strategy and sustainability. In conclusion the study based mainly on qualitative data reveals that micro enterprise sector has the potential to alleviate poverty, while pointing out that there are many more quantitative and qualitative characteristics to be addressed as poverty is a multi faceted phenomenon.

Chapter 1

Introduction

1.1 Understanding Poverty

Poverty is defined and interpreted in different ways. It is a complex and multifaceted phenomenon with many forms and causes. It has many meanings and definitions in present development context. Academic debates on the subject are packed with controversies over how to differentiate the 'poor' from the 'non-poor'. A poverty line is generally taken to be a threshold, in terms of income, below which people can be considered to be 'poor'. Researchers, scientists and policy makers attempt to ascertain different levels and causes of poverty. In describing and conceptualizing poverty they often use such terms as vulnerability, deprivation, isolation, powerlessness etc.

Poverty can be defined as human needs that are not met (David Satterthwaite 1997). Poverty is deprivation on material, social and emotional aspects. The most widely adopted definition of poverty, which is based on the income criterion, is not inclusive enough. Understanding poverty only in terms of adequate income can misrepresent its nature and its underlying causes. It is a much broader and deeper issue of deprivation than having an income below a 'poverty line'. Poverty in many ways is a relationship and a relative phenomenon. 'I'm poor because you're rich' and it has to be looked at holistically as it is often psychological and sociological. It is essential to review and analyze it in different ways to understand the reality of 'poor'.

As noted by Robert Chambers (1995) a single poverty line simplifies and standardises what is complex and varied. According to Beck (1984) the policies that are formulated to alleviate poverty will be more relevant to the manipulation of statistics than to the needs of people. It is essential to place considerable values on qualitative aspects such