



## Impact of COVID-19 on the Performance of MSMEs in Jaffna District, Sri Lanka

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### ABSTRACT

The study intended to identify the impact of COVID-19 on the performance of MSMEs in the Jaffna District. Accordingly, considering the population as the whole MSMEs operating within Jaffna District, and due to the pandemic situation in the country, the samples were selected conveniently during June 2021. Therefore, the researchers interviewed 15 MSME operators including the sectors of manufacturing, hotels and travel, food and beverages, construction, hospitals, and trading. The semi-structured interviews were conducted in the medium of Tamil since the population is Tamil Tamil-speaking community and finally translated into English. Following a descriptive analysis, the study found that the food and beverage, health, and trading industries recorded a profitable performance even during the lockdown periods and after the lift out of lockdown. However, they stated that there was a reduction in the total revenue due to the Covid-19 outbreak. On the contrary, other manufacturing industries such as cleaning, sanitary, hotels, and travel and construction industries recorded poor performance due to the COVID-19 outbreak. The main reasons were highlighted as the travel ban imposed by the government, lack of investments, and the public's reduced spending on vacation holidays. The study suggests that MSMEs can boost their performances over time by implementing competing strategies. Also, future research can consider identifying factors that are restraining the contribution of MSMEs to the national economy.

**Keywords:** Covid-19, Micro, Small, and Medium Sized Enterprises, Jaffna, Performance.

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## 1. Introduction

In late 2019, the coronavirus spread originated in the wet animal market that traded live animals in the city of Wuhan in China (Robinson & Kengatharan, 2020, Rothan & Byrareddy, 2020; Shereen et al., 2020). The crisis of the COVID-19 pandemic has seriously strayed the world and has disturbed the global economy and social activities. Due to the impact on the global economy approximately 100 million, people have fallen into great poverty (Shereen et al., 2020).

Sri Lanka is also facing this pandemic which has affected the economy to a great extent. Forecasted GDP growth of only 2.3% is expected for the year 2020 and the pandemic makes the target less apparent and the actual was -5.5% as of September 2020. The significant role of Micro Small and Medium-sized Enterprises (MSMEs) in contributing to the economy is widely accepted and some reasons are highlighted for such influence. This is given as the potential to enhance inclusive growth via eliminating the disparities of economic performance, further, their ability to transform as larger organizations in the future, thereby the creation of employment to a considerable amount of the population and finally the contribution to the economy as a whole over their lifespan. Therefore, the performance of MSMEs is highly significant since it was reported by the International Labour Organization (2019), that approximately 90% of all enterprises in most countries including MSMEs account for 70% of the employment globally. On top of that in Sri Lanka, found that 99% of non-agricultural economic activities are carried out by MSMEs (Department of Census and Statistics (DCS), 2013/14) and the sector contribution to the employment of the country is 45% (Ministry of Industry and Commerce, 2016).

Due to the Covid-19 crisis, as with other industries, MSMEs were also severely affected, and considering the situation, financial support was provided by licensed commercial banks as well by licensed specialized banks including new loans granted at lower weighted average interest rates to MSMEs (8.53%) compared to the average market lending rates to all sectors (8.73%). Further, an amount of Rs. 743 billion was granted to MSMEs as of the end of 2020 (CBSL, 2020). Even though a significant cost is attributed to licensed banks in Sri Lanka regarding the loans provided to MSMEs, the percentage of outstanding loans to MSMEs as a share of total outstanding business loans is very tiny (14.1%) compared to regional peers such as Republic of Korea (80.2%), Malaysia (50.6%), Thailand (50.5%), and Indonesia (19.9%). However, due to the spread of COVID-19, there were policies initiated by facilitating MSMEs to acquire equity capital through the Colombo Stock Exchange (CSE).

Therefore, by considering the importance of MSMEs in the economy a significant amount of cost incurred on credit is granted to this sector at flexed interest rates to overcome the difficulties faced in terms of the Covid-19 pandemic. Further, a circular issued on 27 March 2020 by the Monetary Board of Sri Lanka stating the scheme of Rupees 50 billion, a six-month re-financing facility to support COVID-19 hit businesses including self-employment and individuals. On the other hand, the real performance of MSMEs is expected to support the economic growth of the country as well. However, it was identified that the relative contribution to MSMEs from the licensed banking sector is very low compared to regional peers.

Hence, the researcher observed the significance of the MSMEs in the Sri Lankan economy, and the efforts taken by the fiscal system to maintain its effective performance during COVID-19 and therefore pointed out whether there is a real impact on MSMEs performance based on the facilities provided by the fiscal system. Further, aimed to understand the level of assistance from existing schemes since MSMEs in Sri Lanka face

several drawbacks such as lack of market infrastructure, poor financial literacy, lack of market knowledge, and lack of transparency (CBSL, 2020).

Moreover, in Sri Lanka among the nine provinces, Northern Province was identified as the lowest gross domestic product (GDP) contributor and its GDP share in 2018 and 2019 was 4.1%. In Northern Province, the majority of the enterprises are MSMEs and therefore their performance is essential to contribute to GDP. According to the statistics, it was identified that in Northern Province, Jaffna District was recorded for the higher number of establishments among other districts, which is 61%, a higher number of sole ownership establishments which is also 61%, and a higher number of manufacturing firms which is 64% (Department of Census and Statistics, 2014). Therefore, the study aimed to investigate Jaffna District since there is a significant amount of MSME activities carried out in Jaffna District compared to other districts in Northern Province. Even though the Jaffna district has accounted for several MSMEs in Northern Province, the contribution to the economy was significantly low. Identifying this as the research problem, the study examined the impact of the COVID-19 outbreak on the performance of MSMEs in the Jaffna District. Accordingly, the objective of the study is to identify the impact of the COVID-19 outbreak on the performance of MSMEs in Jaffna District. The results of the study would contribute to a certain extent to Jaffna District entrepreneurs and a signal to policymakers about the specific factors that resist the performance and the GDP contribution of the MSMEs in Northern Province.

## 2. Literature Review

The research studies highlighted the overall impact of COVID-19 on MSMEs' performance and subsequently economic development. Accordingly, the study is developed based on the purchasing patterns of humans during panic situations. The reviewed studies are summarized in this section. CBSL (2020), reported that MSMEs' key deterrent to their growth is limited access to finance. Further mentioned that there is a lack of regular flow of information in the sector and therefore challenges accounted in evaluating the amount of credit disbursed as well as interest rates charged on loans for the MSMEs. Also, included that due to the Covid-19 pandemic, this information gap was further felt during which MSMEs were severely affected. A detailed analysis of the COVID-19 virus threat to MSMEs covering the main sub-sectors was carried out by National Consultant Gunawardana (2020). Accordingly, with special reference to MSMEs, the income generated from the tourism industry in 2019 was reduced by 4.9% compared to 2018 due to the Easter Sunday Attack, and following the Covid-19 outbreak, it was recorded the tourist arrivals dropped by 6.5%, 17.7%, 70.8% and 100% in January, February, March and April 2020 respectively. Additionally, highlighted that the Sri Lanka Tourism Development Authority (SLTDA) employs a significant number of establishments from indirect employment such as the handicraft trade, gems, and jewelry shops, liquor shops laundries, etc. which belong to MSMEs.

Considering the Apparel sector, one-third of the total employees are subjected to SMEs, and reported that the SME sector provides livelihood to around 600,000 persons in the country. Due to the COVID-19 crisis,

there was a huge impact on the supply chain from the perspective of manufacturers, the orders were canceled, some were in the work-in-progress stage and some importers were not about settling their dues for the goods supplied. Due to the travel restrictions and curfews the micro-level garment manufacturers who acquire raw materials from countries such as China, and India were badly affected due to working capital limitations. Adding to the above, the footwear and leather sector including, 30 medium-scale and about 3000 small-scale manufacturers also accounted for working capital issues, supply chain breakdowns, and marketing issues.

On the other hand, the processed food industry is found to be an emerging and lucrative industry in Sri Lanka and due to the changes in lifestyle at present context, new opportunities emerged for the MSMEs to supply value-added agricultural products and processed food items. However, the Covid-19 crisis was considered a big blow that they had to face during the development stage. The handloom and handicraft industry is also another emerging industry in Sri Lanka reported approximately about 10,000 handlooms in the country and mainly depends on yarn imported from India. Also, the handicraft industry booms up with the rise of the tourism industry in Sri Lanka accordingly, demands were identified as high during the seasonal periods, and to Covid-19 threat commenced in mid-march has put them into a precarious situation. Although, other subsectors of MSMEs such as rubber and plastic, wood-based industries were not significantly affected by the COVID-19 outbreak since the raw materials are locally available. However, the exports were found to be affected adversely. Following this, the Pharmaceutical and Cosmetics Industry enhanced more opportunities since the government limited imports into the country.

In line with the above findings, Robinson and Kengatharan (2020) examined the effect of COVID-19 on small and medium enterprises based on early evidence from Sri Lanka. The study included data based on an interview conducted with 14 small and medium enterprises. The study highlighted problems especially the financially undeveloped SMEs encountered shortages of materials, a decline in local and global demand, disputes in repaying loans and interests further problems including payroll and utility bills, challenges in recalling the employees to work under the travel restrictions, and loss of new orders. On top of that, some SMEs reported their intention to temporarily shut down their businesses. Therefore, support from the government is expected by operators of SMEs such as bearing the proportion of employee's salaries, relief in the utility bills, concession basis long-term credits, access to raw materials at lower costs, the decline in tax payments, capital investment, and marketing assistance.

Further, a subjective study carried out by Indika, Perera, and Abey Siriwardena (2020) examined the variations in technological literacy, entrepreneurial competency, and business performance during the COVID-19 pandemic in Sri Lanka. The data was collected through a structured questionnaire from 48 entrepreneurs of micro and small enterprises. The study revealed that the level of commitment was significantly increased after the Covid-19 outbreak. Even though, technological literacy was found to be further improved among the entrepreneurs in Sri Lanka.

Reviewing the literature in an international context, Dai, Feng, Hu, Jin, Li, Ranran, and Zhang (2020) analyzed the short to mid-term impact of the COVID-19 pandemic on SMEs in China based on two waves of phone interviews. As discussed in the Sri Lankan context in China also problems identified in supply chain blocks, labor unavailability, and demand deductions, and highlighted that 80% of SMEs were temporarily closed during the first wave of COVID-19. Even though mentioned that there were firms reopened during the second wave, many companies especially export firms operated at partial capacity mainly due to a lack of demand. Therefore, Adam and Alarifi, (2021) aimed to develop a theoretical model considering the innovative practices and their performance in SMEs and the auxiliary role of external support in such a relationship and finally to assist with key challenges faced by SMEs during the Covid-19 pandemic. The study was analyzed using 259 randomly selected SMEs in Saudi Arabia and revealed that the adopted innovative practices to overcome the adverse impact of COVID-19 have a positive impact on firm performances and finally on the survival of the business. Further, the external support derived a positive impact on business survival compared to its performance.

Based on the literature review within and outside of Sri Lanka, the significance of MSMEs in economic development is apparent. Further, in the Sri Lankan context, some problems are identified that MSMEs are facing due to the COVID-19 outbreak as well as due to the limitations in accessing finance. The studies in Sri Lanka were carried out considering the whole country and not focused particularly on the areas that are more concentrated with MSMEs. Since the Northern Province was highlighted as the lowest GDP-contributing province in the country and Jaffna district is the central part of this province the study aimed at finding the impact of Covid-19 on MSMEs performance in Jaffna district. Further, it signals the policymakers to focus on alleviating key specific resisting factors of their performances.

### 3. Research Methodology

The study interviewed 15 MSME operators including the sectors of manufacturing, hotels, travel, food and beverages, constructions, hospitals, and trading during June 2021. The breakdown of interviewed firms is given in Table 1.

**Table 1: Breakdown of the firms investigated**

Sector	Number of Firms
Manufacturing	2
Hotels	2
Travels	1
Food and Beverages	2
Constructions	2
Health Sector	3
Trading industry	3
<b>Total</b>	<b>15</b>

Due to the pandemic situation in the country, the samples were selected conveniently. According to Karabag (2019), 15 samples were considered sufficient to analyze the MSME's performance in Jaffna District. The majority of the entrepreneurs in the Jaffna District are from Tamil-speaking communities and therefore the interviews were carried out initially in Tamil and transcribed and translated into English at the end. The backward translation technique was used to ensure reliability (Merriam, 2009). The interviews were semi-structured which is a widely employed technique for acquiring information within a short period. (Gnanarajan et al., 2020; Kengatharan, 2019; Hitchcock and Hughes, 1995).

We have developed a set of a questionnaire comprising open-ended and close-ended questions regarding the performance of the MSMEs before the face-to-face interviews. Table 02 includes the areas in which the questions were raised by the interviewee.

**Table 2: Contents of the Questionnaire**

The continuation of the business during the Covid-19 pandemic period
The challenges faced by the business due to the spread of Covid-19
The financial difficulties faced by the organizations
The degree of cash balances maintained by the organizations to meet the recurring expenditures
The opinion of the manager/owner about the payment to employees while they are staying at home
The percentage of terminated employment during the pandemic period
The availability of resources and materials to run the business without interruptions
The strategies used to handle the Covid-19
Impact on the business due to the pandemic
The support from the government during the Covid-19 outbreak
The expected support from the government to rebuild the business
The accessibility to further loans
The ability to repay the loans
The ability to run the business as before the Covid-19 period

With the use of NVivo-10, the study has explored the transcripts and applied coding techniques (inductive coding). In addition, the dependability and the validity of the data were also enhanced by following the individual case analysis, and the information bias was mitigated as per the suggestions by Karabag (2019).

#### 4. Analysis and Discussion

Due to the exponential growth of the pandemic situation, the whole world including Sri Lanka imposed several strategies to control the spread of the virus such as island-wide curfew, travel restrictions, and social distancing. Based on the interview results, it was observed that the prevailing situation had different degrees of impact across the different industries. Firstly, the study discusses the impact on selected manufacturing firms in the Jaffna district. The information shared that the organizations remained closed

during the island-wide curfew period. However, once the curfew was lifted, they managed to reopen the businesses but not at their fullest capacity. This was mentioned mainly due to the fear of the pandemic.

The food and beverage manufacturers reported that there were businesses even during the lockdown period since they were producing necessary goods. The food and beverages firms highlighted the reduction in sales as the main problem, even though they recorded a marginal drop in their profit, not a loss. The other product manufacturers reported no sales during the lockdown period. They also faced Staff resistance to present the work during the prevailed situation as another thriving factor. The firms under food and beverages informed us that they have not faced difficulties in paying the staff salaries. Even at a reduced level of profit margins, they would be able to manage their recurring expenditures. Hence, the other manufacturers faced difficulties in paying staff salaries, lease payments for their capital expenditures, purchasing raw materials, etc (Gnanarajan et al., 2020). On top of that, their views also questioned on paying salaries to staff while they are at staying home and the responses were positive and the managers/owners considered as their responsibility to take care of their workers. Also, during the lockdown period, theft occurred in some of the stores. The delivery of some manufacturing firms was challenged during the period. Other than food and beverages manufacturers, the responsible officers said that their cash balances to meet the expenditures were financed by their savings and reserves already allocated for the expansion of their businesses. Adding to the above, as common to all businesses the manufacturing sector faced delays and interruptions in their supply chain. To tackle the problems, food and beverage firms adopted door delivery systems even outside the Jaffna district such as Palai, Kilinochchi, and Mullaitivu. This was identified as the main strategy adopted to cope with the level of sales. Further, reported that they could able to receive government support in terms of administration such as getting passes to travel during the lockdown period. As a support to the business, some firms mentioned that they have received a loan under the MSMEs loan scheme at an interest rate of 4.5%. Also, they managed to repay the loan without any difficulties. Moreover, some firms increased their price levels due to the price increase of ingredients, while some maintained the price levels as before the COVID-19 pandemic. Finally, all the firms highlighted that their operations are at the lowest capacity compared to before the Covid-19 outbreak. In addition, the firms reported that their future product development was delayed due to the fluctuating nature of the economy. Also, they expected that the government should make an effort to maintain the price levels at a certain range, especially oil prices and other ingredients.

Moving to the hotel and travel industry, the performance was reported as very poor for the last two years. The problems in this industry initially started in 2019 after the Easter Sunday Attack. This was mainly due to the travel restrictions imposed by the government negatively affecting their business. Further informed that the firms in this industry are running at a loss mainly due to the travel bans and fewer tourist visits. Further, the industries are facing financial difficulties as well and therefore they have taken bank loans to cover their day-to-day expenses. Hence, the repayment of loans including other expenses also found to be challenging for such firms during the pandemic period. As per their views, some firms are holding their staff salaries for

about six months and some staff found other part-time jobs and left the organization due to the firms' insolvency position. However, hotels reported that they have recently been granted permission to reopen the bars. It was considered a tiny sale that they are making nowadays. Other than that, rooms were occupied in the hotels by new wedding couples. Even after the reopening of the Airport, the hotels in Jaffna have not attracted customers. Further, reported that they didn't receive any financial support from the government during the pandemic period. In the travel industry, there are categories of luxury and semi-luxury. Some of the firms under the luxury category are operating their business at their lowest capacity to maintain their customers as well as their recognition. However, the services are offered at a higher price level. Due to the social distancing regulation and increase in fuel prices, they have doubled their prices for their services. On the other hand, some of the semi-luxury entrepreneurs are temporarily closing their businesses and at present also remain closed. Further, in Jaffna, there are a considerable number of travel learners who carry out their businesses to assist those who are interested in getting their driving licenses. Such firms also reported that during the lockdown period, their business was at zero level. Once the curfew lifted, they started their business. However, found that granting driving licenses is nowadays limited by the government. The trial tests for driving candidates are canceled temporarily. Therefore, the public is not interested in getting assistance from travel learners in the current situation due to the threat of spreading the virus. Even though such canceled and pending candidates can be considered as potential sales for such travel learners.

Next considering the impact of Covid- 19 health sector, some privately owned hospitals were interviewed and according to their business as common, the revenue level decreased by a significant percentage and however didn't record a loss due to the Covid-19 outbreak. Further added, patients visited hospitals only for serious diseases which was the reason for the reduction in revenue. However, they maintained the charges from patients at the same level. This was also identified as another reason for the reduction in revenue. Subsequently, found that there was no change in employee shifts due to the less number of patients compared to before the COVID-19 period. Also, as per the discussion with the responsible officer, the salaries of the staff were paid without any delays and they maintained a sufficient level of cash balances to meet their recurring expenditures. Further, they reported that there were problems faced continuously receiving their inputs from Colombo due to the travel ban imposed by the government.

Continuously, the trading sector faced an impact due to the COVID-19 outbreak. The firms generally reported drops in sales before the Covid-19 period. Also mentioned that they faced disruptions in the supply chain such as delays in deliveries increased costs for transport etc. Even facing the challenges, the firms managed to run the businesses without huge delays in delivering to customers and the reason backed this was they maintained 80% stocks for their business. In the trading industry, some firms were about to have transactions with foreign countries. Only such firms were negatively impacted due to the Sri Lankan currency depreciation and travel bans. Hence, their profitability in past periods allowed those firms to remain with a huge level of savings and reserves. Thus, paved the way to meet their current expenditures



including salary payments to the Staff. Further, they have maintained the price levels as before COVID-19, and due to that, they recorded profit margin reductions during the COVID-19 period.

Moreover, the impact of COVID-19 on the construction industry in Jaffna was also severely affected due to the pandemic situation. According to the interview with the respective officers, found that their activities were temporarily stopped during the pandemic period. Soon after the lockdown lifted, they would be able to start their activities which were already committed by contracts. However, reported that there were no potential clients for their industry in the short term. Further, for their existing businesses, the costs are covered by the already agreed payments backed by the contracts. On top of that, the industry faces challenges in receiving raw materials for its operations. Thus, they experience significant delays in finishing their projects. The main loss to this industry was identified as the negative motive toward capital expenditure due to the fluctuating nature of the economy.

The identified retraining forces for the business operations during the COVID-19 outbreak are listed and placed a tick (✓) mark against each industry that has been experienced. Accordingly, the summary of the findings can be derived based on Table 3.

**Table 3: Summary of the findings**

Listed Retraining Forces	Number of firms affected by sectors						
	Manufacturing	Hotels	Travels	Food and Beverages	Constructions	Health	Trading
Difficulties in carryout the firm at fullest capacity	✓		✓				
Closedown of the business during the pandemic	✓		✓		✓		
Reduction in sales				✓	✓	✓	✓
Zero Sales	✓	✓	✓		✓		
Staff resistance to presenting the work	✓						
Liquidity Issues	✓	✓	✓		✓		
Supply chain interruption	✓				✓	✓	✓
Lack of government assistance		✓	✓				
Loan facilities and difficulties in repayment		✓					
Travel restrictions		✓	✓			✓	✓

The above-summarized table was developed by listing all the main issues faced by the MSMEs. Accordingly, it can be seen that the firms under the sectors of manufacturing, hotels, travel, and construction experienced major significant issues such as the closedown of businesses, liquidity issues, supply chain interruptions, and staff resistance. Out of the 10 identified main issues, the above-mentioned industries have faced around five to six issues which means half and more than half of the problems were experienced by such industries Kengatharan (2019).

On the other hand, if we looked into the food and beverages, health, and trading industries, it was recorded only about 10%, 30%, and 30% issues respectively out of the identified total issues.

Hence, it can be realized that only the food and beverage, health, and trading industries managed to survive during the COVID-19 pandemic due to their performances compared with the other industries such as manufacturing, hotels, travel, and construction.

Therefore, by considering the impact across several industries due to COVID-19, it is apparent that regardless of the necessary product-serving industries others are heavily affected in terms of generating revenue, continuous operations, and supply chain management. This creates the emergence to formulate the right policies and guidelines to recover the businesses of MSMEs.

## 5. Conclusion

Based on the interview conducted with the managers and owners of the MSMEs, it can be summarized that the firms in food and beverages, hospitals, and trading industries reported a relatively better performance during the COVID-19 pandemic period. Because, the MSMEs in these industries faced only an insignificant percentage of issues in their operations, which is approximately 10-30%. However, the other MSMEs underwent a really bad time due to the pandemic and found approximately 50-60% of problems faced by such firms.

The food and beverages sector adopted taking orders via phone calls and delivered products to the customer doors even during the lockdown of the country. Also, some MSMEs increased their prices to cover the cost incurred. Subsequently, the firms under the manufacturing (non-necessity product producers), hotels and travel, and construction industries reported a negative performance due to the COVID-19 pandemic, especially the hotels and travel industry. It can be justified that the degree of impact of Covid-19 significantly varies among the different industries due to their nature of operations such as essential goods or services or luxury goods or services.

Based on the performance of MSMEs in the Jaffna district, it can be concluded that their level of interaction with national and international contacts is relatively low compared to the entrepreneurs in the Western province. Therefore, the operations are limited to a certain extent. This is the main reason for the lack of contribution to the economic growth of the Northern Province. Even though they are making profits and covering their expenses successfully, the business expansion is relatively low.

Further, from the point of view of entrepreneurs in Jaffna, the financial support from the government is very low and they expected the government to maintain the overall price levels at a certain range, especially the tax reductions. In addition to that, expected assistance from the government to maintain the job security of the employees of the firms. Other than the above, it is commonly expected by the MSMEs for loans with a certain grace period in repaying such liabilities. As implications, the policymakers, financial institutions, and

government should consider the entrepreneur's concerns while they formulate policies for MSMEs. Further, the existing policies should be reevaluated with revival policies by the key policymakers mainly considering the business expansion in the future.

Regarding the hotels and travel industry, the government can set regulations or strategies to quarantine the tourists at their respective places once they arrive at the Airport. Thus, this could slightly boost the performance of the hotels which are situated in the Jaffna district since those who are traveling to Jaffna from foreign countries for marriage, and other requirements are increasing during the current period and those people are getting quarantined in different places other than Jaffna. In the case of the regulations to quarantine, those tourists in their respective places would enhance the performance of such MSMEs. Continuous support from the government is essential for businesses to recover from the distress faced in the present situation.

The study accounted for certain limitations. One is that only 15 MSMEs are taken into consideration in the analysis. However, the selected firms are highly representing particular industries. The second one is that for some of the organizations, the data collection was difficult since they resisted sharing information regarding the performances. Therefore, considering the limitations, future research is expected to be carried out including more firms as well as finding ways to overcome the resistance to sharing the information. Also, only a part of the reason is found for the lack of contribution to the gross domestic product from the Northern province in this research study. However, it is expected to further research in this area to identify the key specific factors that pull the businesses back from contributing to the economy including the other districts of the Northern Province.

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