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## The Impact of Natural Disasters on Micro, Small and Medium Enterprises (MSMEs): A Case Study on 2016 Flood Event in Western Sri Lanka

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### Abstract

The direct and indirect impacts of natural disasters are devastating to business activities and their continuity. These catastrophic events have created a significant impact on Micro and Small and Medium-sized Enterprises (SMEs) in the Sri Lanka during the recent years. Micro and SME sectors can be considered as the highly vulnerable sections of Sri Lankan economy which impacted drastically by the flooding as they are relatively resource constrained and less resilient. Having a sound understanding of the adverse impacts of flooding on Micro and SMEs might useful for entrepreneurial resilience. This study sought to investigate the full range of impacts (short term and long term) experienced by micro and SMEs located in Western Sri Lanka following the floods of mid-2016. Hundred randomly selected flood affected micro and SMEs from Colombo district were surveyed for this study. Semi structured interviews were carried out in person with the business owners in order to identify their experiences on various types of damages, rehabilitation and re-establishment. One of the major finding was the micro and SMEs are vulnerable to flooding in four fronts: capital, labour, logistic and markets. Revenues have fallen below the expenditures suddenly and finding manpower was another serious issue as workers are the immediate victims of the flood. Entrepreneurs had to find out alternative or emergency logistic support to operate their businesses as flood has severely damaged to the public infrastructure system. A shift in market demand has occurred in the short-term with sharp increase in the demand for basic commodities while a dip in non-essentials. Furthermore, it was clear that the SME resilience requires partnerships and cooperation among the firms, government and other private organizations. It cannot be achieved by the business entity alone or by government on its own. Therefore, this study concludes with providing some recommendations on strategic policies to disaster risk reduction and disaster coping mechanism into the micro and SME sector in Sri Lanka.

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## 1. Introduction

Disasters have shown significant impacts on all types of business in both developed and developing countries. Both direct and indirect impacts of natural disasters are devastating to business activities and their continuity. These catastrophic events have created a significant negative impact on most of the business entities including Micro and Small and Medium Enterprises (MSMEs) during the recent years. Though there are many studies have examined the impact of natural disasters in individual households and the broader macroeconomic climate, the impact of natural disasters on MSMEs is one of the least explored areas in the discipline of disaster risk reduction (DRR). According to the extant literature, MSMEs are more vulnerable to natural hazards than large firms due to the fact that MSMEs: tend to operate in sub-optimal locations; are smaller and financially weaker; have a more limited, usually local market; tend to implement less DRR measures and be more excluded from recovery programs [1].

Sri Lanka has been affected by number of major flood events during the last few years. On 15th May 2016 Sri Lanka was hit by a severe tropical storm that caused widespread flooding and landslides in most parts of the 22 districts out of 25 districts in the country, destroying homes and submerging entire villages. According to the Government of Sri Lanka Disaster Management Centre (DMC), this was reported as the worst flood in 25 years. Colombo is the worst affected district in the country with 301602 people affected by the floods. This is mostly as a result of large numbers of people of this highly populated urbanized city are living on reclaimed, marshy lands which are highly susceptible to flooding and poor drainage system. From an economic perspective, the impacts of flooding can be devastating on the function and sustainability of MSMEs. Even though several recent studies have examined the devastation caused by flooding on MSME's in other countries (for example Crichton, 2006; Woodman, 2008; Ingirige and Wedeawatta, 2011. Ingirige, Wedeawatta and Proverbs, 2014), there is no proper study have looked at the Sri Lankan context [2,3,4,5]. Therefore, the objective of this study was to investigate the full range of impacts of flooding on micro, small and medium scale enterprises in Colombo district of Sri Lanka.

## 2. Micro and Small Medium Enterprises (MSMEs)

There is no unique definition of MSMEs. Most of the organizations and countries use the number of employees, value of fixed assets, annual turnover and size of balance sheet as the selection criteria in the process of categorizing firms. Different institutions and government agencies of Sri Lanka have their own definition regarding MSMEs. However, the World Bank defines MSMEs based on number of employees: firms with less than 5 employees are micro businesses; firms with 6-49 employees are small; firms with 50-99 employees are medium sized; and firms with more than 100 employees are considered as large firms. Using number of employees as the selection criteria seems reasonable because when using capital, it should be revised frequently due to inflation. Hence this study follows the World Bank definition.

MSMEs contribute to the well-being of the community by providing job opportunities, commodities and services. Therefore, MSMEs are an important part of economies of developing countries and will be even more important in the future. It seems that while the density of MSMEs is higher in developed countries but this trend may change in the future as the number of MSMEs per 1,000 in low income countries grows three times faster than in high-income countries – 6 percent per year vs. 2 percent per year [6]. MSMEs tend to be more flexible in their operations, particularly informal enterprises. Labor relations are typically based on trust rather than accountability mechanisms [7], providing a very different framework for job creation – one that directly supports community networks. As a result, MSMEs can have a stronger interaction with communities than bigger firms, and are key players in local development. MSMEs have an important role in employment provision of local communities, not only in terms of number of jobs but in the type of employees they hire. MSMEs are likely to engage less 'employable' workers with lower levels of education, social protection, and often belonging to particularly vulnerable groups. Even in developed countries, MSMEs were identified as providing employment to those who are less likely to find a job in a

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