

Growth and Issues of Small and Medium Enterprises in Post conflict Jaffna Sri Lanka

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ABSTRACT

The growth and development of SMEs in Jaffna is vulnerable due to the three decades of internal war. Even having finished the war, there is no remarkable progress in the development of SMEs in Jaffna. Thus, main objective of study is to scrutinize the severity and degree of issues of small and medium enterprises in post conflict Jaffna. The second objective is to identify the growth status of SMEs in Jaffna. Self administered Likert scale questionnaire has been employed for the analysis of study. The results bring to light the fact that mean value of assets, value of turnover and mean value of number of employees as well as growth stages of SMEs clearly show that there is very poor growth of small enterprises in Jaffna. Another finding is that the mean values of all issues of SMEs are closer to one or two indicating that small enterprises of Jaffna have been undergoing several severe problems in the growth of business in post war. Government should give more priority in policy making to the development of SMEs of North and East where as political and economic climate should be conducive to flow foreign and local investment into North and East region. This is a first empirical study in regard to SMEs after 30 years civil War in the region. This study will be giving new insights to the policy makers and government. In addition, those who are interested in developing their business in the same region can acquire valuable information and knowledge about SMEs.

KEYWORDS: *growth, Northern Province, political climate, post civil war, small and medium enterprises.*

JEL CLASSIFICATION: *L20, L25, L26, O17*

INTRODUCTION

Enterprise development and its contribution to the national economies of developed countries such as America, Europe, Australia, and Japan are a good example for every developing country because growth and development of small and medium enterprises in developed countries play significant role in boosting economic growth, eradicating unemployment problems and thereby reducing poverty. The pro-SME view argues that small firms are more innovative than large firms. Therefore, World Bank and other non-governmental organizations promote the small and medium enterprises as a strategy to boost economic growth and eradicate unemployment and poverty ridden condition in the developing countries. Moreover, it can be often justified on the grounds that the emergence of entrepreneurs is an important mechanism to generate economic growth. Vijayakumar and Marek (2012) indicate “*Despite there are vast numbers of small and medium enterprises in the total industrial enterprises in Sri Lanka, the contribution of small and*

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medium enterprises to the national economy is very low in comparison with large enterprises in Sri Lanka". In addition, the growth and development of enterprises and its contribution are high and indispensable in the South East Asia such as South Korea, Thailand, and Taiwan etc. What is the important fact is that Sri Lanka is not only far behind the developed countries in the enterprise development but also in the South East Asian region. This is a negative sign which ultimately adversely affects the economy of Sri Lanka. Having liberalized the economy of Sri Lanka, development of SMEs is a one of the core aspects in the policy making. As a result, SMEs have been identified as an important strategic sector for promoting growth and social development of Sri Lanka. The SMEs cover broad areas of economic activities such as agriculture, manufacturing, mining, constructions and service sector industries. In the present competitive and challenging global environment, a viable and dynamic SME sector is essential for economic development of developing countries. The supports from government, international agencies (World Bank, Asian development bank, IMF) and other sections of society are needed to sustain their growth and thereby enhancing their role to the national economy of developing countries. Growing body of research works in respect of SMEs clearly show that growth and development of entrepreneurs and enterprises are sine qua non to eliminate unemployment and stagnant growth. Thus, most success stories of developed countries came with the private-public synergy. Even though numbers of remedial measures have been made so far to enhance the growth and development of SMEs in Sri Lanka, its growth and contribution are inadequate to the national economy. What is the reason behind this is that there is no effective public-private participation and lacks of co-ordination, even there are several inter governmental departments for the development of SMEs in Sri Lanka (Vijayakumar & Marek, 2012).

The experiences of developed and newly developed countries such as South East Asia indicated the fact that economic development has taken place through rapid industrialization led by agricultural transformation increasing productivity per unit of labor and land. Note withstanding the growth oriented strategies embarked upon in the past in many developing countries, the countries such as Asia and Africa have failed to rectify their major economic problems such as stagnant and unstable economic growth, unemployment, low income and poverty. However, South East Asian countries followed the new growth-oriented strategies followed by newly industrialized countries address these economic problems in different ways: attracting effective promotion of SMEs and multinational company, investment on human resources, particularly emphasizing the skill based education. Consequently, economy of South East Asia has become Asian tigers and is an example and model for all developing countries. What is the important fact is that remarkable growth and development of South East Asia has relied on the growth of SMEs. In other words, the role of the small and medium scale enterprises has become very significant in these counties. It is difficult for researchers to speak about economic growth and development without paying attention to the impact of trade liberalization and globalization in the context of current world. SMEs undergo the advantage of globalization by various ways such as opening up borders for resources and increasing direct and indirect exports and labor mobilization (Julien, 1996). The role of small and medium firms also significantly play pivotal role in developing countries in the global village due to the globalization (Van Dijk, 1993). However small and medium firms are unable to achieve their goals by themselves alone because of inadequate and in effective support and assistant from government and various agencies. Accordingly Visser (1997) contented that there are essential needs from external actor such as other firms for the growth of business. Many

empirical studies emphasize the paramount importance of assistance and support of organizations and institutions (Allesch, 1993; Lim, 1994; Sarder et al., 1997). The moral as well as financial and other supports of neighbors, relatives and friends would significantly encourage the growth of firms (Bridge et al., 1998; Birley, 1985; Johannisson, 1988). In addition, the fact that various kind of social and other net work are needed to foster the SMEs is consistent with many studies carried out so far in relation to SMEs (Aldrich et al., 1989; Birley, 1996; Chu, 1996; Cromie et al., 1994; Greve, 1995; Ostgaard & Birley, 1996; Sadler & Chetty, 2000; Weick, 1991). Afore said studies clearly mention the fact that the supports from government ,relatives friends, consumers, other related firms ,international agencies, fund providers like bank are inevitable for growth and emerging more and more entrepreneurs and number of SMEs.

1. THE DEFINITION AND CURRENT STATUS OF SMALL AND MEDIUM ENTERPRISES IN SRI LANKA

Vijayakumar, Brezinova and Marek (2012) mentioned that *“Sri Lanka is conducive to start up small and medium enterprises for socio-economic development. The small industries in rural areas are source of employment and production of food in addition to agricultural sector. Since independence, successive governments have been giving great attention to develop the small and medium industries which is backbone for the economic growth and thereby reducing poverty”*. SMEs have been identified as an important strategic sector for promoting growth and social development of Sri Lanka.

The definition of SMEs varies country to country, region to region, sometimes within one nation. SMEs can be defined as in terms of many parameters such as the number of persons employed, amount of capital invested, amount of turnover, or a combination of the two or more. It is the fact that there is no single or unique definition in regard to SMEs. In countries where there are strong SMEs sectors, they are as a rule defined by using the number of employees and size of capital. Japan defines SMEs under three categories including manufacturing sector SMEs, wholesaling sector SMEs, retailing and service sector SMEs. In India, small scale industry (SSI) can be defined as in terms of limits on investment in plant and machinery, excluding investment in land and buildings, testing equipments and anti-pollution measures. As said above, various departments and institution in Sri Lanka also define SMEs based on various criteria. The number of employees as the criterion for size appears reasonable because it distinguishes between enterprises regardless the line of business, and the amount of capital investment must be revised frequently due to inflation (Ponnampereuma, 2000). Industrial Development Board (IDB) defines a small industry as an establishment whose capital investment in plant and machinery does not exceed Rs.4 million and the total number of regular employees does not exceed 50 persons (Central Bank of Sri Lanka, 1998). The Department of Small Industries (DSI) classifies enterprises with capital investment of less than Rs. 5 million (US\$ 52500) and fewer than 50 employees as SMEs. In accordance with World Bank definition, in Sri Lanka, those with fewer than 49 employees are small; those with 50-99 employees are medium enterprises. Generally, the number of employees as a criterion could be more acceptable because other criteria can be affected by inflation. In accordance with above said definitions, it is the fact that there are no unique criteria or a unique definition for the small and medium enterprises in Sri Lanka. In other words, there is no universally accepted definition of SMEs. Apart from the different criteria, various types of definition were adopted by different official agencies for administrative and statistical purposes (Lackshman et al, 1991). In this study,

establishment which has less than 28 employees is defined as a small while establishment which has had more than or equal 28 and less than 100 is defined as medium enterprise. In Jaffna, there are no medium size firms consisting of 70 or more than 70 employees because all medium size enterprises were collapsed and destroyed by severe war between years 1983-2009 in the region. But now, government is launching and fostering some initiative to start up new small and medium size firms and accelerate existing small enterprises in Northern and Eastern Provinces.

It is the fact that SMEs play crucial role to the economic growth in developed countries in general and developing countries in particular. But, in Sri Lanka, there is different experience in regard to contribution of SMEs to the economic growth of the country. In other words, contribution of SMEs on the Sri Lankan economy is not significant which does not lead to high economic growth and reduction of poverty. Even though small enterprises account for 86.6% of total establishments, its contribution to the employment and value added is 29.2% and 11.3% in 1983 respectively. There are 11.4% of medium industries which accounts for 19.4 % of total employment and 19.8% of value added in 1983. It is the important fact that 2% of large enterprises account for 51.4% total employment and 68.9% of value added in 1983. On the one hand, successive years, contribution of SMEs has decreased in Sri Lanka. On the other hand, contribution of large enterprises has continuously increased. In 2006, percentage of establishment of small enterprises is 65.9% and its contribution to the employment is 12.2% and 5.7% for value added. There are 25.9% medium enterprises which has accounted for 27.5% of the total employment and 26.1% of total value added in 2006. Though percentage of large enterprises is 8.4% in 2006, its contribution for employment and value added is 60.2% and 68.2% respectively. However, 93% of small and medium enterprises account for 29.6% total employment and 20.3% of value added in 2008. But, 7% of large enterprises in 2008 account for 70.4% of total employment and 79.4% of value added. Moreover, 94.4% of small and medium enterprises account for 31.5 % total industrial employment and 28.8 of value added in 2009 where as 5.6% of large enterprises account for 68.5% of total industrial employment and 71.2% of value added in 2009 (Note: data for 2010 have not yet published). It can be concluded that although there are significant number of SMEs in Sri Lanka, their contribution to the national economy in terms of employment, output and value added has been very low. However, in developed countries and newly developed countries, SMEs have significantly contributed to the economic growth and poverty reduction.

2. POTENTIALS OF THE SMES IN WAR AFFECTED AREA (NORTHERN AND EASTERN PROVINCE)

Sri Lanka is an island found in the South East of India surrounded by Indian Ocean with total land area 65610square kilometers. This is country that abounds in natural resources and fascinating natural scenery. Country is also track to achieve the millennium development goal on poverty reduction. Even though most of the social indicators are in satisfactory level, economic indicators are very unstable and poor trend in nature. Northern and Eastern provinces which consist of eight districts were most conflict affected area. The total acreage of Jaffna is 1020sq.km (102322Hec) and Eastern province has 9361 square kilometers land area. Because of three decade civil war in North –East of Sri Lanka ,whole economy has been affected in general and North-East Provinces in particular. Significant size of resources during the last three decades diverted into internal conflict and war and thereby inflation, unemployment, high public debt, severe budget deficit are still severe

problem in Sri Lanka. As a matter of fact, government neglected and postponed the development of North-East during the war period (1983-2009) even though North –East was tremendously affected by war. In other words, much agricultural land came under military control. The vast amount of human resources, assets, buildings and houses were destroyed by war. The growth and development of SMEs were in the dark in North and East over the period of civil war. Jaffna has had mineral resources such as salt, silicon, clay, limestone and fish and livestock while Jaffna has had long experience in civil war (30 years). The following table shows the potential industries of Northern Province.

Table 1. Potential resources in Jaffna

Resources	Potential industry
Livestock	Processed milk, yoghurt, ice cream, dairy and poultry, bio-gas manufacture of compost manure
Palmyra	sweet toddy, jaggery and palm sugar odiel flour, fiber and fiber products, mat weaving Palmyra leaves products
Marine resources	Fish, dry fish, manufacture of fishing gear, ice plants, boat building and processing of lobsters for exports
Limestone	Cement
Coconut	soap, animal fodder, fiber, coir products Coconut oil.
Chilies	Sources and powder
Tobacco	Pedi and related products
Clay	Pots, dishes, etc.
Paddy and rice	Rice milling rice flour and related products
Fruits and vegetable	Fruits processing, jams, cordials pickles, dehydrated fruits and vegetable.

Source: Ministry of rehabilitation and reconstruction; statistical hand book, Jaffna (2007)

Jaffna-Northern province which still has traditional and rigid culture is potential place to develop small and medium enterprises after 30 years civil war in which agro- based business is lucrative, especially fish and fish products, tobacco faulty, paddy and rice, coir, coconut products, and palmyrah products. During the last three decades of civil war, following difficulties were undergone in regard to growth and development of SMEs. In other words, Jaffna was unable to use their potential capacity during the last three decades to develop SMEs due to the following grounds.

- Many of small and medium industries were destroyed by arm conflict, particularly, medium enterprises were entirely destroyed.
- There was no electricity or lack of electricity during the war time.
- Vast of number of people of Jaffna were displaced from their own land and area, especially coastal area were under control of military.
- Entrepreneurs and youngsters migrated to Europe, Canada and America.
- People did not like to star up new establishment because of high risk by arm and related matters.

- The infrastructural facilities such as roads, communication was very poor and there was no or poor connection with south of Sri Lanka.
- There was no marketing facility.
- Those who wanted to start up small business were unable to obtain loan facilities from bank.
- The high cost of raw material prevented the new business and existing small business.

The above said issues precluded the growth and development of SMEs in Jaffna during the period of 1980-2009. Even though infrastructural facilities such as roads, communication and transport, electricity are gradually growing trend having finished civil war which is positive indicator for the growth and development of SMEs, actual investment motives are questionable. Though internal war was over on May 2009, living standard of most displaced people of Vanni Jaffna and Eastern province such as Batticaloa, Ampere Trincomalee have not been yet improved. They are still grappling with various basic issues for their livelihood. What is the important fact is that micro, small and medium enterprises should have been played for the improvement of the living standard of those displaced and war affected people in the region. Unfortunately, most of the small and medium enterprises were collapsed and destroyed by internal war and remaining enterprises are vulnerable. In other words, internal war brought death and destruction of people, assets and enterprises, especially, death of all medium enterprises. The political economic environment is not conducive to invest on SMEs in Jaffna and other part of North-East region. At present, in Jaffna, most of enterprises are small not medium. It is the real facts that having ended the civil war, Jaffna and other part of northern region have potential to develop SMEs even there are much more defects and flaws. The vast number of youngsters, entrepreneurs and intellectuals of the north-east region migrated to western countries such as America, Canada, and Europe after starting the civil war since 1980. Despite Tamil Diasporas have had high potential capability and willingness to invest their accumulated wealth in their mother land, they have had notion that political and economic environment are not conducive to invest their accumulated wealth in the North and East region still today. While living in western countries, Diasporas may have picked up valuable expertise in addition to huge wealth (Bray, 2007). As a matter of fact, after three decades of civil war, Sri Lankan government should have been brought about various special incentives and security to Diaspora investors and local and foreign investors. But, government has failed to bring about favorable political and economic climate and that of incentives. If government generates favorable political and economic climate, specially, political solution to Tamils, following type of investment would highly flow on the SMEs and other sectors in Northern and eastern Provinces.

1. Local Tamils who have surplus and accumulated wealth will invest their desired field
2. Diaspora who have had high potential investment capabilities will flow their money in to northern and east provinces
3. Foreign and local companies and corresponding investors will make investment in the Northern and Eastern provinces.
4. Existing enterprises will increase their size of investment and technology.

3. LITERATURE REVIEW

Entrepreneur and entrepreneurship is the core of development of individual firm as well as whole economic development. It is general believe that those entrepreneurs have characters such as risk taking, innovation and creativity can conduct their business successfully. One of the indicators of growth of SMEs is increasing participation of women entrepreneurs. Globally, women entrepreneurs have been gradually increasing and play crucial role in the various dimension of growth of firms. Though this is not difference in case of Sri Lanka, there are still social and traditional barriers in participating women as entrepreneur. However, there are several factors that determine the growth of business. Frankly talking, growth of SMEs has been limited by several factors. In addition to general factors that prevent the growth of business, several unpredictable and unacceptable factors had limited growth of business during the war time to date. Some of them persist in Northern and Eastern region.

Generally, growth of enterprise refers to increase in size while there are contradictory in the literature of growth of business. As a matter of fact, size of firms as an indicator is becoming less important. SME growth is often closely associated with firm overall success and survival (Phillips & Kirchoff, 1989). In accordance with Storey (1994), it is the fact that in success of business, growth has been employed as a simple measure. Furthermore, Brush and Vanderwerf (1992) suggest the fact that growth is the most appropriate indicator of the performance for surviving small firms. Moreover, so as to achieve financial goals of enterprises, growth is a significant precondition (Day, 1992; Geus, 1997; Phillips & Kirchoff, 1989; Storey, 1994). Storey in his study (1994) contented that growth is usually a critical precondition for its longevity from the point of view of SMEs. Phillips and Kirchoff (1989) mentioned the fact that growing young firms have made twice the probability of survival in comparison with young non-growing firms. It is said that in spite of more strong growth may decrease the firm's profitability temporarily, it will rise up in the long run (MacMillan & Day, 1987; McDougall et al., 1994). The changes in the firm's turnover can be frequently used as measure of growth (Hoy et al., 1992; Venkatraman & Ramanujam, 1986; Weinzimmer et al., 1998). The number of employees is also important measure for growth of enterprises. Thus, North & Smallbone (1993) Storey et al. (1987) claim that the measures frequently used to measure for growth in the SME context are highly inter-correlated. So, capital-intensive large companies may not have inter-correlation. The growing body of studies of firm growth have focused on large companies or new venture, while the growth of established, long-lived SMEs seems to have attracted much less attention. As a matter of fact, in compliance with many organizational life cycle models, the growth of enterprises or business is s one stage of development in the organizational life cycle. On the other hand, the fact that job is created by existing firms not new SMEs is important findings in the development of literature. Nevertheless, previous studies of SME performance have focused on the performance of new ventures rather than on existing SMEs and on the factors behind their longevity and growth (Keeley & Roure, 1990). As said in many literatures about small and medium enterprises, Krueger and Carsrud (1993), Bird (1988) emphasize that the intention behind the entrepreneur is main determining factor of their behaviour. The firm's strategic behaviour and subsequent growth is understandable in the light of its growth intention. Therefore, firm growth is based not merely on chance, but on the management's conscious decision making and choice.

Every enterprise has had ambition that their firm should be long period in the business. For substantial growth to be achieved, SMEs should make different effort because growth is an important precondition for a firm's longevity. The stagnation in business is usually crucial indicator for enterprises during which period they continuously will have to confront the severe problems. In this backdrop, strategic management and finance control are needed to protect the companies. As a matter of fact, growth often has instrumental value. For new ventures, firm growth is needed to ensure an adequate production volume for profitable business. Growth can serve as an instrument for increasing profitability by enlarging the firm's market-share. Other similar goals include securing the continuity of business in the conditions of growing demand or achieving economies of scale. Moreover, growth may bring the firm new business opportunities (Timmons, 1999), and a larger size enhances its credibility in the market. Also, achieving a higher net value of the firm can be regarded as a motive for firm growth. The firm growth and performance rely on strategy used by entrepreneurs which involves choices along the number of dimensions and can be represented by firm's overall collection of individual business related decision and actions (Miles & Snow, 1978). It is the fact that identification of strategy pattern permits a more complete and accurate depiction of overall strategic behavior. Further, elements of strategy are interdependent and interactive (Galbraith & Schendel, 1983). Vitaly Influencing factors of growth level of small firms which are background and access of resources of the entrepreneurs, firm itself, strategic decision taken by firms should be properly combined for growth to be attained (Storey, 1994).

Gibb and Davies (1990) put forwarded four important approaches that influence on growth of business; personality dominated approaches including entrepreneurs' personal goals and strategic business aspirations; firm development approaches; business management approaches; broader market-led approaches. It is the fact that significant growth barriers are obtaining the finance, decreasing or unstable demands (Perren, 2000) and tightening completion (Hay & Khamshad, 1994). The lack skill-work force, weak managerial and marketing skills are also important growth barrier (Perren, 2000). Generally, there are several strategies that growing body of work have explicated have played crucial role for contributing growth in which finance ,marketing ,human resources, production and entrepreneurial strategy are indispensable in analyzing growth of business. Those small and medium enterprises properly combine these in effective manner can succeed their business. In addition to these strategies, entrepreneur's attributes like education, personal attitude, skills, etc, can also influence on growth of SMEs in remarkable extent. Most of the literature analyses general issues confronted by SMEs. There is lack of empirical studies about survival of SMEs in war environment as well as issues of SMEs affected by prolonged civil war. In this study, Author strived to examine the issues and growth of small enterprises in Jaffna because three decades of internal civil war has severely affected the growth of SMEs and its sustainability. No SMEs research in post conflict area has been made in North East region so far. Thus, researcher has strived to find the level of growth and impact of issues envisaged by SMEs in Jaffna.

4. OBJECTIVES OF STUDY AND METHODOLOGY

The main intension behind this research is to analyze the level of growth of small enterprises in Jaffna after civil war. In addition, researcher strives to find out the severity of problems confronted by Jaffna entrepreneurs after civil war. Filed area is Jaffna which has been affected by 30years prolonged civil war. In this study, establishment which has less

than 28 employees is defined as a small while establishment which has had more than or equal 28 and less than 100 is defined as medium enterprise. Accordingly, primary data were gathered based on Likert sale questionnaire from 100 entrepreneurs. To explain the general overview of SMEs of Sri Lanka, secondary data have been employed in the study. As garnering data from all war affected districts of Sri Lanka pay the way more expenses and time, researcher has paid his attention to the Jaffna district which was affected by prolonged civil war. Further, descriptive statistics, graph and SPSS have been employed to conclude the findings. In this research, service and trade sectors do not take in to consideration .Conversely data were gathered from manufacturing sector.

5. EMPIRICAL DISCUSSION

Three decades of internal war has severely affected the growth and sustainability of SMEs in Northern and Eastern provinces. Furthermore, SMEs in war affected region has undergone special issues in addition to common issues faced by SMEs. Therefore, considering the special issues undergone by small enterprises of Jaffna, the analyses were made. Our sample (100) have clearly shown the characteristics of entrepreneurs, as follows

Table 2. Personal profile of entrepreneurs

Gender	Male	92%
	Female	8%
Education	Below O/L	3%
	Passed O/L	55%
	Passed A/L	40%
	Degree	1%
	Professional	1%
Business Experience	Less than 2years	8%
	2-4years	12%
	4-5years	10%
	More than 5 years	70%

Source: Survey data (2012)

These characteristics of SME's owner help the understanding the nature of the people who get engage in the business. Of 100 entrepreneurs, 92% are male and rest of 8% is female. Most of entrepreneurs have had ordinary and advance level education. 58% of the respondents have had G.C.E (O/L) and below of that. While 40% of respondents have G.C.E (A/L) qualification, only 1% degree holder gets engaged in the small enterprise. Generally, graduates are reluctant to take risk. Instead of that, they choose white color job which has zero risk. Lack of skills and technology and unawareness are high in Jaffna compared to southern part of country. The reasons behind this were war and displacement during the last three decade. As far as the business experience is concern, the majority of 70 % have more than five years business experience. Having civil war came to end in 1999 May, new enterprises have been started up which was around 8%. Only 10% of enterprises pose 4-5 years business experience because during the period of which civil war was in peak. When we consider about the legal form of the business, 94% of the sample are sole proprietors. Partnership consists of 4% and the rest of 2 are private limited. Generally, because of war and attitude of Jaffna people they always prefer sole proprietorship than partnership. The percentage of private limited is very low in comparison with other part of

the country due to lack of information, lack of awareness and coordination with other part of country. Following table 3 clearly show the characteristic of ownership of small business in Jaffna district.

Table 3. Type of ownership

Business type	Valid percentage
Sole proprietor	94%
Partnership	4%
Private Ltd	2%

Source: Survey data (2012)

In this study, the SME's growth is measured by the asset value, turnover and the number of employees in the organization. In consonance with table 4, the mean of the asset value of the sample is 2.1 which represent that the average sample belong to the Rs 2-7 million categories. The mean value of turnover is 1.2 which represents average respondents belong to Rs 500 000 to 100,000 category of the turnover. The mean value of employees is 3 indicating average sample for employment is 10 to 16. Thus, it is the fact that most of the small firms employ very less employees .The size of enterprise is very small not only in terms of employment but also in terms of asset as well as in terms of turnover.

Table 4. Growth of SMES in various aspects

	Asset	Turn Over	Employment
N Valid	100	100	100
Mean	2.1	1.2	3
Medium	2.00	1.00	2.5
Minimum	1	1	1
Maximum	4	5	4

Source: Survey data (2012)

The stage of the business in the business life cycle is another important criterion to measure the growth of the business. Table 5 clearly shows the stage of business growth in Jaffna. According to the data gathered in the survey, 35% of the respondents were in the view that they are in the growth stage of their business while only 5% enterprises are at maturity level. Around 20% are in declining stage due to the several reasons. 20% enterprises are in the introductory level which is adverse indicator for the growth of SMEs. The fact that the data such as 35% of maturity enterprises, 20% of declining stage and 20% introductory stage clearly show the poor growth of SMEs in Jaffna should be given high attention via planning and policy formulation because various special issues ,in addition to post war, affect the growth of SMEs in Jaffna. Indeed, as indicated earlier, small sectors should have been played significant role in living standard of war affected people. But, the effects of small enterprises in employment generation and income earnings are not significant in Jaffna. Further, 17% respondents have not given proper reply that is known as here "no idea". The growth stage of small enterprises is shown in table 5.

Table 5. Growths stage of small enterprises

Growth Stage	Valid percentage
Introductory	20%
Growth stage	35%
Maturity stage	7%
Declining stage	20%
No idea	17%
Total	100%

Source: Survey data (2012)

The unfavorable political and economic climates and other issues are responsible for this very low business growth cycle in Jaffna. As mentioned earlier, based on likert- scale (1 for strongly agree, 2 for agree, 3 for neutral, 4 for disagree and 5 for strongly disagree), data from 100 respondents were gathered.

Table 6. Distriptive statistics of issues confronted by small enterprises in Jaffna

	N	Minimum	Maximum	Mean	Std. Deviation
lack of electricity	100	1.00	2.00	1.0300	.17145
Unfavorable political climate	100	1.00	4.00	2.1400	.82902
Unfavorable economic policies	100	1.00	4.00	2.4600	.67300
lack of skill labor	100	1.00	3.00	2.0700	.47684
lack of foreign investment	100	2.00	2.00	2.0000	.00000
poor infrastructure	100	1.00	4.00	2.1900	.54486
lack of credit	100	2.00	4.00	3.1000	.77198
inefficiency of public sector	100	1.00	4.00	2.5000	.55958
poor information	100	1.00	3.00	1.9700	.64283
lack of marketing technique	100	2.00	4.00	2.6900	.77453
foreign goods competition	100	1.00	3.00	1.9700	.77140
high cost raw materials	100	2.00	4.00	3.1100	.80271
Valid N (list wise)	100				

Source: survey data (2012)

There are some special issues in smooth function of enterprises in Jaffna of Northern Province. The issues such as lack of electricity, unfavorable political and economic climate, lack of skill labor, poor infrastructure, lack of credit facilities, poor information, lack of coordination between entrepreneur and public department, poor information, lack of marketing techniques, high cost of raw material, competition with foreign good are crucial impediment in growing small and medium enterprises in Jaffna- North and East provinces. Table 6 and 7 clearly indicate the problems confronted by small enterprises in Jaffna.

Most preventing factor for investment of foreigners and local investors is unfavorable political and economic climate. Even though prolonged internal war has come to end, political stability in Jaffna –Northern and Eastern region is not conducive and satisfactory. The electricity mean value of 1.03 which is closer to one clearly indicates the severity of electricity supply. Accordingly, 93.5% respondents are strongly agree that electricity supply is poor and irregular and have severely affected the smooth function of their firms. 5.5% respondents are agreeing that there is lack of electricity. Nowadays, electricity supply is gradually improving. And hydropower electricity will fulfill the needs of electricity in 2013 in Jaffna. Mean value of lack of foreign investment which is equal to two indicates the fact that most of the respondents agree that there is lack of foreign investment in Jaffna due to not favorable political and economic climate. What is important fact is that its standard deviation is zero. 21.2% and 59.7 respondents are strongly agreed and agreed respectively that there is poor infrastructure in Jaffna. Nowadays, electricity supply is gradually improving and road development has been improving and growing fast in Jaffna which will bring about substantial progress in the development of SMEs in Jaffna or Northern Province in future. Lack of skill labor is one of the problems envisaged by small and medium enterprises. Because of war and consequent effects, many youngsters and intellectuals migrated to Europe and other part of developed countries and some part of people were killed by civil war. 7.7% strongly agreed and 74.4% respondent agreed that there is lack of skill labor in Jaffna. Therefore, its mean value is closer 2.0. Even though there are problems in obtaining the credit from bank and other sources, it is not severe because mean value of lack of credit is closer to 3 compared to other issues. Moreover, 49.1% respondents agree that entrepreneurs do not follow excellent marketing strategy and technique. Mean value of lack of information of 1.97 indicates the severe problem about lack of information. In other words, entrepreneurs in Jaffna have had poor information which precludes the growth of SMEs in Jaffna. Accordingly, 5.8% of respondents strongly agreed and 68.8% respondents agreed that there is the lack of information in growth of small enterprises in Jaffna. Small enterprises which are vulnerable due to the past three decades of internal conflict are confronted by the problems of competition with foreign goods and high cost of raw materials. Accordingly, their mean values are 1.97 and 3 respectively.

Table 7. The severity of issue of small enterprises in Jaffna

Details	Strongly Agree%	Agree%	Neutral%	Disagree%	Strongly disagree%
Unfavorable political climate	18.3	56.8	14.4	9.7	--
Unfavorable economic climate	2.0	60.7	27.9	8.9	--
Lack of electricity	94.5	5.5	--	--	--
Lack of skill labor	7.7	74.7	16.4	---	--
Poor credit facilities	25.0	39.5	34.7	--	--
Poor information	5.8	68.0	23.1	3.0	--
Poor infrastructure	21.2	59.7	19.3	--	--
Lack of foreign investment	24.5	64.4	10.6	--	--
Lack of Marketing techniques	-	49.1	29.8	20.3	--

Details	Strongly Agree%	Agree%	Neutral%	Disagree%	Strongly disagree%
Competition of foreign goods	29.8	40.4	27.9	-	--
High cost of raw materials	7.0	47.5	43.2	--	--
Inefficient public sector	8.8	41.5	37.2	12.5	--

Source: Survey data (2012)

The severity and degrees of problems is so high in small and medium enterprises of Jaffna. In addition to these issues, marketing skills and technique of small enterprises in Jaffna lag behind the other part of region's SMEs. Many small enterprises undergo lack of skills on product design, making product differentiation, packaging, sale promotion, etc. These qualities such as product differentiation and sale promotion are very essential and indispensable in market competition. In comparison with other part of region, Northern Province, are far behind in marketing technique and product designing technique. Moreover, on account of lack of knowledge and unawareness, advertising and sale promotion of small enterprises is poor. But in the global world it is necessary to increase the production, sale and profit via marketing technique. What is the fact that lack of marketing knowledge and technique lead to failure and early demise of small business or stagnation of business? However, small business manager-owner is generalist, not marketing specialist and complex marketing theories may not be appropriate for small business. Nevertheless, marketing knowledge and technique is need and essential in certain degree. The marketing in general play positively to small enterprises and also it will enable entrepreneur to think strategically to further revamp the business. Small entrepreneurs are reluctant to spend more money to sustain successful marketing effort (Zimmer, 2006). Generally, the vulnerable small and medium business due to the three decades civil war should be reconstructed and rehabilitated with the help of government and other organization. Having finished civil war, Sri Lankan government has been starting up infrastructural development, particularly, electricity, roads, railway, and communication with the help of India and China. Not only that, government makes arrangement for the loan for micro and small enterprises via bank. Further, the government of Sri Lanka has realized the importance of SMEs for its economy and as a result, it has taken the initiative in setting up a new licensed specialized bank called the SME Bank in year 2005. The purpose of establishing the SME Bank is to promote the micro, Small and Medium enterprises via the provision of financial and technical assistance on a vigorous and sustainable basis. Thus, SMEs need assistance from supporting institutions (Allesch, 1993; Lim, 1994; Gibb & Zoltan, 1996; Sarder et al., 1997), and relatives and friends (Bridge et al., 1998; Birley, 1985; Johannisson, 1988). Government should give more priority to Northern and Eastern Province in establishing SME bank which will induce the growth of small and medium enterprises in there region. Apart from all, favorable political and economical climate is necessary for huge investment on SMEs and consequent growth of SMEs and growth of country.

CONCLUSION AND RECOMMENDATIONS

The growth of SMEs in Jaffna is vulnerable due to the three decades of internal war. Even having finished the war, there is no remarkable progress in the development of SMEs in Jaffna. Mean value of asset, turn over and mean value of number of employees clearly show that there is very poor growth of small enterprises. Furthermore, 20% of declining stage and 20% introductory stage of enterprises clearly show the poor growth of SMEs in Jaffna. The problems confronted by enterprises of Jaffna are severe and high degree compared other part of SMEs of Sri Lanka. The vulnerable small and medium business due to the three decades civil war should be reconstructed and rehabilitated with the help of government and other organization. Government should give more priority to Northern and Eastern Province in their policy making as well as in establishing SME bank which will induce the growth of small and medium enterprises in this region where as, apart from all, pertinent and conducive political and economical climate is necessary for huge investment on SMEs and consequent growth of SMEs and growth of country. This study will be giving new insights to the policy makers and government. In addition, those who are interested in developing their business in the same region can acquire valuable information and knowledge about SMEs.

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