

## Micro and Small Scale Entrepreneurs in Estate Communities in Sri Lanka: Success Factors and Challenges

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### Abstract

Households in the estate sector in Sri Lanka currently lag behind in almost all indicators of poverty. In that context, the National Poverty Alleviation Programme has supported micro and small enterprises in the estate sector too to uplift the living conditions of people living in estate communities. The objective of the paper is to explore the success factors and road blocks of these entrepreneurs. Findings of the study will help project designers and implementers in designing and implementing such projects and programmes productively. The paper is based on a survey carried out in December 2015 with 150 entrepreneurs selected randomly from Badulla District. Descriptive statistics such as frequencies and percentages were used for data analysis. Respondents have been supported by giving loans (96% of respondents), assets (33%), training (21%) and other services (6%). There were 219 activities and 62 percent were running successfully, 15 percent running with difficulties and 23 percent closed at the time of the study. The most common successful enterprises were cattle rearing, operating a retail shop, vegetable/green leaves cultivation and goat rearing. The highest number of respondents were of the view that the external assistance such as capital, grants, training and other services they received in need were behind their success followed by availability of good markets/good demand and personal traits. The majority of unsuccessful businesses were also poultry management, cattle rearing, vegetable cultivation and running a retail boutique. The main challenges were pest and disease attacks on livestock and agriculture, lack of market linkages and limitations in capital and space. Therefore, it is recommended to focus more on market linkages and credit facilities in designing such programmes and coordination between relevant local authorities is also a must in identifying remedies to pest and disease attacks and attention should be paid to introduce livelihood activities which are more suitable for limited space. Further, capacity development of entrepreneurs is also important as it is one of the main success factors and a holistic approach should be adopted when providing these services.

**Keywords:** estate communities; micro and small enterprises; success factors; challenges

### INTRODUCTION

The estate sector in Sri Lanka traces a history of almost 150 years. The British started the industry in the 1800s with 'imported' indentured labour from South India and today's estate population are descendants of this labour that was brought into the country up until the 1940s. Isolation and limited mobility owing to a range of factors has marginalised the sector which has not reaped the full benefits of developments that other sectors of the country have enjoyed. According to the data of the

Department of Census and Statistics, households in the estate sector are currently among the poorest in the country and the sector still lags behind in almost all indicators of poverty.

Lack of formal employment has raised the population, mainly the poor, relying on informal activities such as self-employment and micro and small scale enterprises. The International Labour Organisation (2002) has also rationalised the need for the development of micro-enterprises for poverty alleviation and economic and social empowerment of the poor. Therefore, promoting micro and small enterprises (MSEs) is a strategy used in developing economies in poverty alleviation and economic and social empowerment of the poor as it represents a promising source of productive employment, especially for the lowest income groups. Mead and Liedholm (1998) also stated that micro and small enterprises as a major source of employment and income in many developing countries and detailed surveys in a number of countries suggest that as many as a quarter of all people of working age are engaged in MSE activities. Similarly, Tefera et al. (2013) also describe the sector as in bringing economic transition effectively using the skill and the talent of people without requesting high-level training, much capital and sophisticated technology and these MSEs are recognized as a real engine of economic growth and technological progress. This makes MSEs a major area of concern for government and non-governmental organizations with an objective of unemployment reduction, income generation and equitable income distribution, import substitution, innovation, poverty alleviation etc. Robert and Otero (1985) also stated that the capacity of micro and small enterprises to generate employment is particularly important in the light of the magnitude of these sectors in the majority of developing countries.

In that context, a MSE sector supported by many agencies including the state with the objective of improving the living standards of the poor can be identified in estate communities in Sri Lanka too. Therefore, it is important to explore the success factors and road blocks of these entrepreneurs managing a micro and small enterprise which is the objective of the paper and the findings would help project designers and implementers in designing and implementing such projects and programmes productively.

## **LITERATURE REVIEW**

The Government of Sri Lanka recognises micro, small and medium enterprises as the backbone of the economy, as it accounts for more than 75 percent of the total number of enterprises, provides 45 percent of the employment and contributes to 52 percent of the Gross Domestic Production (Ministry of Industry and Commerce, Sri Lanka). Ahmed and Rashid (2014) stated that being the largest source

of employment after agriculture, micro and small enterprise sector in India enables many of men, women and children living in slums, upcoming towns, remote villages and isolated hamlets to use indigenous knowledge, cultural wisdom and entrepreneurial skills for the sustenance of their lives and livelihoods. Apart from contributing to national income, MSEs are instruments of inclusive growth, touching the lives of the most vulnerable and the most marginalized groups. For many families, it is the only source of livelihood. For others, it supplements family income. Thus, instead of taking a welfare approach this sector seeks to empower people to break the cycle of poverty and deprivation. It focuses on people's skills and energy. According to Tefera et al. (2013), in Ethiopia also MSEs are the second largest employment generating sector next to agriculture. Further, confirming that, ILO (2002) also views MSE sector as an essential catalyst for job creation, unemployment reduction and social progress at large since it takes the lion share of fast growing labour force in the world particularly 48 percent in North Africa, 51 percent in Latin America, 65 percent in Asia and 72 percent in Sub-Saharan African countries.

Mead and Liedholm (1998) found that employment in MSEs expands as a result of new enterprises springing up and through expansion of existing enterprises. Some projects aim to promote new business starts by addressing the constraints that make it difficult for people to establish new enterprises. Other projects provide assistance aimed at countering the forces that cause existing enterprises to fail while still others seek to help existing businesses improve their performance and expand.

There is no universal definition for micro and small enterprises. Different countries use different definitions and even within single countries definitions could vary from programme to programme. Often, it depends also on the sector of the business such as manufacturing, agriculture, services and retailing. In Sri Lanka, Ministry of Industry and Commerce has defined the MSEs in the National Policy Framework for Small Medium Enterprises (SME) Development. However, there is some agreement on the general characteristics of the micro and small enterprises practiced in the developing countries. According to the International Labour Organisation (2002), being very small scale, using low level of technology, having low access to credit, lacking managerial capacity, low level of productivity and income, tendency to operate in the informal sector, fewer linkages with modern economy and non-compliance with government registration procedures are certain features. OECD (2004) has identified small and medium scale enterprises as a very heterogeneous group. Ahmed and Rashid (2014) show that micro enterprises are generally artisan based. These enterprises use local skills and resources and sell their products locally. These enterprises involve lower levels of

investment in machinery and provide largely part-time employment. Small and medium enterprises use power-driven machines and possess some technological sophistication.

Similarly, Mead and Liedholm (1998) observe that the majority of MSEs consist of one person working alone. Self-employment is thus a central element in these economies. With most enterprises operating as one-person undertakings, it is not surprising that the largest employment category is working proprietors, a group that comprises more than half the MSE work force in most countries. When unpaid family members are added, the numbers reach three-fourths of the workers in most places. Further, they stated that it is a common perception that micro and small enterprises are primarily vendors and small traders. There is truth in this perception, since in several countries the majority of enterprises are engaged in commerce. It is important to recognise that in all countries, small manufacturing activities are also an important component of the MSE sector.

The dimensions and determinants of MSEs growth are vast and complex. According to Premaratne (2001) cited in Aheeyar (2007), factors influencing the enterprise performance are grouped into several categories, namely demographic (gender, marital status, etc.), human capital (whether entrepreneur has had training, level of education, etc.), family ties (whether the enterprise is a family business/traditional, whether family members work in the business, etc.) and enterprise related factors (amount of first loan, size of labour force, method of investment, receive of a grant, type of enterprise, source of micro-finance, etc.). Aheeyar (2007) says management related factors such as maintaining of accounts, managing separate funds for business and household expenses and registration of business also influence the success or failure of an enterprise. According to Johnson (1989), success of entrepreneurial businesses is limited by the availability and quality of five fundamental ingredients: (i) innovation, (ii) entrepreneurship, (iii) leadership, (iv) infrastructure and (v) risk financing.

Mead and Liedholm (1998) argue that most closures occur in the early years of a firm's existence. MSEs are particularly vulnerable during the initial years, when entrepreneurs are learning how to operate a new business. Further, Mead and Liedholm (1998) also cited that differences in the amount of the treatment invested, in access to capital, in ability, in risk aversion or due to females spending the business grants on household investments have an impact on the growth and success of enterprises.

In addition, the initial investment on the firm, the location and the sector in which the MSEs operate are instrumental in the growth of these enterprises. Resource endowment, capabilities and competitive advantages are major determinants of firm growth as per resource-based view since resources are the

basis for profitability and growth. MSEs that began operation with higher initial investment are more likely to grow than their counterparts that started operation with relatively smaller initial investment. Therefore, as the initial investment size of MSEs increases the probability of stepping forward from being survival MSEs increases (Tefera et al., 2013). In contrast, Mead and Liedholm (1998) state that firms that started the smallest, other factors held constant, were more likely to survive than their counterparts that started large scale.

Mead and Liedholm (1998) also cited that location also played a significant role in determining MSE's chances of survival and urban MSEs had an almost a quarter chance of surviving the year, holding all other factors constant, compared to their counterparts in other areas. Moreover, MSEs located in commercial districts were more likely to survive than those that operated out of the home. Proximity to growing markets would thus seem to be an important determinant of the prospects for an enterprise to survive.

Ahmed and Rashid (2014) found that MSEs suffer from a number of constraints and weaknesses. A predominant number of enterprises are in the unorganized sector. The sector is heterogeneous and majority of units suffer from low technology base, resulting in low productivity and poor quality of products. The units being small in size also have poor access to equity and credit. In most cases, capital comes from savings and loans from friends and relatives rather than through banking systems. This problem is particularly acute for the lower end of micro industries. This sector continues to face a shortage of skilled manpower due to lack of affordability and poor managerial capabilities. Another major weakness is absence of marketing channels and brand building capacity (Ahmed and Rashid, 2014).

Consequently, workers engaged in the MSE sector (and these are often the most vulnerable and poor) have very little bargaining power and are exploited by middlemen, unit owners and big business houses (Ahmed and Rashid, 2014). They are unable to take up aggressive marketing like big players and they cannot find customers despite good quality and competent prices. In addition, the dispersed, unorganized nature of the industry also raises issues of quality, bulk production and inability of meeting big orders.

OECD (2004) shows that MSEs identify financing, especially medium to long-term finance, as their topmost obstacle to growth and investment. Further, MSE constraints in access to finance are described as follows; (i) MSEs are regarded by creditors and investors as high-risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality rates.

(ii) Information asymmetry arising from MSEs' lack of accounting records, inadequate financial statements or business plans makes it difficult for creditors and investors to assess the creditworthiness of potential MSE proposals. (iii) High administrative/transaction costs of lending or investing small amounts do not make MSE financing a profitable business.

Begley and Boyd (1987) cited in Gladwin et al. (1989) show that there are fewer customers and sales due to the smaller population in an area, so that every customer is needed. The result is that businesses without the personal touch can fail faster than a similar other business would. The market potential for such firms is limited.

However, Mead and Liedholm (1998) observe that it is important to recognize that only a portion of MSE closures can be described as traditional 'business failures', where the firm was not financially or economically viable. Somewhat less than half of the MSE closures were in this category; lack of demand and shortage of working capital were the two most frequently mentioned underlying causes of these closures due to bad business conditions. For the others, approximately one quarter of the MSEs closed for personal reasons such as illness or retirement, while the remainder closed because the entrepreneur was able to move on to better options or because the government forced them to close. Further, more detailed, follow-up information from Kenya indicates that those who closed their business for demand reasons were more likely to start a new enterprise than those who closed because of a lack of working capital.

Therefore, OECD (2004) highlights that MSE development strategies should be country and context specific. Each country may have its own challenges, opportunities and priorities for change. In addition, resources available for implementation may also vary by country. Therefore, results achieved may also be different. Further, MSE development requires a crosscutting strategy (OECD, 2004). OECD (2004) also stated that the MSE development strategy has to be inclusive and may have a more holistic approach, involving measures for creating an enabling environment, public-private dialogue and business development services facilitation (business development services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer and business linkage promotion).

Therefore, it is clear that micro and small enterprise sector contributes significantly to the socio-economic development of vulnerable communities and enable them achieve socio-economic equity. As such, MSE development emerges as a key instrument in poverty reduction efforts.

## METHODOLOGY

The paper is based on a survey of 150 micro and small scale entrepreneurs selected randomly from Haliela, Passara and Soranathota Divisional Secretariat Divisions in Badulla District and multi-staged random sampling technique was used to identify respondents for the survey. Badulla district was selected purposively to represent the estate sector. Thereafter, estate population in the district was considered and according to the data of the Department of Census and Statistics, 21 percent of the total population in the Badulla district was in the estate sector. Next, the five divisional secretariat divisions of the district with the highest concentration of the estate population were selected. Thereafter, three divisional secretariat divisions were selected from those five selected divisional secretariat divisions based on the highest concentration of *Samurdhi* (National Poverty Alleviation Programme) livelihood development beneficiaries. At the next stage, ten *Grama Niladhari* divisions were selected from the identified divisional secretariat divisions based on the highest concentration of beneficiaries. Thereafter, databases maintained by the *Samurdhi* programme were used to prepare the sample frame. At the same time, beneficiaries who had obtained assistance from the programme during 2010-2011 were considered. The reasons for selecting 2010-2011 as the reference period were (a) providing at least three years for an entrepreneur to get established in their respective industry, (b) of the twenty years, the highest amount of funds for livelihood development had been allocated in 2011 and (c) two successive years to prepare the sample frame to make sure the availability of adequate numbers of beneficiaries to perform random selection. Thereafter, 150 entrepreneurs were selected randomly from the sample frame to administer the questionnaire.

Analysing the critical review of literature, a structured questionnaire was prepared to gather data from selected respondents and the questionnaire consisted of coded, open and multiple response questions. The purpose and the objectives of the study were explained to respondents prior to administering the pre-tested questionnaire and their consent was sought to take part in the study. Interviews were conducted as face to face interaction with the respondents and the interviews were carried out by the author and three research assistants in December 2015. Data were tabulated using the software package, SPSS and descriptive statistics such as frequencies and percentages were used for data analysis.

Ethnicity and the religion of the majority in the sample were Tamil (83%) and Hinduism (81%) respectively and 57 percent were men and 43 percent were women. The majority (79%) concentrated in the age group 30-59 years. A considerable number of senior citizens (18%) and a limited number of youth (4%) were also in the sample. Further, 31 percent of the respondents were from *Samurdhi*

recipient families and the others were from low income families. Nearly half of them (42%) has studied up to grade six to ten followed by grade one to five (38%) and passed Ordinary Level (10%).

## **RESULTS AND DISCUSSION**

The respondents of the survey have been supported by the livelihood development programme and 96, 33, 21 and six percent had been given loans, assets, training and other services respectively to improve their livelihood activities. There were 219 activities as 53 percent livestock management related, 19 percent trading/buying/selling/services related, 18 percent cultivation related and 10 percent industry/manufacturing/preparation related activities. It was found from the study that the insufficient family income as the main reason in the case of majority (87%) of activities to initiate it. At the time of the study, according to the perception of the respondent, nearly two thirds (62%) were running successfully, 15 percent were running with difficulties and 23 percent were closed.

Therefore, the objective of the paper of exploring the success factors and challenges of entrepreneurs was achieved based on the 136 activities operating successfully and 83 activities which were either running with difficulties or closed at the time of the study respectively.

### **Success Factors**

According to the perception of the respondent, the most common successful enterprises were cattle rearing (for milk) with  $\leq 5$  cows, operating a retail shop, vegetable/green leaves cultivation under  $\leq 1$  acres, goat rearing with  $\leq 5$  goats, poultry (for meat) with  $> 10$  chicken and goat rearing with  $> 5$  goats (Table 1). It was observed that the majority of activities were managed by the respondent him/herself with the support of family members. A few entrepreneurs had used paid labour in their activities and two types of labour were identified as regular and hired on availability of work and of them the majority was hired on availability of work. Only three entrepreneurs had provided regular employment to one to three employees and eight entrepreneurs had hired labour depending on the availability of work.



**Table 1: Successful Enterprises**

<b>Type of the Enterprise</b>	<b>No</b>	<b>%</b>
Cattle rearing (for milk) with $\leq 5$ cows	28	21
Operating a retail shop	23	17
Vegetable/green leaves cultivation under $\leq 1$ acres	23	17
Goat rearing with $\leq 5$ goats	15	11
Poultry (for meat) with $> 10$ chicken	9	7
Goat rearing with $> 5$ goats	9	7
Sewing garments on request	7	5
Carpentry work on request	3	2
Poultry (for meat) with $\leq 10$ chicken	3	2
Cutting, sewing and selling garments	2	1
Operating a school cafeteria	2	1
Operating a motor garage	1	1
Preparing and selling of meal parcels	1	1
Poultry (layers)	1	1
Cattle rearing (for milk) with $> 5$ cows	1	1
Masonry work on request	1	1
Operating a studio	1	1
Operating a salon	1	1
Vegetable/betel leaves/hardware items wholesaler	1	1
Making and selling gold jewelry	1	1
Mixed livestock farm (Goat - 2 and Chicken - 5)	1	1
Mobile selling of vegetables	1	1
Mushroom cultivation	1	1
<b>Total</b>	<b>136</b>	<b>100</b>

Source: Field Survey, 2015

Next, the reasons for the success of these enterprises as perceived by the respondents were investigated and presented in Table 2. The highest number of respondents (37%) were of the view that the external assistance such as capital, grants, training and other services they received in need were behind their success followed by availability of good markets/good demand/good price/ stable buyers / stable orders (30%) and personal traits such as commitment/hard work/enthusiasm/trustworthiness/self-confidence (28%). Further, in analysing all the success factors mentioned by the entrepreneurs, they can be categorized into five different groups as presented below.

- (i) Personal traits - commitment/hard work/enthusiasm / trustworthiness / self-confidence, having good PR skills, past experience on the business
- (ii) Inputs/raw materials – external assistance in need, family support,
- (iii) Process of the activity - requirement of less labour/time, low cost of production, proper maintaining of livestock/cultivation/vehicles/machines
- (iv) Environment / infrastructure - suitable climate for cultivation/livestock

(v) Market - availability of good markets/ good demand/ good price/ stable buyers/ stable orders, no competitors, refraining from conducting business/transactions on credit, providing goods/services according to the demand, providing quality goods/services to the customers, providing goods/services on time

**Table 2: Reasons for the Success of the Enterprises**

<b>Reasons for the Success of the Enterprise</b>	<b>No.</b>	<b>%</b>
External assistance such as capital, training, grants and other services in need	50	37
Availability of good markets / good demand / good price / stable buyers / stable orders	42	30
Commitment / hard work / enthusiasm / trustworthiness / self confidence	38	28
Requirement of less labour/time	22	16
Proper maintaining of livestock / cultivation / vehicles / machines	14	10
Suitable climate for cultivation/livestock	14	10
Low cost of production	14	10
Past experience on the business	8	6
Providing quality goods/services to the customers	7	5
Not doing business/transactions on credit	5	4
Providing goods/services on time	2	1
Having good PR skills	2	1
Family support	1	1
Providing goods/services according to the demand	1	1
No competitors	1	1
<b>Total</b>	<b>136</b>	<b>100</b>

Multiple Responses

Source: Field Survey, 2015

## Challenges

The nature of activities rated by the respondents as unsuccessful are presented in Table 3 and the majority were poultry management (20%), cattle rearing (18%), vegetable cultivation (16%) and running a retail boutique (10%). Similar to successful activities, entrepreneurs with difficulties also had used paid labour at a minimum level. Only one entrepreneur had one regular employee in the venture and another one had hired labour depend on the availability of work. None of the closed down activities had either regular or paid workers on the availability of work.

**Table 3: Nature of the Livelihood Activities Running with Difficulties and Closed Down**

Nature	Running with Difficulties		Closed Down		Total	
	No	%	No	%	No	%
Poultry (for meat) with >10 chicken	3	9	14	28	17	20
Cattle rearing (for milk) with ≤5 cows	9	27	6	12	15	18
Vegetable/green leaves cultivation under <1 acres	7	21	6	12	13	16
Running a retail boutique	2	6	6	12	8	10
Goat rearing with ≤5 goats	1	3	6	12	7	8
Poultry (for meat) with ≤10 chicken	3	9	3	6	6	7
Goat rearing with >5 goats	2	6	2	4	4	5
Mobile marketing (vegetables, fruits, grains, cloths, costume jewellery etc.)	1	3	2	4	3	4
Other activities	5	15	5	10	10	10
<b>Total</b>	<b>33</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>83</b>	<b>100</b>

Source: Field Survey, 2015

The challenges of livelihood activities identified by the respondents are presented in Table 4. Confirming the findings of empirical studies found in the literature, entrepreneurs in the estate sector in Sri Lanka also faces similar difficulties and challenges. Table 4 shows that the main difficulties identified by the entrepreneurs as pest and disease attacks on livestock and agriculture (30%), no proper price for the produce/no proper market/lack of demand/high competition/unstable market (24%), lack of investment to continue (22%) and no proper place / limited space to do the business/cultivation (17%).

Similar to the success factors, the difficulties, too, can be categorized under the same five groups.

- (i) Personal - ill health of the respondent or a family member, lack of time
- (ii) Inputs/raw materials - lack of investment to continue, lack of raw material / high cost of raw material, no proper place / limited space to carry out the business/cultivation
- (iii) Process of the activity - high cost of production
- (iv) Environment – pest and disease attacks on agricultural activities and livestock, climate change/natural disasters
- (v) Market - no stable price for the produce/no proper market / lack of demand / high competition/unstable market

**Table 4: Difficulties of the Livelihood Activities**

Difficulties	Running with Difficulties		Closed		Total	
	No.	%	No.	%	No	%
Pest and disease attacks on agricultural activities and livestock	9	27	16	32	25	30
No proper price for the produce/no proper market / lack of demand / high competition/unstable market	11	33	9	18	20	24
Lack of investment to continue	8	24	10	20	18	22
No proper place / limited space to do the business/cultivation	8	24	6	12	14	17
High cost of production	3	9	3	6	6	7
Ill health condition of the respondent or a family member	1	3	5	10	6	7
Lack of time	2	6	2	4	4	5
Climate change/natural disasters	-	-	4	8	4	5
Lack of raw material / high cost of raw material	1	3	2	4	3	4
Other	3	9	5	10	8	10
<b>Total</b>	<b>33</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>83</b>	<b>100</b>

Multiple Responses

Source: Field Survey, 2015

## CONCLUSIONS AND RECOMMENDATIONS

According to the perception of respondents, the main success factors behind the livelihood activities were external assistance such as capital, grants, training and other services they received in need, availability of good markets/good demand and personal traits. The main barriers/challenges faced by the micro and small scale entrepreneurs in running their livelihood activities were pest and disease attacks, lack of market linkages and capital and lack of space.

Therefore, the recommendation is to focus on market linkages and credit facilities in designing programmes on supporting livelihood activities. Further, capacity development of entrepreneurs is also important as it is one of the main success factors. Therefore, training modules should focus more on development of personal traits and capacities. In addition, coordination between relevant local authorities is also a must in identifying remedies to pest and disease attacks on livestock and agriculture and attention should be paid to introduce livelihood activities which are more suitable for limited space as the space is a limiting factor in estates. Further, a holistic approach should be adopted when providing these services and providing only one service per entrepreneur should be avoided.

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