

Improving inter-ethnic relations through people to people engagement in the economic sector in Sri Lanka: Conducting a qualitative and quantitative mapping of formal and informal economic activity in the Eastern Province.

Final Report



29, R.G. Senanayake
Mawatha,
Colombo 07.

Tel: +94 11 4690200
Fax: +94 11 2676959

Introduction

The Asia Foundation (TAF) is implementing a project entitled, “Improving Inter-Ethnic Relations through People-to-People Engagement in the Economic Sector in Sri Lanka”. The goal of this project is to improve inter-ethnic relations in Sri Lanka through inter-community engagement in the business sector in the Eastern Province, through advocacy for institutionalization and national replication of successful inter-ethnic reconciliation pilot initiatives. One of the objectives of the project is to establish an evidence base on inter-ethnic social capital and business environments in project sites to inform people to people (P2P) activities and track changes in attitudes and behaviours. Contributing to this pilot project by the Asia Foundation, the Centre for Poverty Analysis (CEPA) conducted a qualitative and quantitative mapping of formal and informal economic activity in the Eastern Province. The purpose of this study was to better understand the formal and informal industries at the micro and small enterprise level that encourage inter-group collaboration, and to identify viable industries to implement P2P activities.

Due to conflicting definitions of micro, small and medium enterprises (MSME) in the Sri Lankan context, this mapping exercise used the definition provided by the Ministry of Industry and Commerce in the National Policy Framework for small and medium enterprises development (2016), which defines MSMEs based on the number of employees and annual turnover.

Table 1: Definition of MSME

Size/sector	Criteria	Medium	Small	Micro
Manufacturing	Annual turnover	LKR 251-750 MN	LKR 16-250 MN	LKR 15MN or less
	Number of employees	51-300	11-50	10 or less than 10
Service sector	Annual turnover	LKR 251-750 MN	LKR 16-250 MN	LKR 15MN or less
	Number of employees	51-200	11-50	10 or less than 10

Source 1: National Policy Framework for small and medium enterprises development (2016)

Purpose of the study

This mapping exercise was designed to better understand the formal and informal industries at the micro and small enterprise level that encourage inter-group collaboration. As per the ToR and the proposal submitted by CEPA, this was expected to be pursued through the following sub objectives:

- To identify the key industries operational in the target locations in the Eastern Province while understanding the existing production chains in the formal economy, with a key focus on micro and small enterprises.
- To capture the informal economy where women are expected to participate at higher rates.
- To reveal existing inter-group collaboration, while also highlighting factors that encourage and detract from inter-group collaboration.
- To identify the existence and utilization of value chains within the existing micro and small enterprises in operation.

However, following a series of discussions between CEPA and TAF¹, the scope of the mapping exercise was revised, and the study was conducted as a baseline for the Business Environment Barometer (BEB). As such, the tool was designed to cover the following broad areas:

- Enterprise related information
- Business start-up, maintenance and expansion
- Financing for the business
- Marketing
- Inter-community engagement
- Collective engagement

Methodology

A quantitative and qualitative mixed methods survey was carried out with proprietors of selected micro and small enterprises in operation in the targeted Divisional Secretariat Divisions in the Eastern Province (the sampling process and criteria are discussed in detail below). The purpose of using a mixed method approach was to give meaning to the quantitative data and be able to provide a reasonable explanation for the emerging trends/patterns based on the respondents' answers. The questions in the mixed methods survey sought to understand and capture a snapshot of the existing situation and the proprietors' perceptions of inter-community interactions within and across ethnic community groups. Tablets were used for the enumeration and to record quantitative data.

A scoping visit to each of the Districts in the Eastern province was conducted for the purpose of obtaining a preliminary understanding of the MSME environment in order to better inform the mapping exercise. As part of the scoping, a series of semi-structured interviews were carried out with relevant stakeholders at the micro and small enterprise level including the Chambers of Commerce, government officials in the Provincial Council, District Secretariats, Divisional Secretariats, at Local Government Authorities, at the Industrial Development Board, Economic Development Officers, non-governmental organisations working in / based in the Eastern Province, vocational training institutes, and financial institutions.

Sampling

The mapping was carried out in the Eastern Province of Sri Lanka, in a sample of nine Divisional Secretariat Divisions (three in each District²). Eight Divisional Secretariat Divisions in each District were short listed taking into consideration a combination of density of non-agricultural economic activities and demographic characteristics, with a particular emphasis on ethnic diversity. This selection method was chosen after having several discussions with the Foundation about the potential pros and cons of each method/scenarios. The short-listed Divisional Secretariat Divisions were presented to the Project Steering Committee headed by the Chief Secretary of the Eastern Provincial Council and the committee made the final decision with regard to the Divisional Secretariat Divisions to be considered as part of this project. The nine selected Divisional Secretariats Division are listed in Table 2 below:

¹ Decision communicated to CEPA via email 3rd December 2018, based on an internal discussion at TAF

² Districts are: Batticaloa, Trincomalee, Ampara Districts

Table 2: Selected Divisional Secretariat Divisions and their respective Local Government Authorities

District	Divisional Secretariat Division	Respective Local Government Authority/Authorities
Ampara District	Pottuvil Divisional Secretariat	Pottuvil Pradeshiya Sabha
	Karaithivu Divisional Secretariat	Karaithivu Pradeshiya Sabha
	Addalachchanai Divisional Secretariat	Addalachchanai Pradeshiya Sabha
Batticaloa District	Eravur Pattu Divisional Secretariat	Eravur Pattu Pradeshiya Sabha
	Manmunai North Divisional Secretariat	Batticaloa Municipal Council
	Koralai Pattu Divisional Secretariat	Koralai Pattu Pradeshiya Sabha
Trincomalee District	Trincomalee Town and Gravets Divisional Secretariat	Trincomalee Urban Council Trincomalee Pradeshiya Sabha
	Thambalagamuwa Divisional Secretariat	Thambalagamuwa Pradeshiya Sabha
	Kanthale Divisional Secretariat	Kanthale Pradeshiya Sabha

In each of the selected Divisional Secretariat Divisions, 34 micro and small enterprises were selected for data collection totalling 306 enterprises. The sample was divided equally between formal/registered and informal/unregistered enterprises. Agreement on this sample size and covering both formal/registered and informal/unregistered businesses equally was made with the Foundation considering the possibility of covering the diversity of the businesses as well as time and resource limitations. Therefore, the sample is not fully representative of the micro and small enterprises in the Eastern Province.

Random sampling was followed for the selection of formal enterprises using the list of registered businesses obtained from the Local Government Authorities in the selected Divisional Secretariat Divisions. A purposive sample was selected to cover the informal/unregistered micro and small enterprises due to the unavailability of a comprehensive list. In selecting the informal/unregistered sample, due consideration was given to ensure fair representation of existing business types and focused on including more female entrepreneurs since the formal/registered sample was dominated by male business owners.

Data analysis

The quantitative data collected via the survey was analysed using SPSS, a statistical software while the qualitative data was analysed using NVivo. The descriptive qualitative data is used to give meaning to the quantitative data computed, with selected narratives included within the report to lend a voice to findings documented. The analysis is presented along the following broad categories: Enterprise related information; Financing the business venture; Understanding the market; Intercommunity engagement; and Collective engagement, with each category being further expanded upon to provide valuable insights into the motivations, functioning, engagement and perceptions of individuals involved in entrepreneurial activities in the selected DS Divisions of the Batticaloa, Trincomalee, and Ampara Districts.

1. Enterprise Related Information

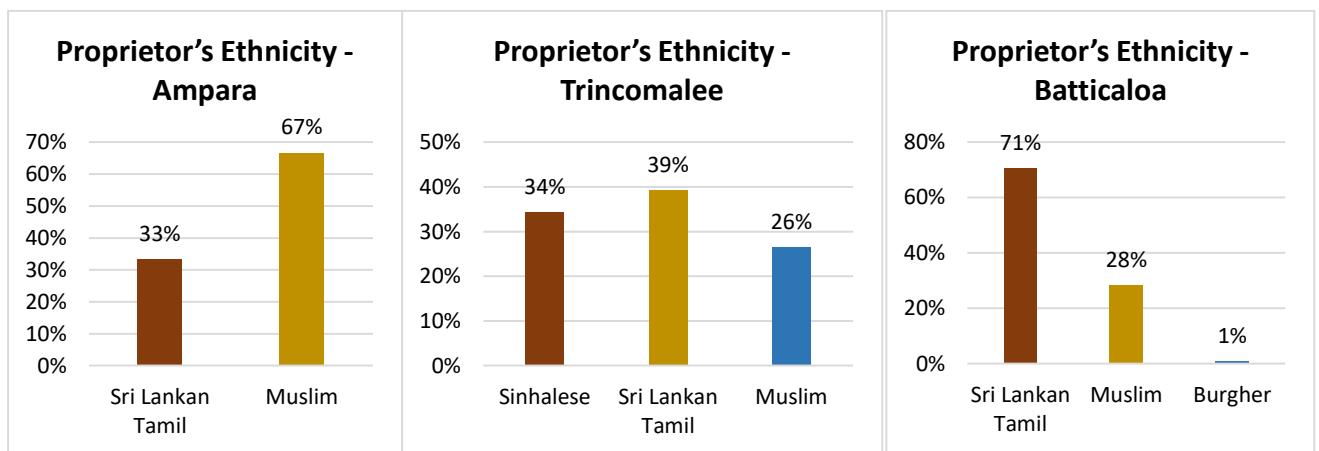
This section begins by establishing the demographic characteristics such as ethnicity, religion, gender, level of education and other income sources of the business owner. It also provides contextual information in the form of sectors of operation, relative success of the venture (considering revenue) as well as the aspirations and motivations for venturing into entrepreneurial activity. Wherever possible the information is disaggregated by gender to understand gender specific attributes.

1.1 Characteristics of business owners

Ethnicity

Based on the sample of respondents surveyed, it is possible to observe a diverse spread of the ethnicity of the proprietor based on the District and the population distribution in each District (See Figure 1). Trincomalee District shows the most evenly spread distribution of ownership among the Sinhalese, Tamil and Muslims ethnic communities at 34%, 39% and 26% respectively. Comparatively, Ampara and Batticaloa Districts show a single ethnic group dominating in each District: In Ampara District, 67% of the businesses were owned by Muslims, compared to 33% ownership by individuals of Tamil ethnicity; in Batticaloa, the ownership is even more skewed with 71% of individuals being of Tamil ethnicity, compared to 28% of Muslim ethnicity. Of the three Districts, only in Batticaloa District were individuals of Burgher ethnicity represented.

Figure 1: Ethnicity of Proprietor



In comparing the ethnic distribution of the population with that of the sample surveyed, it is possible to observe that the sample is not representative. This is attributed to the fact that the ethnic composition in the surveyed DSDs in each district doesn't represent the ethnic composition of the larger District.

Table 3: Population distribution versus sample distribution

Ethnicity	Ampara District		Batticaloa District		Trincomalee District	
	Population	Sample	Population	Sample	Population	Sample
Sinhala	39%	0%	1%	0%	27%	34%
Tamil	17%	33%	73%	71%	31%	39%
Muslim	43%	67%	25%	28%	42%	26%
Other	0%	0%	1%	1%	0%	0%

Religion

Of the respondents surveyed across all three Districts, majority (41%) of the business ventures were owned by persons who followed the Islamic faith, followed by 39% of respondents who followed Hinduism. 11% of the businesses were owned by persons following Buddhism, followed by individuals of the Roman Catholic faith (6%), and Non-Roman Catholic faith (4%) (Figure 2). The gender distribution of proprietors by religion is as follows (see Figure 3): 75% of the proprietors of the Islamic faith were male; while 53% of the proprietors following Hinduism were female; of the proprietors following Buddhism, 55% were male; 65% of the proprietors of the Roman Catholic faith were male, while a majority (73%) of proprietors of the Non-Roman Catholic faith were female. What this indicates is that the proprietorship is more evenly distributed by gender particularly among communities of Hindus and Buddhists.

Figure 2: Religion of proprietor

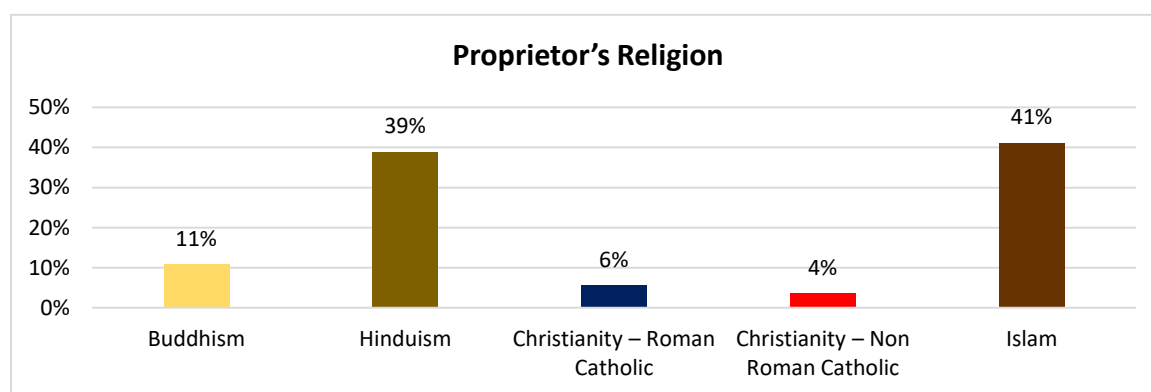
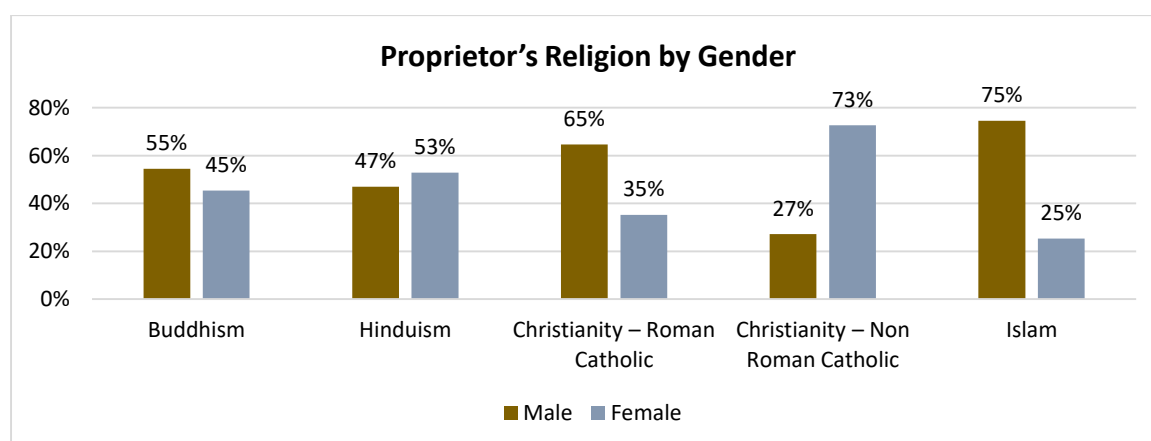


Figure 3: Gender distribution and religious beliefs of proprietor



Gender/sex of the owner

In Ampara and Batticaloa Districts, 64-65% of the surveyed respondents indicated that the business was owned by males. Comparatively, Trincomalee District showed an even gender distribution in the ownership of businesses (Figure 4). Overall, the survey showed that 59% of the businesses were owned by males across the three Districts. Of the surveyed respondents, 71% of the trade related businesses were owned by males, while majority (63%)

of production related businesses were owned by females. Service-related businesses were more evenly owned by males and females owning 58% and 42% respectively (Figure 5).

Figure 4: Gender of Proprietor

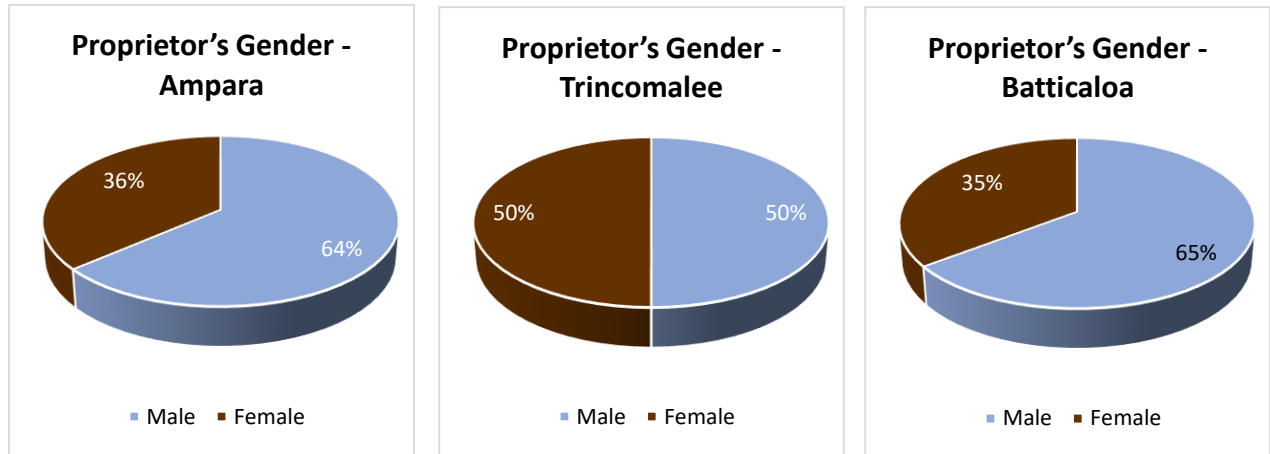
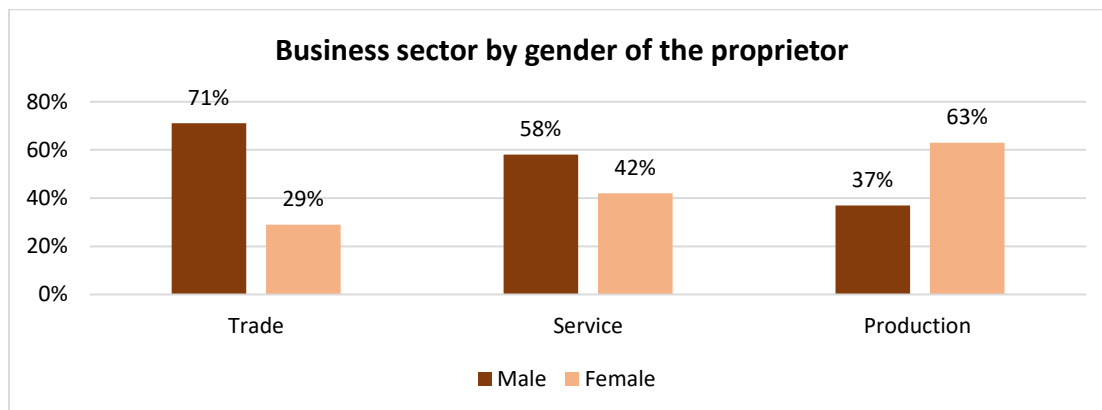
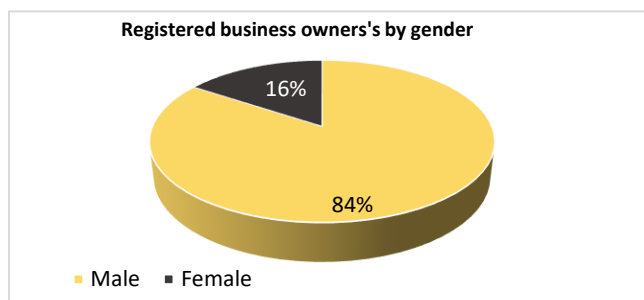


Figure 5: Business sector and proprietor's gender



In considering the gender distribution between registered and un-registered businesses, the survey results indicate that a majority (84%) of the registered businesses were owned by male respondents (Figure 6); the survey also indicated a higher tendency for unregistered businesses to be owned by females.³

Figure 6: Gender distribution of registered businesses

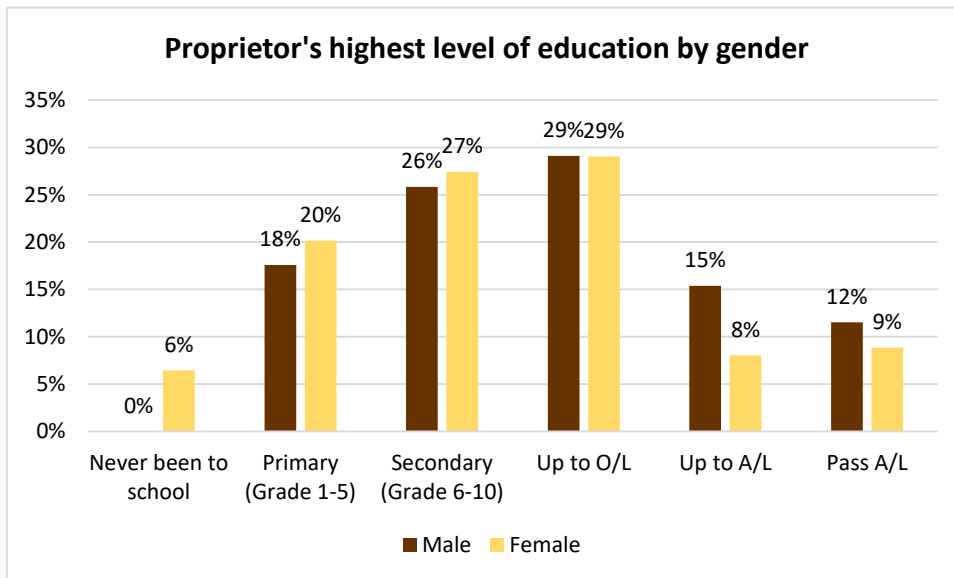


³ The sample of un-registered businesses does not accurately represent the gender characteristics of the population as the study oversampled female respondents engaged in un-registered business ventures for the purpose of better understanding the informal economy.

Level of education of business owner

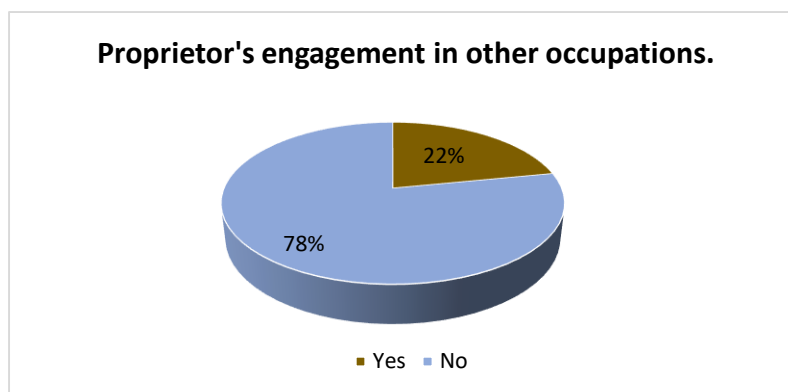
The highest educational attainment for majority of the respondents across the three Districts is up to Ordinary Level. As can be observed in Figure 7, the ownership of the businesses is near evenly distributed between males and females up to ordinary level.

Figure 7: Proprietor's highest level of education by gender



Other income sources of the proprietor

Figure 8: Proprietor's engagement in alternative occupations



As can be observed from Figure 8, 78% of the surveyed respondents indicated that they were fully engaged in the MSME activity. For the 22% of respondents who indicated that they were engaged in other occupations, their motivations largely stemmed

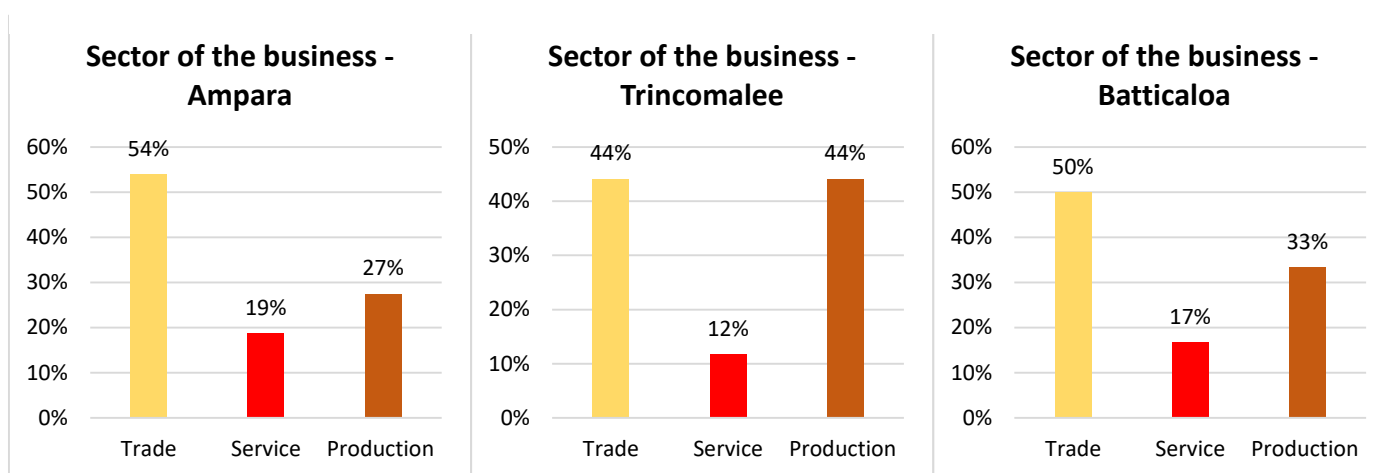
from maximising their revenue stream and factoring in seasonality. For example, a respondent from Ampara District⁴ who is engaged in making breakfast food items during the week, makes and sells snack items such as fried peanuts, *Pakoda*, and *Vadey* at the children's park on the weekend. Respondents engaged in tailoring indicated that orders received varied throughout the year with peak orders coming in at new year's celebrations in April, festivals, and school uniforms at the beginning of the year and as a result would engage in supplementary income generating activities such as selling stationery or running a communications shop. Respondents whose primary income source was agriculture-based, indicated that MSME activities provided them with a supplementary income between harvests.

⁴ AMP-KAR-NR-06

1.2 Sector

Based on the sample of respondents sampled, it appears that trade is the most popular form of entrepreneurial activity followed by production in all three Districts (Figure 9). The most popular activities carried out in the trade sector include retail shops and hotel/restaurant businesses, with tailoring and food making being the most popular business activities carried out within the production sector. Engagement in the service sector appears to be the least popular form of MSME engagement. A detailed breakdown of the business activities carried out within each sector within each District is provided as an annex.

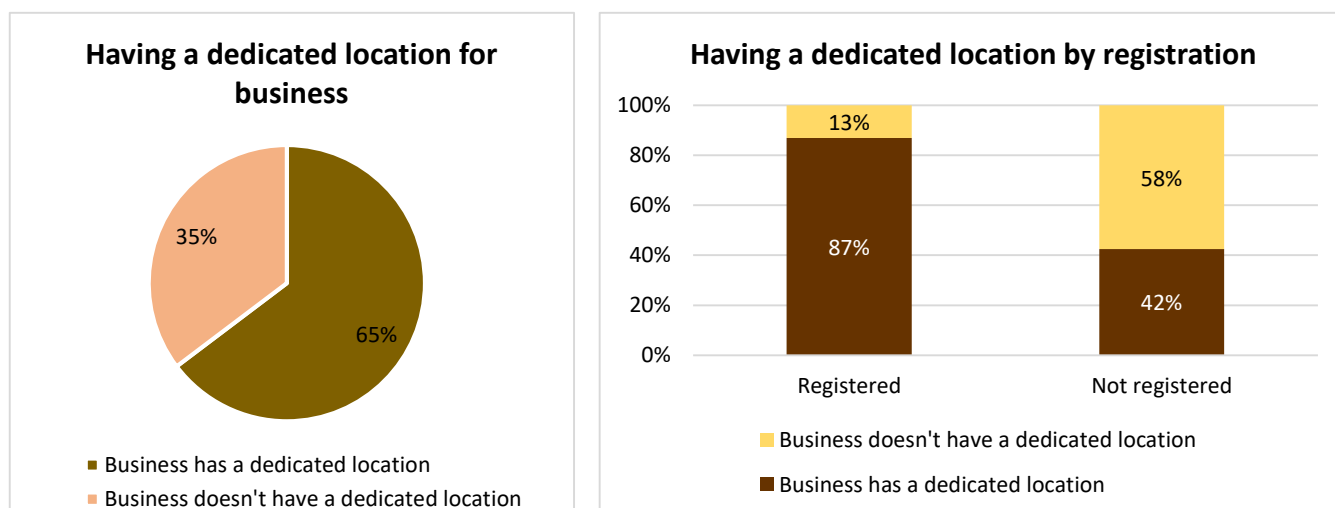
Figure 9: Sector of the business



1.3 Location of business

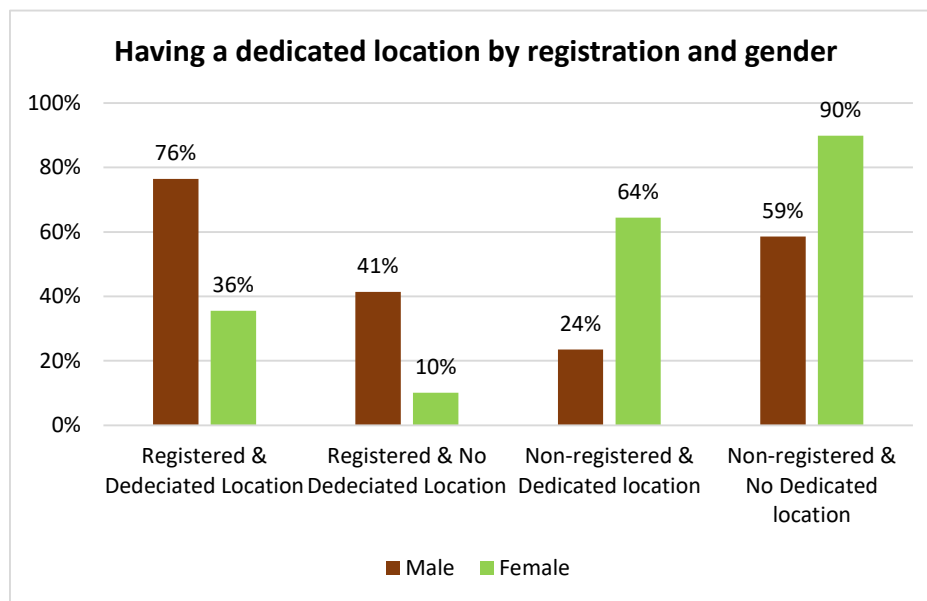
As can be observed in Figure 10 below, 65% of the sampled respondents are reported to have a dedicated space allocated for the purpose of carrying out their business activities. What is also possible to observe is that businesses that are formally registered are significantly more likely (at 87%) to have a dedicated location for business purposes than businesses that are not formally registered (42%).

Figure 10: Dedicated location for business activities



Further, having a dedicated location for business activities shows significantly different trends for male and female proprietors for both registered and non-registered businesses. As Figure 11 below shows, a significantly higher proportion of men (76%) with registered businesses have a dedicated location for their business in comparison to women (36%). On the other hand, in the un-registered category, a significantly higher proportion of female proprietors' (90%) in the study sample do not have a dedicated location for their business, compared to male proprietors (59%).

Figure 11: Dedicated location for business by registration and gender



The qualitative data from female entrepreneurs clearly shows their need to 'balance' their 'care obligations' with their income generation activities; as one woman from Trincomalee explained, "As a woman I want to manage the household work

too. Therefore, I keep running the shop with home".⁵ Some of the male proprietors explained that their decision to not have a dedicated location for the business is driven by their need to save a rent payment, as their business at present is not generating sufficient profit.

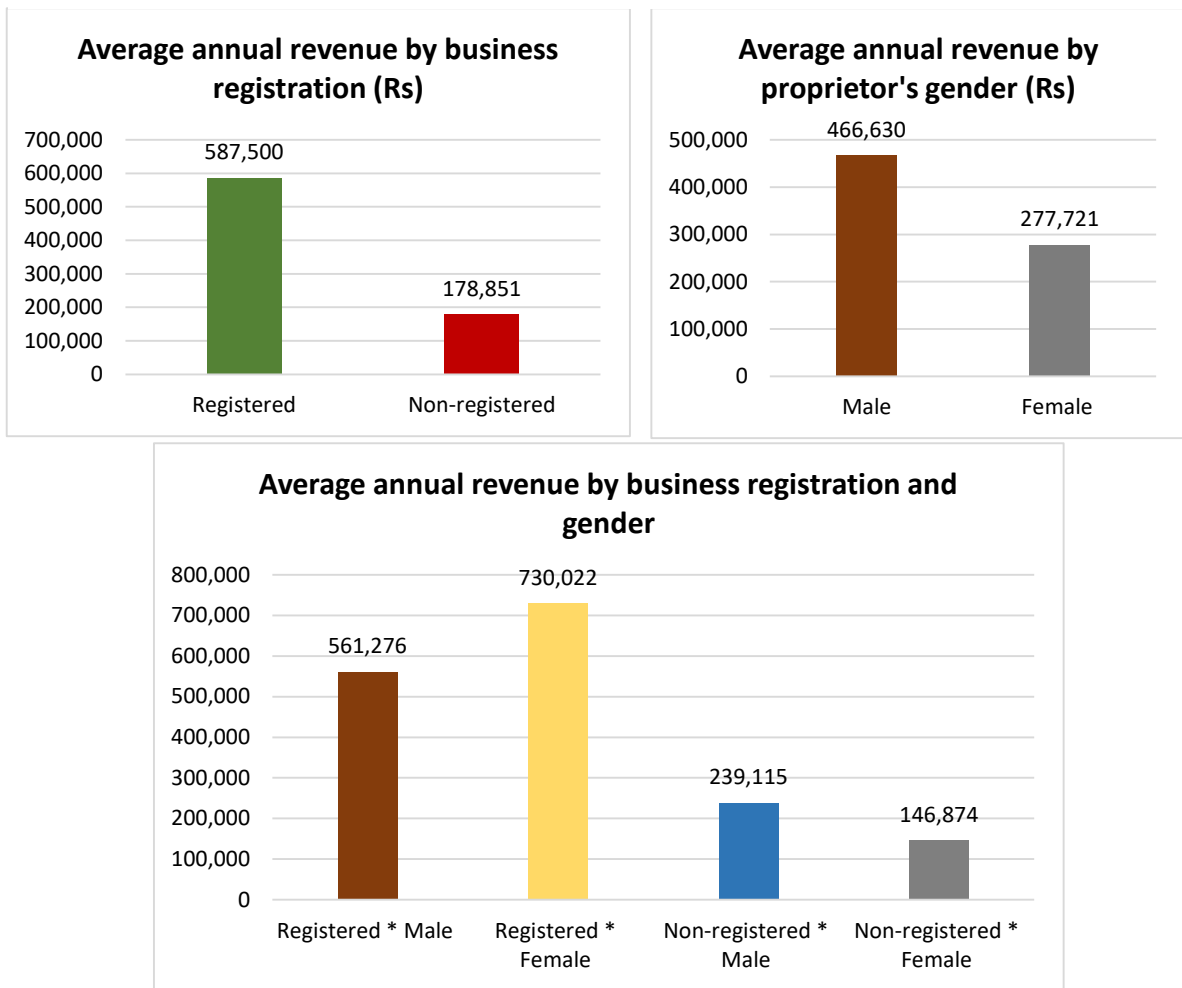
1.4 Business revenue

Overall, 61% of the surveyed respondents reported satisfaction with the revenue generated through the business activity thus providing financial stability to the household. Some business owners indicated that income from other sources and financial contributions by family members helped them meet their daily expenses.

As the graphs below (Figure 12) show, un-registered businesses in general within the sample are earning significantly less than the registered businesses, and women are earning less than the men. Among these, the women who own un-registered businesses are earning the least, while women who own businesses that are registered are earning significantly more compared to men.

⁵ TRC-KNT-REG-10

Figure 12: Average annual revenue



Respondents who reported dissatisfaction or expressed room for improvement in their revenue stream of the business attributed the increase in competition (resulting in a smaller share of profits) among similar business ventures, monthly loan repayments eating into profits, and rising cost of living – particularly in households with school aged children.

1.5 Reasons for venturing into MSME

A number of respondents stated that the reason for venturing into the MSME/entrepreneurial activities was to be able to supplement the existing household income in order to meet day to day expenses. The type of ventures begun were based upon an individual's existing skills such as making food items – breakfast and snack items and curd, tailoring, rice mill grinding, or cement block making, with success and expansion of the business depending on demand from the market. For some women who were the sole income earners in the household, engaging in food production such as string hoppers seems to be the only viable option, as the extract below from a woman entrepreneur in Ampara shows:

“My husband went to Saudi Arabia for work. There he has fallen down from the 4th floor and he has broken his leg and come back to Sri Lanka. Now he cannot do any work. I have two daughters. They have to go to school, have to eat and I have to spend money for my husband's treatment. Therefore, I started to do this

*business. Mosque and some relatives help to start this business. I started up this business in 2018 January. Now I sell one string hopper for 3.50 rupees”.*⁶

Further, the sense of ‘independence’ that is provided by engaging in one’s own business, mostly within close proximity to the house, was quoted as a motivational factor for business start-up as explained by a male proprietor from Trincomalee, *“I am earning LKR 500.00 per day from this shop. This income is enough for me and to my wife for our needs. I feel that I have my own shop and no need to work under some one’s supervision. We are not dependent on anyone”.*⁷

Both male and female proprietors explained how their initial interest in a particular type of business had been shaped by their close association with similar ventures of their previous generation, as illustrated by a cycle repair shop owner in Ampara given below. This sentiment was shared by many other entrepreneurs, both men and women.

*“My native place is Valaichenai. But my wife belongs to this village. I moved here following my wedding. I had worked in my father’s and uncle’s bicycle repair shop from my childhood. I had enough experience in this repairing work. When I got married, I had to find a means of earning. So I decided to open a bicycle repairing shop. I have started this shop in 2008 as small one in a simple hut. Then I built this shop and moved here and running my business”.*⁸

One particular respondent⁹ indicated how settling on a successful venture was a process of trial and error, having to contend with competition and responsiveness of potential customers resulting in a journey of beginning with selling curd and treacle, followed by selling vegetables, then dry rations, and finally a convenience store. Being able to work from home or at a location in close proximity to the home was also reported as an important consideration when selecting a type of business venture - particularly for female respondents – as it provided them the opportunity to manage both the household responsibilities as well as the business.

The start-up and building up of the business as a journey or process was echoed by other respondents too, as the extract below shows. Further, this case illustrates how a combination of personal ambition, ownership of required assets and property such as land, support through social networks and family and formal training from different sources have enabled the enterprising journey of this woman from Trincomalee:

“I had an interest in business because my mother was involved in this trade for a long time. I too joined with my mother when I was in age 15. So from that time I had a dream to do my own business in my village. Also the land is belonging to me. Me and my husband brought it from our savings. I was trained as an entrepreneur from different institutions such as Divisional Secretariat entrepreneurial trainings, CARE and WESDO NGO trainings and village level committee trainings. These kind of trainings supported me to develop my shop up to this stage. In 2002, me and my husband started this shop here. I did

⁶ AMP-ADD-NR-03

⁷ TRC-KNT-REG-11

⁸ AMP-ADD-NR-02

⁹ TRC-KNT-NR-14

*agriculture as a subject for my advance level. That knowledge helps me a lot to involve myself in business”.*¹⁰

1.6 Aspirations and motivations for expanding the business

The most significant motivating factor for individuals to consider expanding their business is to be able to earn higher revenue and profit. A better, more successful business meant that they would be able to have a dedicated space to carry out business activities, compete with other shops, provide a variety of products and services, reach more customers, as well as meet expected increases in demand for the products and services currently offered. One respondent¹¹ who sold ornamental plants aspired to establish a business presence closer to the town area in order to reach more customers as she recognised that she could not sell plants regularly to people in the vicinity.

Respondents expressed a variety of perspectives regarding expanding their business ventures. Certain respondents saw the limited access to finance as a hinderance to the expansion of their business; one respondent stated that the inability to secure financing to purchase three additional machines and fabric prevented him from being able to obtain a contract to make uniforms for a school.¹² Another respondent indicated that an increase in demand for the service provided validated the investment in equipment, *“When I received more photocopy orders I purchased a new photocopy machine”* (AMP-ADD-REG-13).

Other respondents indicated that the expansion of the business should be a gradual process, especially in instances of purchasing machinery due to the high cost of investment, *“So still I don’t have all the machinery needed for my work. I purchase them one by one. That means I expand my business little by little”* (AMP-ADD-REG-16). A respondent who had been in business for over 20 years selling fruits and vegetables reiterated this sentiment of gradual expansion citing his continued and sustained growth from selling under the shade of a tree to presently where he has a bigger rented location for business activities.¹³

2. Financing the Business Venture

This section considers the role of finance within a MSME by examining how individuals source funds for the purpose of establishing and expanding their business venture. It also considers the external sources of finance available and the reasons why individuals experience challenges in securing funds through these sources, resulting in them having to rely on personal funds or familial connections in most instances.

2.1 Financing start up

As can be observed in Figure 13, the surveyed respondents in all three Districts stated that the capital for the establishment of the business was sourced primarily from their own savings; a characteristic common across all ethnic and religious groups. The second most common source of capital was from family (relatives, parents/grandparents, and other

¹⁰ TRC-KNT-NR-16

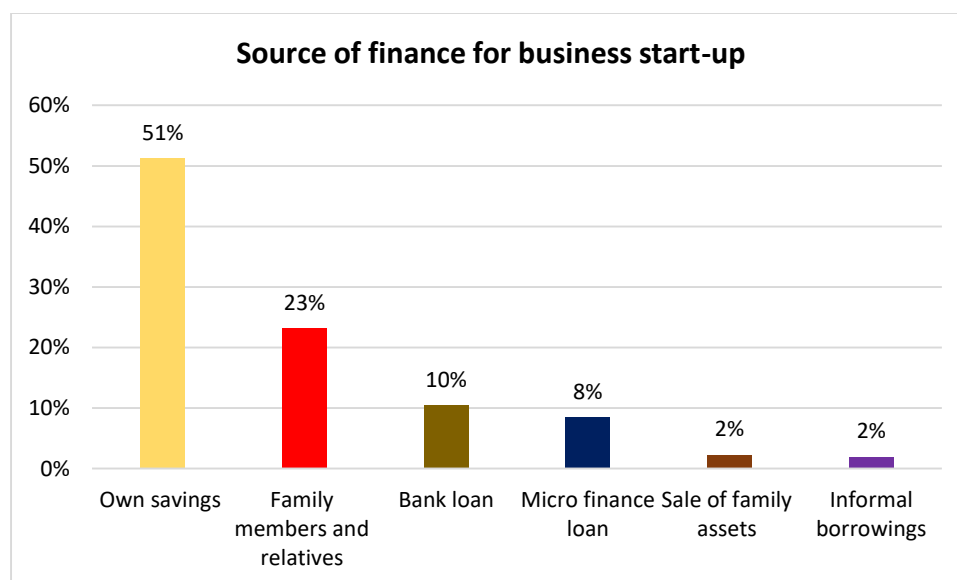
¹¹ TRC-KNT-NR-15

¹² TRC-TGM-REG-09

¹³ TRC-TTG-NR-02

household members). This source of finance has ethnic differences among the sample surveyed with respondents of Muslim ethnicity securing 47% of their finance from this source, followed by respondents of Sinhalese (31%) and Tamil (22%) ethnic identities. Bank loans is the next most common source of capital, followed closely by loans from micro finance companies; however, this figure is comparatively lower and ranges between 7-12% across the three Districts. For respondents who had taken loans, the sources were varied across the Districts: state banks, micro credit institutions, societies and *Mudalali's* (store owners). One respondent stated that they did not take a loan as they were apprehensive about the ability to pay back the capital and interest in the event that the business venture was not successful, while another respondent indicated that the interest for a loan taken was steep at LKR 600 per day. Muslim respondents indicated that they did not take loans as interest was forbidden according to the religious tenets. Interestingly, the source of financing had similar characteristics irrespective of the sector of business engaged in.

Figure 13: Source of finance for establishment of business

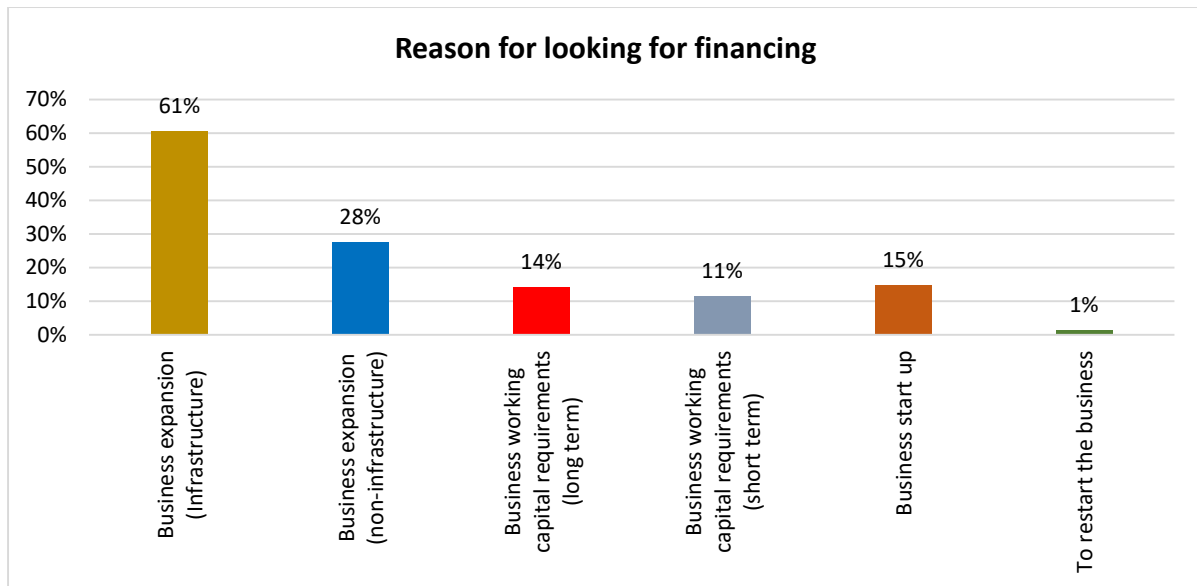


*Family members and relatives include: parents/grandparents, other household members, and relatives

2.2 Financing the business over time

Respondents were asked if they had sought financing for their business venture in the last three years. 71% of the surveyed respondents answered affirmative, of which 61% indicated the reasons for seeking finance was for the purpose of expanding the infrastructure of the business followed by 28% who wanted to expand the non-infrastructure components of the business (Figure 14). Respondents were also asked if they intended to seek financing in the next 12 months to which 72% of the surveyed respondents answered affirmative, and their reasons for seeking finance being almost identical to respondents who had sought financing in the past three years.

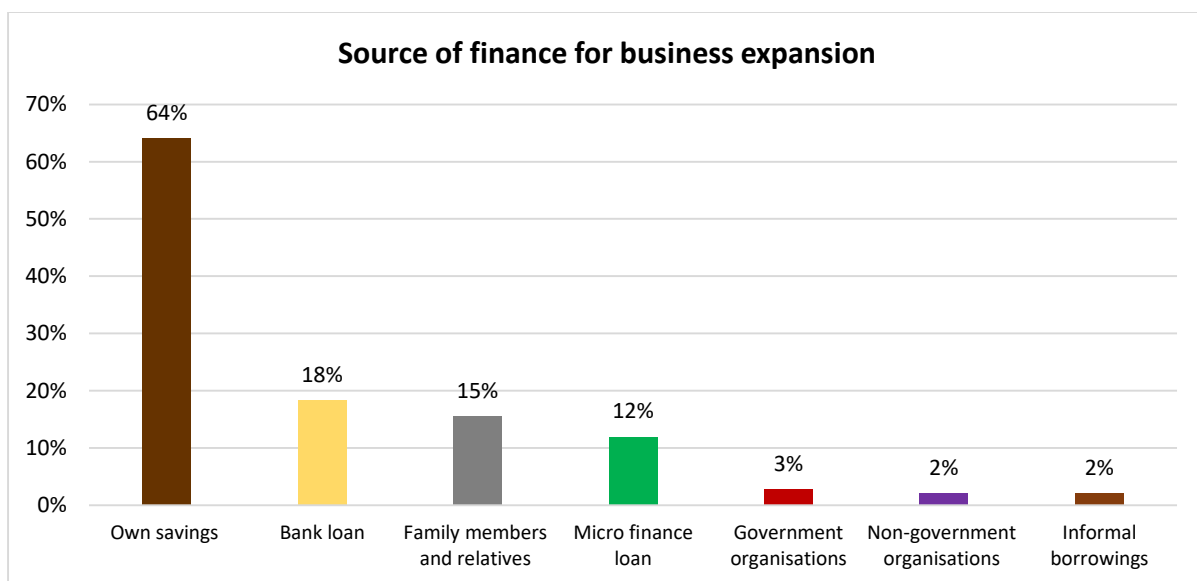
Figure 14: Reason for seeking financing in the last 3 years



2.3 Financing the business expansion

The survey results reveal that only 46% of the surveyed respondents carried out business expansions in the last three years. A significant 64% of the businesses which carried out expansions indicated that the expansion was financed via their own savings, with 18% acquiring finance through bank loans, and 12% obtaining loans from micro finance companies (Figure 15). This corresponds with the challenges identified with regard to accessing finance from external sources discussed above. Contributions from other household members, relatives, and parents/grandparents combined (15%) is another source of finance for expanding the business, while funds from government organisations, non-government organisations and informal borrowings are the least popular sources of financing at 3%, 2% and 2% respectively.

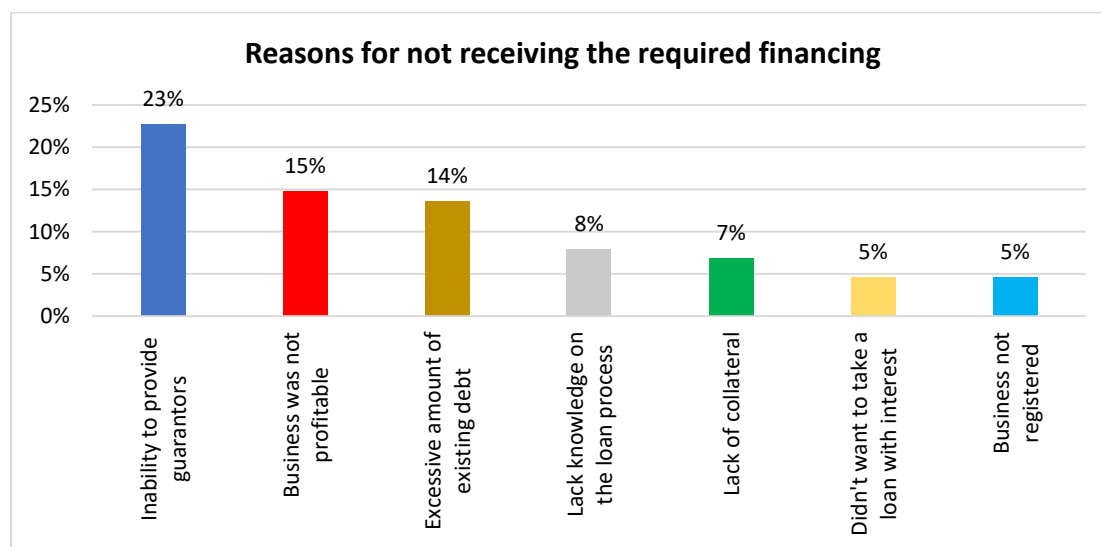
Figure 15: Source of finance for business expansion



2.4 Securing financing from external sources

For respondents who did not have sufficient savings or financial support from family members to establish their business, their main external sources of financing were loans from banks or micro finance institutes. One of the key drawbacks identified with regard to accessing a loan from a bank was the duration taken to process the loan as well as the numerous procedures and documentation required to obtain approval. One respondent stated that banks also take into consideration the age of the applicant when processing an application, with persons of advanced age usually denied. The survey further revealed the most common reasons for respondents to be unable to secure external financing as: the inability to provide guarantors (23%), the business not being profitable (15%), the business already being in significant debt (14%), and the respondents lack of knowledge of processing a loan (8%) (Figure 16).

Figure 16: Reasons for not securing external finance



The qualitative/descriptive component of the survey reiterated the factors identified above with regard to expansion of the existing business venture, particularly with regard to existing debt and the business not being profitable as yet. One respondent indicated that he had taken a loan for the purpose of improving the infrastructure of the business but is now in a position where the construction is incomplete, and he does not have sufficient revenue to repay the existing loan.¹⁴

The burgeoning presence of microfinance companies is viewed with caution, with several respondents recognising that the non-assessment of the loan taker's ability to repay being a serious cause for concern. Respondents cite examples of women in particular fleeing their homes, attempting suicide or migrating overseas for employment in instances when they are unable to repay the loan. The mapping attempted to understand if there was a gendered dimension towards securing finances from external sources, to which respondents indicated that there was no distinction, although they were of the general view that females were more likely to experience difficulty in repayment of loans obtained through micro-finance companies.

¹⁴ TRC-KNT-NR-03

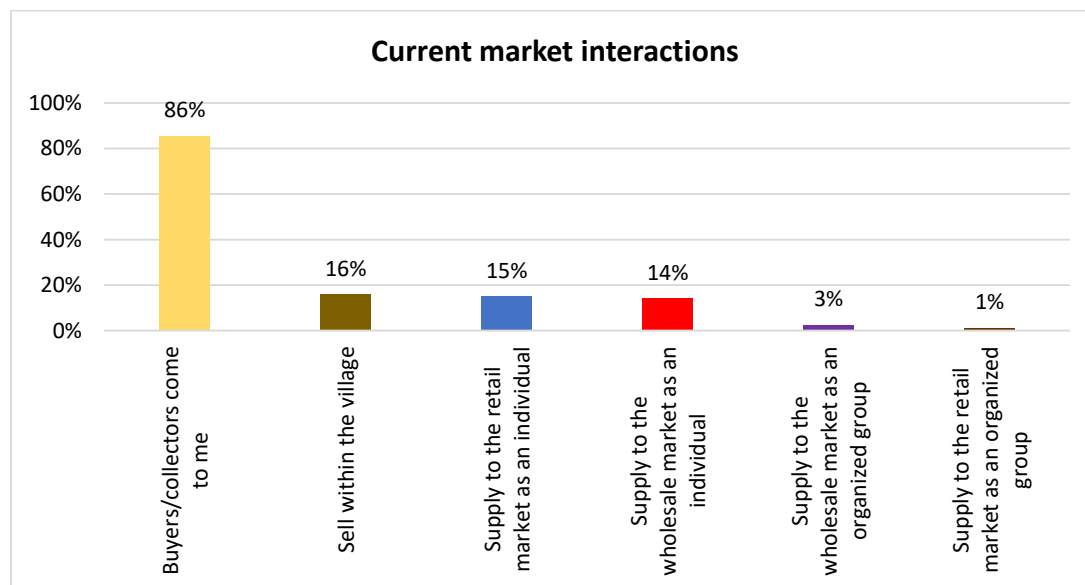
3. Understanding the Market

Prior to understanding the extent of inter-community and collective engagement discussed in more details in sections 4 and 5 respectively, this section attempts to unpack the context within which individuals involved in MSME operate. To this end, this section unpacks their current market interaction with a particular emphasis on how they determine the price of their product/service, and the current extent of competition.

3.1 Interacting with the market

At the time of conducting the survey, 86% of the respondents indicated that buyers/customers of their product or service approached them, as compared to the 16% of respondents who indicated they distributed their product/service within the village (see Figure 17). 15% of the respondents stated that they supplied products/services to the retail market as individual entities, followed by 14% who stated that they supplied products/services to the wholesale market as individual entities. Only 8 respondents (3% of the surveyed respondents) stated that they operate as an organised group to supply the wholesale market, indicative that collective engagement was significantly low among the sample population in the three Districts. Further, a majority (78%) of the respondents indicated that they were satisfied with their existing market interactions, with only 22% of the respondents having sought out new markets in the last 6 months.

Figure 17: Current market interactions



3.2 Determining price

For individuals engaged in selling retail items where the price was marked on the product, the selling price was determined easily. For individuals engaged in making food products or tailoring, the cost of the materials, demand and willingness to pay by customers, and the general price range of others engaged in similar ventures are factored into the final selling price. Respondents engaged in rice mill production indicated that producers in the vicinity collectively agree on a particular selling price which is revised periodically. Individuals engaged in selling perishable items such as fruits and vegetables indicated that they compare the prices in the newspaper and economic centres before adding a mark-up for the produce.

An overarching sentiment communicated by respondents was the importance of maintaining trust of the customers and maintaining the quality of the products provided.

3.3 Competition among businesses

Respondents indicated experiencing challenges particularly from bigger, more established businesses as they were able to purchase at whole-sale/bulk pricing and pass on the benefit to customers. Competing with such larger establishments was often considered a challenge as their customer base does not warrant stocking up on large quantities of products. Competition within the food making sector is particularly intense. Individuals engaged in restaurants or food businesses stated that there was a competition for service staff with competing restaurants offering staff higher daily wages and food to lure staff to their own establishment.¹⁵ Instances of price competition was also reported, “there is another hotel which affects my business. Once they sell a food for LKR 60, I have to reduce the price of the same food from LKR 70 to LKR 60. I lose LKR 10” (TRC-TGM-REG-07). Curd selling along the Kantale road is another food related sector with high competition especially given the number of sellers engaged in providing the exact product. In such instances, making the business more visibly appealing (hanging colourful umbrellas, providing seating) is one of the coping strategies adopted by individuals engaged in this sector. Another form of competition reported is when vendors from outside the village sell produce at low prices, “*From an outside village they come and sell fruits and vegetables from a lorry...They also sell corn. They don't come every day. They come on Saturday, Sunday and on poya days and holidays. Those days we are at a loss. He comes and sells at a low price*” (TRC-TTG-NR-02).

Overall, respondents were of the view that others engaged in similar businesses was not a serious detraction for carrying out their own business, rather it encouraged them to find new ways to market their products/services. One respondent indicated that everyone worked and supported each other, “*There are about 3 to 5 garages in this area. That does not affect my business. There is a close relationship with other businesses. If there is something that is lacking or something we do not know how to fix, we ask others for help and vice versa*” (TRC-KNT-REG-01). Another respondent indicated that there was an ‘understanding among the vendors’ to sell the products (fruits and vegetables) at the retail price (TRC-TTG-NR-02) thus ensuring that all business benefit by supporting each other. This nature of support for one another could be attributed to a close-knit sense of community when operating within a smaller market, which is less visible in a larger more competitive urban market.

4. Inter-community Engagement

This section documents the respondents’ perceptions with regard to their willingness to engage with other individuals of other ethnicities within (and outside) their community. As part of the mapping, respondents were asked if they could perceive any changes to inter-community engagement since the end of the war. In order to ascertain if their statements of intent corresponded with their actions, respondents were also asked about the ethnic and religious composition of their employees (if they had any), customers, and suppliers. Overall, respondents indicated a willingness to engage with individuals across ethnic and religious

¹⁵ TRC-KNT-REG-12

backgrounds but underlined practical considerations such as language and geographic proximity as barriers for implementation.

4.1 Perception of changes in inter-ethnic engagement since the end of the war

Overall sentiment of the surveyed respondents was that there has been an improvement in post-war inter-ethnic engagement. One respondent indicated that it was easier to interact with individuals of different ethnicities now without any hidden fear.^{16 17} Another respondent attributed the increase in interaction to the freedom/ease of movement and mobility without fear or uncertainty which allowed individuals from different ethnic communities to interact beyond their own community, thus increasing business opportunities, *“People from other ethnicities come to our village for business”*.¹⁸ While the overall sentiment was positive with regard to inter-ethnic engagement, concerns were expressed with regard to motivations of political representatives which could ‘disturb the existing peace and harmony’.¹⁹

In a few areas, respondents specifically mentioned increased social interactions between different ethnicities, *“Inter-ethnic involvement is good now compared to the war period. People from the neighbouring villages are Tamils who come and participate in our village funerals and other functions. We also participate in their events”*.²⁰

Some of the respondents indicated that there was no visible difference in their engagement with individuals from other ethnic groups; this however can be attributed to either respondents who had continued to live in multi-ethnic, urban environments throughout their lives and saw no difference, or to individuals who continue to reside in mono-ethnic communities with minimal interaction with individuals of other ethnicities.

A few dissenting voices were of the opinion that business opportunities and inter-ethnic interactions had decreased since the end of the war as a result of the increase in smaller businesses established to serve the needs of individual (mono-ethnic) communities.

4.2 Employees

Composition of employees

¹⁶ TRC-KNT-NR-01

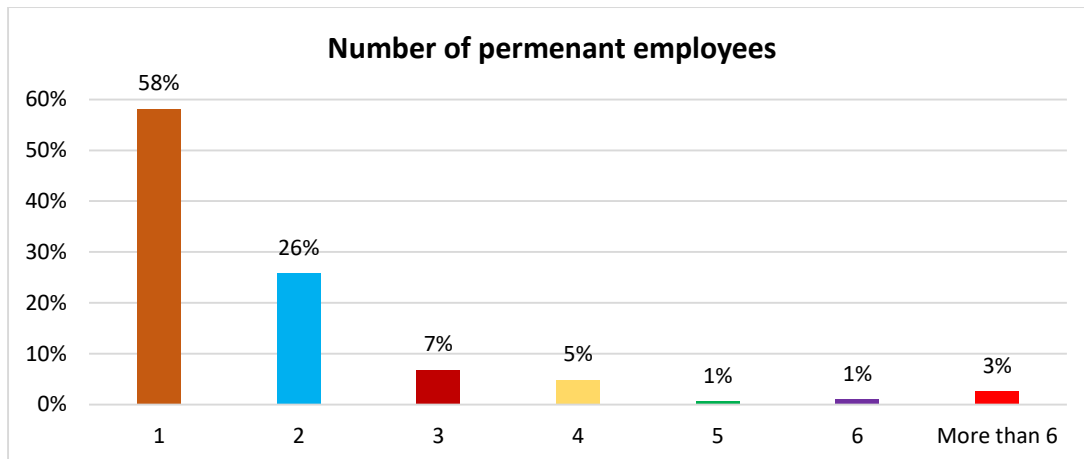
¹⁷ TRC-KNT-NR-07

¹⁸ TRC-KNT-REG-06

¹⁹ TRC-TTG-REG-04

²⁰ TRC-TGM-NR-07

Figure 18: number of employees



As can be observed from Figure 18 above, the MSMEs surveyed are to a great extent (58%) staffed by themselves and are assisted by a spouse or family member. Only 26% of the respondents indicated that they have one other permanent employee. The main reason stated for not employing another person is that the business does not generate sufficient revenue or scale to warrant hiring an employee. A few respondents also stated that they cannot guarantee the quality of an employee's work and therefore preferred to carry out the tasks themselves. They also stated instances where they have had bad experiences with such employees in the past. If there was a need for additional help, respondents indicated that they would seek help from individuals in the vicinity for the particular period (short-term/temporary) as the following extract illustrates:

"No, the employee who works with me is from my family. First I have to give the priority to them. And I am afraid of taking an employee from my own ethnicity too. Because I am afraid of that they might not be genuine and punctual. Earlier I had such experience with my previous employee. But in my business, punctuality is very important to satisfy my customers".²¹

This corresponds with the survey results which indicate that 25% of the respondents had one temporary employee, followed by 8% who stated they had two temporary employees.

Ethnicity of employees

In selecting employees to assist with the business, most respondents indicated that they were more concerned with the quality of the work carried out, dedication, and honesty/trustworthiness than the ethnic identity of the employee. One respondent indicated his reluctance to hire employees belonging to a different ethnicity due to issues that may arise due to miscommunication, *"Due to language issue I hire people of same ethnicity. Want to prevent any social issues that may arise from miscommunication".²²* Comparatively another respondent indicated that she had hired two employees of different religions – one of Islamic faith, the other Catholic – with the intention of being able to better communicate with any customer (TRC-KNT-REG-12); such an initiative is a prudent business decision in a location

²¹ TRC-TGM-REG-06

²² TRC-TTG-REG-03

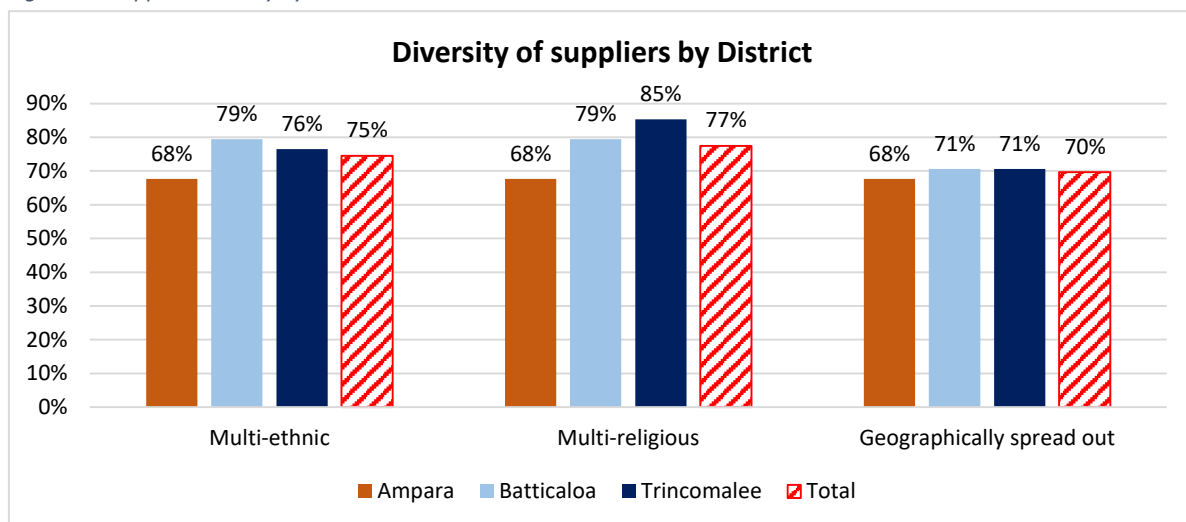
such as Trincomalee where there is a diverse customer base. A Muslim respondent shared his experience of employing a Tamil woman as the following extract illustrates:

“Yes, I have an employee from Tamil ethnicity. She is a dedicated worker. She listens to us and does the work correctly. My ethnicity people never listen to us. And Muslim women don’t come to this kind of work”.²³

Only 9% of the total surveyed respondents indicated that their employees were of different ethnicities to that of the proprietor; with the percentage increasing only marginally (to 11%) when analysed by religion.²⁴ This low percentage is explained in part by the fact that 84% of respondents stated that their business is self-run (58%) or in instances where they had hired an employee, said employee was often a family member or close acquaintance limiting the opportunity for ethnic or religious diversity of employees (see Figure 18 above). Business entities which have three or more employees (including the proprietor) were relatively more ethnically and religiously diverse with 29% of proprietors stating that their employees were of different ethnicities, while 35% of the proprietors indicated that their employees belonged followed different religions than to their own.

4.3 Suppliers

Figure 19: Supplier diversity by District



Surveyed respondents indicated that suppliers are often selected based on price and profit considerations rather than ethnicity or religious considerations, *“We don’t consider religion or ethnicity. We purchase goods from where we can get low price”* (TRC-KNT-NR-12); this is reflected in Figure 19. This sentiment is reiterated in the quantitative survey data which indicates that over 60% of suppliers are ethnically diverse, with Muslim and Tamil owned businesses having the highest percentage of ethnically diverse suppliers at 85% and 75% respectively and Sinhalese owned establishments reporting ethnic diversity of suppliers at 60% (Figure 20). With regard to religious diversity, proprietors following the Roman Catholic faith had the highest diversity of suppliers (at 100%) followed by proprietors of the Islamic

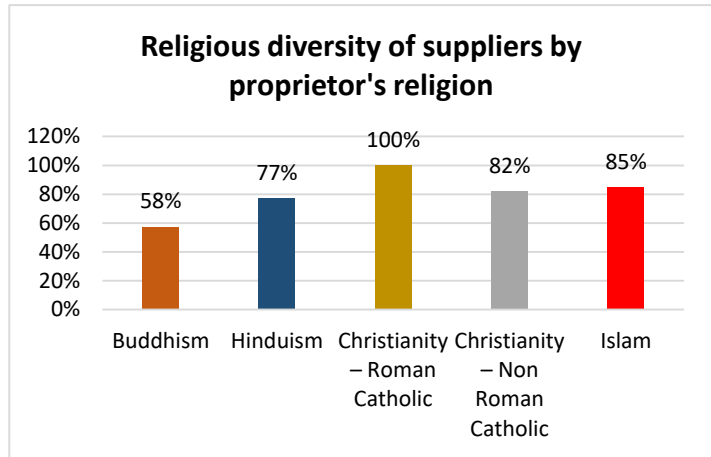
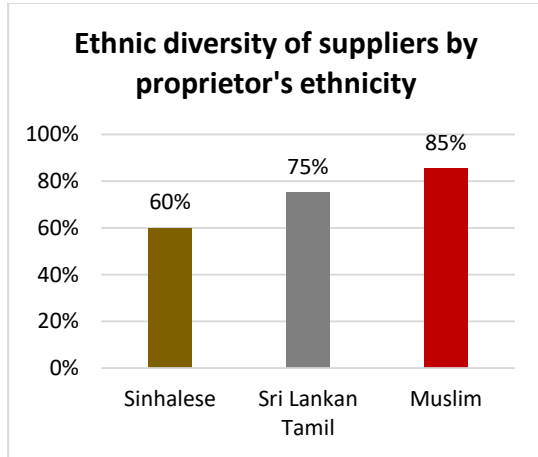
²³ TRC-KNT-REG-07

²⁴ The numbers were too small to represent this accurately using a graph

faith (85%), non-Roman Catholic faith (82%), and proprietors following the Hindu faith (77%). The lowest reported diversity among suppliers is documented from Buddhist proprietors at 58% (Figure 21).

Figure 20: Diversity of suppliers by proprietor's ethnicity

Figure 21: Diversity of suppliers by proprietor's religion

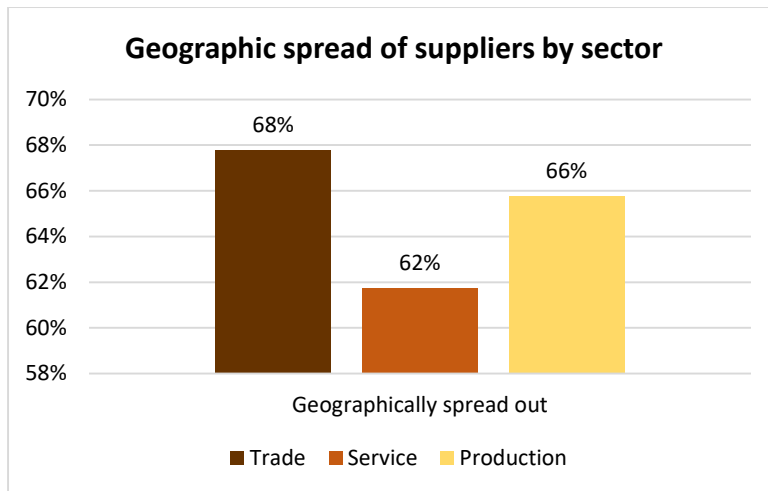


Other considerations mentioned when selecting a supplier included being able to source all the required items in one location, availability of credit facilities (convenience) and quality of the product. A respondent involved in tailoring stated that when purchasing material in bulk, she preferred to source the necessary material from supplier of Tamil ethnicity as they would not 'mix' the material.²⁵

Decisions to source stocks from geographically distant locations are evaluated by considering the cost at source and the cost of transporting the necessary stocks. While one respondent recognised the price difference in sourcing produce from Dambulla, his current scale of operation did not warrant frequent travel, and as such he indicated that he sourced the produce from stores closer to his business. As can be observed in Figure 22 below, the geographic spread of suppliers is highest for individuals operating within the trade sector (68%); this is most likely as suppliers for retail stores (most common business entity of the surveyed respondents) have a regional distribution presence. Comparatively individuals operating within the service sector have the least geographical spread of suppliers at 60% as they rely largely on their own skills to produce the end product.

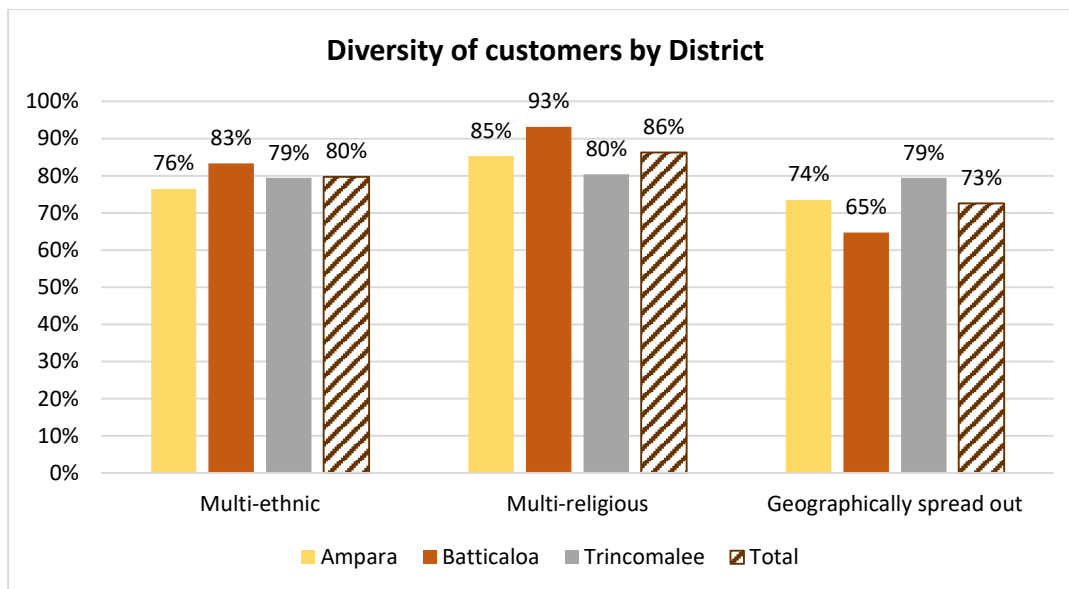
²⁵ TRC-KNT-REG-04

Figure 22: Geographic spread of suppliers by sector



4.4 Customers

Figure 23: Customer diversity by District



As can be observed in Figure 23, the ethnic, and religious diversity of customers is relatively high (over 76%) across all three Districts. The highest customer diversity is reported in the Batticaloa District at 83% and 93% for ethnic and religious diversity respectively. This can be attributed to the fact that all three DS Divisions selected can be characterised as urban localities, thus representative of the demographic characteristics of the selected survey locations.

The survey results indicate that the proprietors ethnicity or religion had little impact on the customers they chose to serve, with over 74% of respondents indicating that their customer base was ethnically and religiously diverse, as can be observed through Figure 25 and Figure 24 below. This is further reflected in the qualitative data as well.

Figure 25: Diversity of customers by proprietor's ethnicity

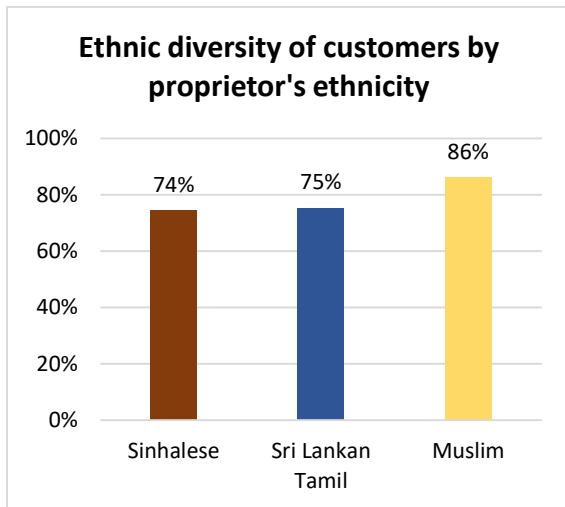
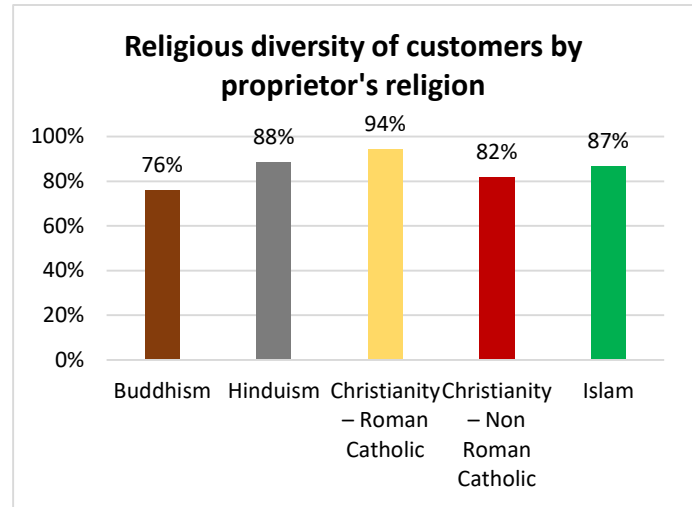


Figure 24: Diversity of customer's by proprietor's religion

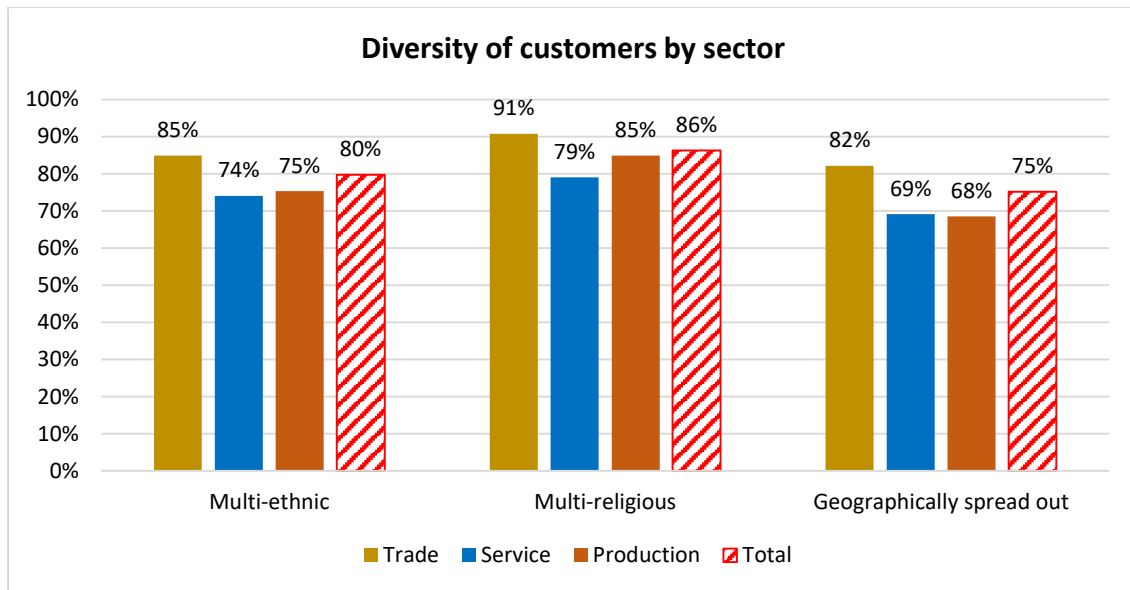


Respondents indicated that they have no issues with servicing customers of differing ethnic or religious background as their primary motivation for running a business was to generate profit. They went on to identify that the location of the store/business contributed towards the distribution of customers. For example, if the store is located within a village which is predominantly mono-ethnic in composition, the customers are more likely to belong to that particular ethnic group. Comparatively, stores located in central, urban areas were likely to be patronised by a diverse customer base.

Being able to communicate with customers in the language of their preference is also recognised as a useful tool to service a wider customer base, *“I speak Tamil and they like it when I use their language to talk to them. Then they trust you”* (TRC-TTG-NR-02); *“I know Sinhala language too, so Sinhalese don’t find it difficulties to buy from me. Apart from that, the quality of my products is good. That’s why people come here from all areas”* (TRC-TTG-REG-17).

Although the data in Figure 23 indicates a relatively wide geographic spread of customers, the descriptive component of the survey reveals that customers usually patronise businesses in close proximity unless it is a speciality product or service. This is reflected in Figure 26 which represents the diversity of customers by sector to be quite high in every sector except in production, which can be attributed to the proximity of the customers to product. Businesses that have a presence in busy urban areas or on the main road are more likely to service customers from wider geographical locations. Respondents further attributed the quality of the product and prompt delivery as features which attracted and retained customers from further afield, *“My products are quality and I deliver their orders on time. That makes people come from even far away”* (TRC-TTG-REG-03).

Figure 26: Diversity of customers by sector



4.5 Perceptions of willingness to engage with others

The general sentiment expressed by respondents was an overwhelming willingness to engage with individuals of other ethnicities. This corresponds with the survey responses across all three Districts as represented in Figure 29 below. Accordingly, 86% of respondents from the Ampara indicated that they were very much willing, followed by 84% of respondents in Trincomalee and 83% of respondents in Batticaloa Districts. When distinguished by ethnicity and religion, respondents indicate being very much willing to work with individuals of different ethnicities, with response rates being over 79% for proprietors of all ethnic and religious backgrounds (detailed breakdown is available in Figure 27 and Figure 28).

Figure 27: Willingness to engage with individuals of different ethnicities based on proprietor's ethnicity

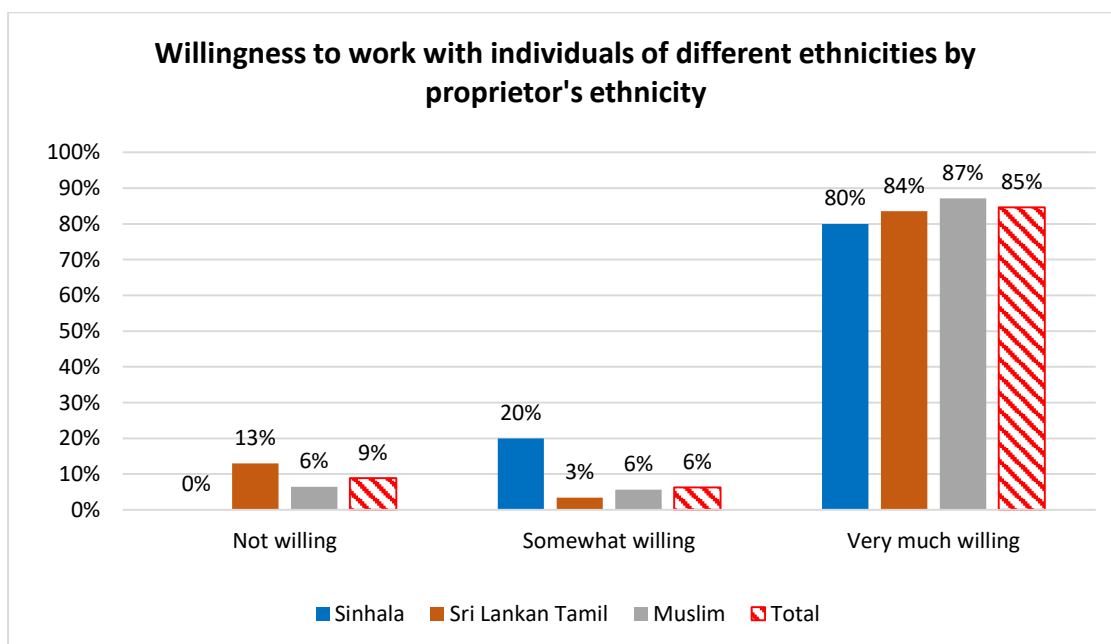
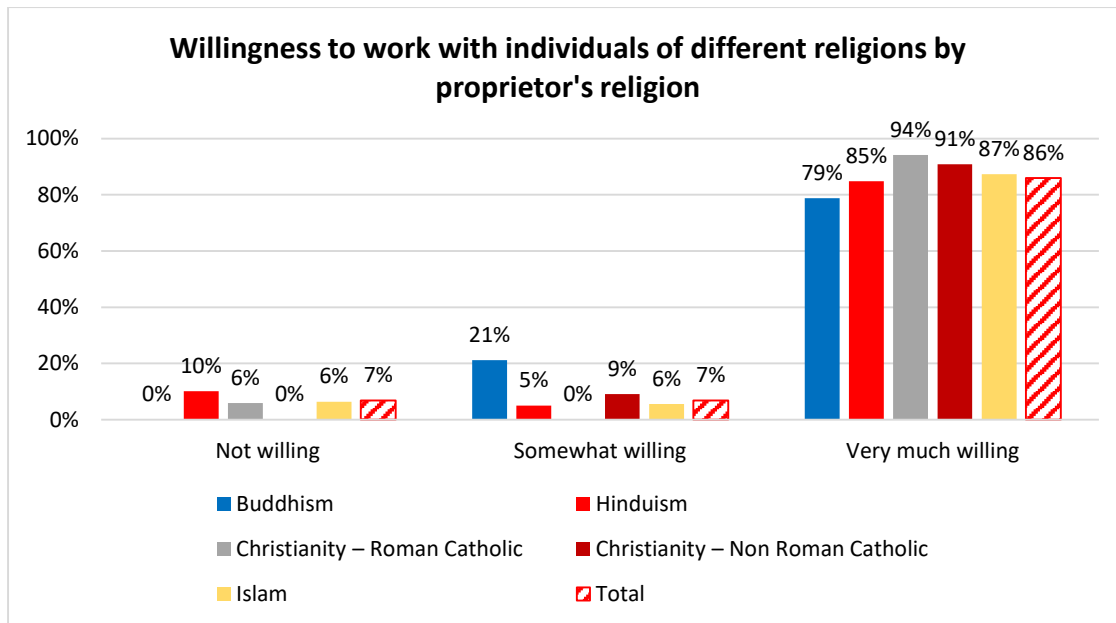


Figure 28: Willingness to engage with individuals of different religions based on proprietor's religion

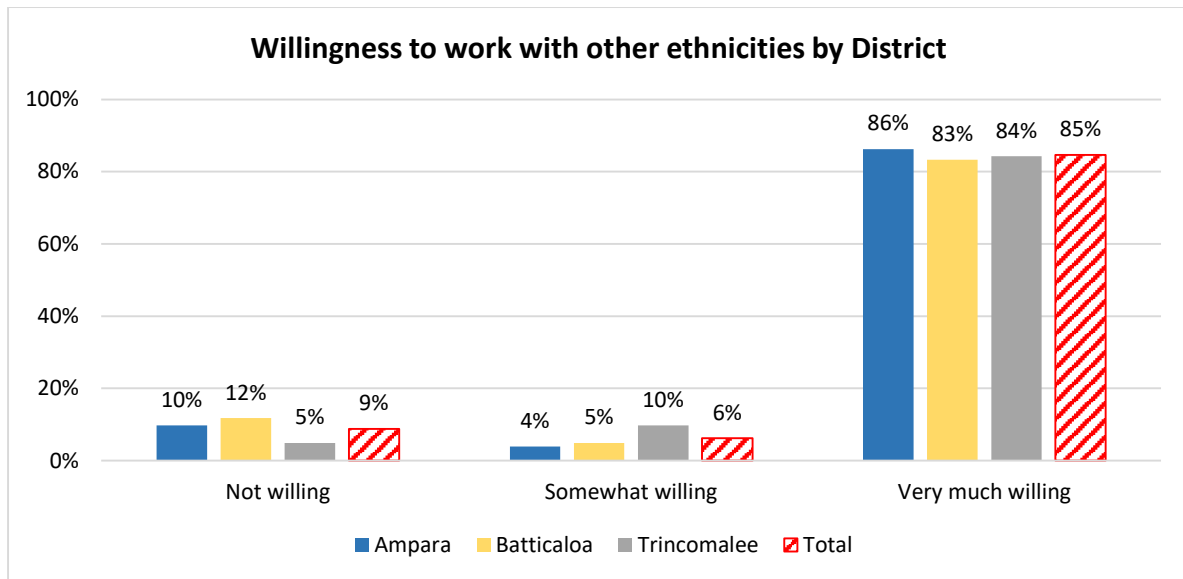


As stated by one respondent, the primary objective of carrying out a business is to make the customer feel welcome and comfortable enough to ensure they return, as this will ensure continued business and profits. There is no problem working with other ethnicities. Responses from another respondent indicated that location and proximity to town or urban areas facilitated an increased willingness to work with individuals across ethnic and religious identities, *“Towns such as Kantale and Trincomalee have all three ethnicities. You need all three to work together (and) for business to be developed”* (TRC-KNT-REG-01). More specifically, in Kanthalai, the trade centre identified as the ‘bazaar’ seems ethnically diverse and a Tamil respondent shared her experiences of a form of a barter system that they practice among different shop keepers, as the following extract illustrates:

“Yes, there are many shops in Bazaar which belongs to Muslims and Sinhalese from other part of our country. They got to know my business and become my customers. We have kind of exchange business too; they buy a chicken from me and I take dresses of other items for the amount of chicken. Muslims buy our chicken more than Tamils. Because Tamils have restrictions on eating chicken”.²⁶

²⁶ TRC-KNT-NR-07

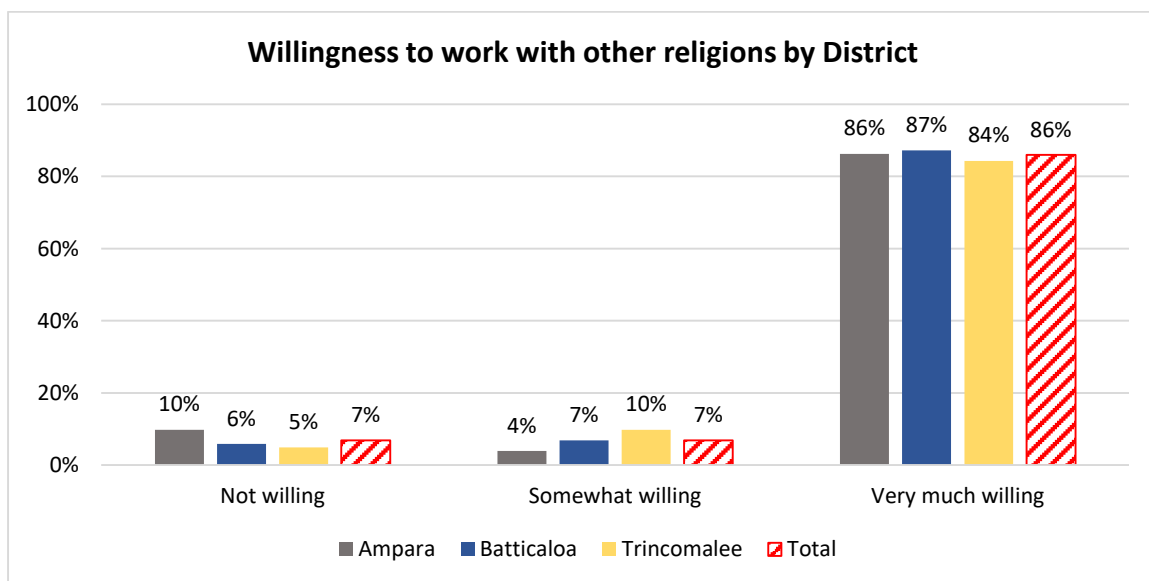
Figure 29: Willingness to work with others by District



Respondents who reside in mono-ethnic communities indicated that they have not had an opportunity to engage with individuals of other ethnicities thus far but were not disinclined to interact in the future (*somewhat willing*).

Respondents who were *not willing* stated that as they did not have any previous experience interacting with individuals of other ethnicities, they didn't think it was not practical to begin at this late stage. Other reasons associated with reluctance to engage with individuals of different ethnicities was the language barrier and the fact that the 'other' community did not live in close proximity to them. The willingness to engage with other religions did not differ significantly across the districts, with a slightly higher proportion in Amapara (10%) stating that they are not willing to engage with other religions, compared to Batticaloa (6%) and Trincomalee (5%) (Figure 30).

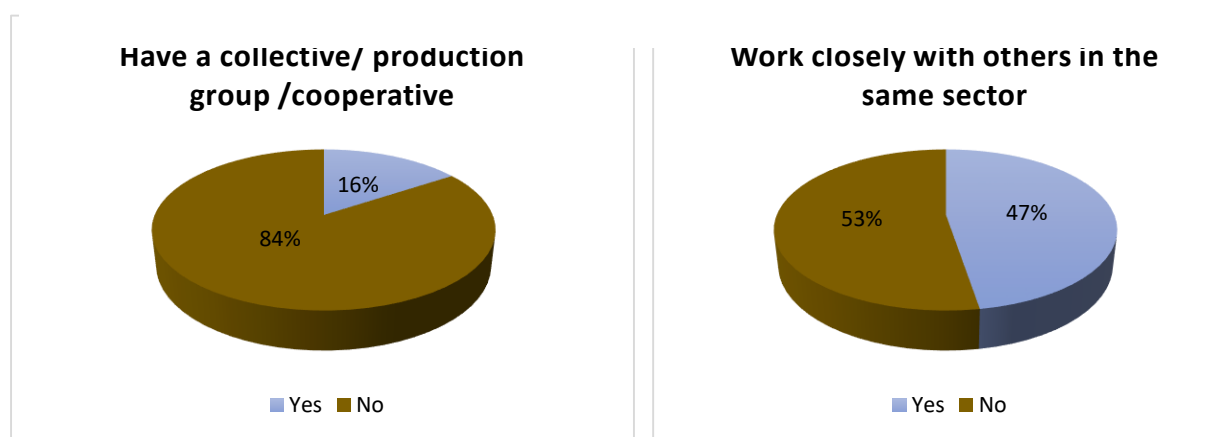
Figure 30: Willingness to work with other religions by District



5. Collective Engagement

This section attempts to understand whether individuals operating similar business ventures were aware of the existence of and level of engagement with formal production groups or cooperatives. The findings reveal that although formalised engagement is low, individuals were not entirely unwilling to work with individuals within the same sector.

Figure 31: Collective engagement



5.1 Formal collectives

As observed from the left panel of Figure 31, only 16% of the surveyed respondents confirmed belonging to a formal collective, production group or cooperative for the purpose of collective business-related engagement. Respondents from the Batticaloa District indicated the highest percentage of collectives at 27%, followed by 14% in Trincomalee, and 6% in Ampara District. The higher percentage of formal collectives in Batticaloa is attributed to the urban locality of the selected DS Divisions and the subsequent existence of relatively more trade associations than in the other Districts surveyed.

One of the primary reasons attributed to not belonging to a **formal collective** include limitations on the freedom to operate the business how each individual deemed fit, without having to rely on ensuring consensus among the group particularly with regard to pricing strategy; as one respondent stated, *“I want to work independently without other’s influence. If we have a society, there will be many problems in getting cooperation and I don’t want to get into trouble”* (AMP-ADD-REG-07). Another reason attributed to not being a part of a society is the concern with regard to the time commitment expected. A benefit identified with being a part of a formal society is the ability to share sector specific information such as *“know prices of machines, how to buy them and better ways to get loans. Through societies we can get people to work for us as well”*²⁷, however, this information is not limited to a society or collective, and individuals are free to be a part of the local rural development society (RDS) or women’s rural development society (WRDS).

²⁷ TRC-KNT-NR-02

5.2 Working together (informally)

Despite not belonging to a formal society/collective/cooperative, nearly half the respondents (47%) indicated that they work closely with others in the same sector of their own volition. The reasons attributed to working together with others in the sector include, being able to share knowledge and skills among fellow business owners, to be able to support each other's business particularly during periods of heavy demand with the interest of meeting the needs of a customer, *"When I receive many orders at the same time, I cannot bear the burden of the work. So, I direct them to other tailors nearby in order for keep my customer satisfied. If the customer comes to me with different design which I don't know it, I direct the customer to the right tailor. When I direct my customers in such situations, other tailors also direct (customers) to me as a result"* (TRC-TTG-NR-03). It is the general consensus among those who work closely with other MSME businesses that working together will ensure everyone can progress towards success together.

Comparatively a majority (53%) of the surveyed respondents indicated that they chose not to work together with other businesses as they prefer to work independently and not give undue advantage to their competitors.