Inclusive Post-War Recovery through Employment, Entrepreneurship, and SME Resilience in Northern and Eastern Sri Lanka

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Abstract

The protracted civil conflict and the subsequent COVID-19 pandemic created persistent economic challenges in Northern and Eastern Sri Lanka, including high unemployment, vulnerable livelihoods, and a fragile small and medium enterprise (SME) sector. This study examines pathways for inclusive post-war economic recovery through employment generation, entrepreneurship development, and SME resilience. The study employs a mixed-methods approach that combines household surveys, key informant interviews, focus group discussions, and secondary data sources. The findings reveal that youth and women continue to experience disproportionately high levels of unemployment and underemployment, while SMEs face significant constraints related to access to finance, market integration, digital adoption, and long-term sustainability. Econometric analysis demonstrates that education, digital skills, access to credit, and diaspora-based mentorship positively influence employment outcomes and SME performance. Although diaspora remittances represent an important financial resource, the evidence suggests that they are largely directed toward household consumption rather than productive investment, limiting their contribution to regional economic transformation. The study highlights the importance of locally anchored and inclusive recovery strategies. It recommends targeted interventions, including blended finance mechanisms, diaspora–entrepreneur partnership platforms, digital capacity-building initiatives, and gender- and youth-focused enterprise support programs.

Keywords: *Post-conflict recovery***,** *SMEs***,** *Diaspora engagement***,** *Inclusive growth***,** *Northern and Eastern Sri Lanka*

JEL codes: O18; O19; L25; L26; F22; F24; O15

Introduction

The Northern and Eastern provinces of Sri Lanka have endured decades of civil conflict followed by the compounded disruptions of the COVID-19 pandemic. Together, these events left deep economic scars that persist today. The region is characterized by high unemployment rates, underutilized human capital, fragile livelihoods, and a fragmented small and medium enterprise (SME) sector. While other parts of Sri Lanka have shown gradual recovery, the Northern and Eastern provinces continue to experience structural inequalities, weak labour market integration, and limited access to growth-enabling resources such as finance, infrastructure, and networks.

The prolonged conflict not only destroyed infrastructure but also weakened institutional arrangements, undermined trust among communities, and disrupted intergenerational skill transmission. The pandemic further exacerbated these vulnerabilities, forcing the closure of small businesses, disrupting supply chains, and limiting mobility and market access. As a result, households in these provinces remain highly dependent on subsistence-level economic activities, casual wage labour, and remittances, with limited participation in the formal economy.

Despite significant donor interventions and state-led reconstruction efforts, inclusive and sustainable recovery remains elusive. Youth unemployment is especially high, with Northern Province recording rates above 24 percent, well above the national average of 16 percent (Department of Census and Statistics [DCS], 2023). Women's labour force participation remains critically low, averaging 26-28 percent in the North and East compared to a national rate of nearly 35%. SMEs, which constitute the backbone of local economic activity, face formidable barriers including limited access to finance, high transaction costs, and a lack of market linkages.

At the same time, diaspora communities originating from the conflict-affected regions continue to play a vital role through remittances and informal investments. However, this potential remains underleveraged. Most remittances are channeled into household consumption rather than productive investment, and the absence of institutionalized mechanisms for diaspora engagement constrains opportunities for knowledge transfer, mentorship, and entrepreneurship. This study seeks to examine pathways for catalyzing inclusive post-war economic recovery in Northern and Eastern Sri Lanka through employment creation, entrepreneurship promotion, and SME resilience.

The paper contributes to ongoing debates on post-conflict economic recovery by integrating three distinct yet interrelated dimensions: (1) local employment and enterprise challenges; (2) diaspora engagement as a source of finance, knowledge, and mentorship; and (3) inclusive models that account for gender and intergenerational dynamics. Rather than offering overly ambitious promises of rapid job creation, the study emphasizes evidence-based identification of barriers and enablers, pilot interventions, and actionable insights that can inform long-term strategies by policymakers, donors, and development partners.

Literature Review

Economic reconstruction of post-conflict societies is a complex and multidimensional process. Existing scholarship highlights that recovery is not merely about rebuilding infrastructure but also about restoring trust, revitalizing institutions, and creating equitable opportunities. Research on Rwanda (Collier, 2009), Bosnia (World Bank, 2017), and Cambodia (UNDP, 2018) highlights the importance of sequencing interventions: short-term stabilization through emergency aid, medium-term livelihood restoration, and long-term development anchored in inclusive growth. In each of these contexts, the SME sector has emerged as a critical driver of employment and social reintegration (Premaratna & Yoosuf, 2017).

However, evidence also suggests that post-conflict regions face unique challenges in SME development (Yoosuf & Premaratna, 2015). These include weak legal frameworks, disrupted supply chains, and psychological trauma among entrepreneurs (Goodhand, 2001). In addition, the presence of displaced populations, unequal access to assets, and fragile property rights further complicate business formation. The Sri Lankan case mirrors many of these dynamics, with lingering war legacies, intersecting with broader structural weaknesses in the national economy.

SMEs account for more than 75% of enterprises and nearly 45% of employment in Sri Lanka (CBSL, 2022). In post-war regions, SMEs play an even more critical role given the absence of large-scale industries and the heavy reliance on agriculture and services. Yet, SMEs in Northern and Eastern provinces demonstrate significantly lower survival rates compared to national averages. For instance, only about 48% of SMEs in the Northern Province remain operational after three years, compared to 63% at the national level (World Bank Enterprise Survey, 2022).

SMEs in fragile economies also face constraints in accessing credit (Premaratna, 2001). Limited collateral, weak financial literacy, and geographic exclusion from formal banking institutions hinder their ability to secure loans. In Sri Lanka, less than 20% of SMEs in the North report access to formal financial products (CBSL/World Bank, 2022). This lack of financial integration perpetuates reliance on informal lenders, often at exploitative interest rates, further constraining SME growth and employment generation (Premaratna & Yoosuf, 2017, Kalaipriya & Premaratna, 2025).

Diaspora communities are increasingly recognized as key actors in post-conflict development. Their contributions extend beyond remittances to include investments, entrepreneurship, skills transfer, and political advocacy (Brinkerhoff, 2008). In countries such as Ethiopia and the Philippines, diaspora bonds and co-investment schemes have successfully mobilized external capital for SME development and infrastructure projects. In Rwanda, structured mentorship programs linking diaspora professionals with local entrepreneurs have facilitated knowledge diffusion and strengthened institutional capacity.

In the Sri Lankan context, the Tamil and Muslim diasporas represent a significant untapped resource. Annual remittances from these communities are estimated at over USD 7 billion, but the majority is directed toward household consumption and housing (CBSL, 2023). Mechanisms to channel a fraction of these flows into productive SME investment remain weak. Moreover, trust deficits between diaspora actors and local institutions, shaped by wartime experiences, pose challenges to formal engagement. Nonetheless, evidence from smaller pilot projects suggests that diaspora-backed blended finance and mentorship models can yield promising outcomes for youth entrepreneurship and SME resilience.

Gendered and intergenerational inequalities constitute a critical dimension of post-war economic recovery. Women in Northern and Eastern provinces face multiple barriers including mobility restrictions, household responsibilities, limited access to credit, and societal stigma associated with entrepreneurship. The female labour force participation rate in these provinces lags nearly 10 percentage points behind the national average, constraining both household incomes and broader economic growth (DCS, 2023).

Youth too encounters unique challenges. Many young people in these regions missed out on quality education during the war years, resulting in skill gaps and limited employability. Out-migration for low-skilled overseas employment has become a coping strategy, but this further depletes the local labour pool and undermines community-based economic resilience. Moreover, intergenerational divides manifest in tensions between older, risk-averse business owners and younger, innovation-oriented entrepreneurs, complicating the transmission of knowledge and assets.

Theoretical Lens

This study situates itself at the intersection of structural transformation theory and inclusive growth frameworks. Structural transformation highlights the need to shift from low-productivity activities (subsistence agriculture, casual labour) to higher-value sectors (SMEs, services, ICT). Inclusive growth frameworks emphasize equitable access, ensuring that marginalized groups-women, youth, and war-affected households-participate meaningfully in and benefit from economic transformation.

The integration of diaspora engagement adds a third lens: transnational development, which positions diaspora communities as development actors bridging external resources and local needs.

The theory of structural transformation provides an important lens for understanding the trajectory of post-conflict economies. At its core, structural transformation refers to the reallocation of labour and resources from low-productivity activities such as subsistence agriculture toward higher-productivity sectors including industry, services, and technology-driven enterprises (Lewis, 1954; Timmer, 2009). Historically, this process has underpinned sustained economic growth and poverty reduction.

In post-conflict settings, however, structural transformation is often delayed or distorted. Conflict disrupts industrial bases, erodes institutional capacity, and entrenches subsistence livelihoods as coping strategies. Northern and Eastern Sri Lanka embody this trajectory: despite considerable donor investment in reconstruction, the majority of the workforce remains locked in low-productivity agriculture and informal services. Youth and women are disproportionately concentrated in these sectors, reinforcing cycles of underemployment and vulnerability. The challenge, therefore, is not only to stimulate structural transformation but to do so in a way that is inclusive and context-sensitive.

While structural transformation can generate growth, the distribution of its benefits is neither automatic nor equitable. This is where inclusive growth frameworks become central. Inclusive growth emphasizes the expansion of opportunities across sectors and regions, combined with deliberate efforts to ensure marginalized groups participate in and benefit from economic change (Rauniyar & Kanbur, 2010). In fragile contexts, inclusive growth strategies seek to bridge divides-geographic, gendered, and generational-that might otherwise perpetuate inequality or reignite grievances.

In Sri Lanka, inclusive growth requires confronting the specific legacies of war. Women in the North and East, many of whom are widows or heads of households, face systemic barriers to labour market entry and entrepreneurship. Youth, who should represent the most dynamic component of the workforce, instead grapples with high unemployment, skill mismatches, and disillusionment. If structural transformation proceeds without accounting for these groups, it risks deepening exclusion. The inclusive growth framework therefore provides a normative guide for this study: employment creation and SME promotion must be evaluated not only in terms of aggregate output but also in terms of equitable access, empowerment, and social cohesion (Premaratna & Yoosuf, 2017).

A third theoretical lens relevant to this study is transnational development, which recognizes the agency of diaspora communities as actors in shaping local development trajectories (Levitt, 2001; Brinkerhoff, 2008). Diasporas contribute through financial remittances, direct investment, skills transfer, and political advocacy. Importantly, their role is often amplified in post-conflict contexts where state capacity is weak and trust in local institutions is fragile.

The Tamil and Muslim diasporas from Sri Lanka exemplify this dynamic. Decades of conflict created extensive global networks spanning North America, Europe, and the Middle East. These communities have both financial capital and professional expertise to support local recovery. Yet, engagement remains largely informal, with remittances directed toward consumption and personal welfare rather than productive investment. The transnational development lens suggests that structured mechanisms-such as diaspora bonds, co-investment platforms, and mentorship schemes-can transform these flows into sustainable development outcomes. Moreover, diaspora involvement can help rebuild trust and link local entrepreneurs to global markets, enhancing the competitiveness of SMEs in Northern and Eastern provinces.

Integrating the Frameworks

Taken together, these three theoretical lenses form a composite framework for analyzing inclusive post-war economic recovery. Structural transformation identifies the pathways of sectoral shifts necessary for growth. Inclusive growth ensures that these shifts address inequality and empower marginalized groups. Transnational development emphasizes the role of external actors, particularly diasporas, in bridging resource gaps and facilitating innovation.

In operational terms, this study applies the frameworks by: (i) Mapping structural constraints-such as labour market rigidities, sectoral imbalances, and financial exclusion. (ii) Assessing inclusivity-through indicators of gender participation, youth employment, and opportunities for marginalized households. (iii) Evaluating diaspora linkages-as both a financial mechanism (blended finance) and a knowledge/mentorship channel for entrepreneurship.

By combining these lenses, the study not only identifies barriers to employment and SME resilience but also proposes contextually grounded models for recovery that are economically viable, socially inclusive, and internationally connected.

Methodology

This study adopts a mixed-methods approach, combining quantitative surveys, qualitative interviews, and focus group discussions (FGDs) with secondary data analysis. Mixed-methods design is especially suited for post-conflict economies because it allows triangulation of findings across different sources, capturing both structural trends and lived experiences (Creswell, 2014).

The quantitative component provides measurable insights into labour market participation, SME characteristics, and access to finance, while the qualitative component explores socio-cultural barriers, gendered constraints, and perceptions of diaspora engagement. Secondary data, drawn from national surveys and international datasets, situates the findings within broader regional and national economic contexts.

The research focuses on Northern and Eastern provinces of Sri Lanka, a region severely affected by the 30-year conflict. These provinces represent 14.1% of Sri Lanka's population but account for disproportionately high levels of poverty and unemployment (DCS, 2023). The study concentrates on three district clusters: Northern Province: Jaffna, Kilinochchi, Mullaitivu, and Eastern Province: Batticaloa, Trincomale and Ampara. These districts capture diverse economic contexts-urban centers like Jaffna with strong diaspora linkages, and rural districts like Mullaitivu and Batticaloa where livelihoods remain largely agrarian.

For the household survey, a stratified random sampling technique is employed. The strata are defined by district, gender of household head, and urban/rural residence. A target of 400 households was set, with proportional distribution across selected districts. Sample sizes were determined using Cochran's formula with a 95% confidence level and ±5% margin of error.

The key informant interviews (KIIs) targeted three categories: (1) SME owners and entrepreneurs (25), (2) Government officials and development practitioners (15), and (3) Diaspora actors engaged in business and philanthropy (10). In addition, six FGDs (8–10 participants each) were held with women entrepreneurs, youth groups, and marginalized workers. Care was taken to ensure intergenerational representation, with participants spanning ages 18-60.

Data for this study were collected using a combination of quantitative and qualitative instruments designed to capture comprehensive information on youth employment, SME performance, and related socio-economic factors. The primary quantitative instrument was a structured survey questionnaire, which included modules on household demographics, employment status, SME participation, access to finance, digital usage, and diaspora linkages. To complement the survey data, semi-structured

KII protocols were employed, focusing on guiding themes such as the business environment, operational challenges, emerging opportunities, and the role of diaspora engagement in local enterprise development. Additionally, FGD guides were utilized to explore social norms, gender-related barriers, and perceptions of inclusivity within communities. All instruments were pre-tested in the districts of Jaffna and Batticaloa to ensure clarity, cultural sensitivity, and contextual relevance, thereby enhancing the reliability and validity of the data collection process.

Quantitative data was analyzed using descriptive statistics and econometric models. Three models guide the empirical analysis:

1. Logistic Regression Model (Employment Determinants):
   Examines probability of youth employment as a function of education, gender, skills, access to credit, and location.

$$Logit\ (P_i) = \beta_0 + \ \beta_i Education_i + \beta_2\ Gender_i + \beta_3 Credit_i + \ \beta_4 Digital_i + \ \beta_5 District_i + \ \epsilon_i$$

2. OLS Model (SME Performance):
   SME revenue/profit regressed on access to finance, diaspora mentorship, digital adoption, and workforce size.

$$Logit\ (P_i) = \alpha_0 + \ \alpha_i Finance_i + \alpha_2 Mentorship_i + \alpha_3 Digital_i + \alpha_4 Labour_i + \alpha_5 Education_i + \alpha_6 Experience_i + \alpha_7 Bus.Training_i + \ u_i$$

3. Cox Proportional Hazards Model (SME Survival):
   Estimates survival probability of SMEs beyond three years based on access to credit, sector, owner's gender, and diaspora support.

$$h(t|X) = h_0 \exp(\gamma_i Credit_i + \gamma_2 Sector_i + \gamma_3 Gender_i + \gamma_4 Diaspora_i)$$

Qualitative data was analyzed using NVivo, employing thematic coding across four domains: (1) barriers to employment, (2) SME challenges, (3) diaspora roles, and (4) gender/intergenerational constraints.

To enhance the rigor and credibility of the study, multiple measures were implemented to ensure both validity and representativeness of the collected data. Methodological triangulation was employed, integrating household surveys, KIIs, FGDs, and relevant secondary datasets to capture a comprehensive and corroborated understanding of youth employment and SME dynamics. Gender balance was deliberately maintained, with a minimum of 40% of survey respondents and interviewees being women, thereby ensuring that gendered perspectives were adequately represented. Intergenerational inclusion was also prioritized, with participants spanning youth (18-35 years) and adult (36-60 years) age groups across all instruments, allowing for the analysis of age-related differences in employment, entrepreneurship, and social norms. Furthermore, reliability checks were rigorously applied, including pilot-testing of survey instruments and consistency verification during data entry, to minimize measurement errors and enhance the internal validity of the study. Collectively, these measures strengthened the study's methodological robustness and the generalizability of its findings.

Table 1: Secondary Data

Source	Dataset	Relevance
Department of Census and Statistics (DCS)	Labour Force Survey (2023), Household Income and Expenditure Survey (2022)	Employment, poverty, gender indicators
Central Bank of Sri Lanka (CBSL)	Annual Reports (2020–2023), SME Finance Statistics	Macro context, credit flows, remittances
World Bank Enterprise Survey	SME survival, access to finance	Firm-level resilience
ILO & ADB	Youth employment datasets	Labour market comparisons
UNDP & IOM	Diaspora engagement studies	Role of external actors

Results

This section presents the key findings of the study on youth employment, SME dynamics, and diaspora linkages in the Northern and Eastern provinces of Sri Lanka. The results are organized to provide a comprehensive understanding of structural and systemic challenges, as well as the factors that enable economic participation and enterprise resilience. The analysis begins with labour market characteristics, highlighting disparities in employment, income, and informality relative to national averages. It then examines the SME sector, focusing on enterprise composition, access to finance, survival rates, and digital adoption, revealing structural weaknesses and constraints on growth. Diaspora linkages are subsequently explored, illustrating the importance of remittances for household welfare and the limited extent to which these flows are mobilized for productive investment. Finally, econometric analyses-including logistic regression, ordinary least squares, and Cox proportional hazards models-identify the determinants of youth employment, SME revenue, and SME survival, providing empirical evidence on the roles of education, credit, digital skills, diaspora engagement, gender, and sectoral characteristics. Collectively, these results offer a detailed empirical foundation for understanding the economic landscape of post-war provinces and inform the discussion on targeted policy and programmatic interventions. Employment outcomes in the Northern and Eastern provinces reveal significant structural disparities compared to national averages.

Table 2: Labour Market Indicators (2023)

Indicator	Northern Province	Eastern Province	National Average	Source
Unemployment Rate (%)	7.9	6.8	4.5	DCS Labour Force Survey 2023
Youth Unemployment (%)	24.5	21.8	16.3	DCS LFS 2023
Female Labour Force Participation (%)	26.4	28.1	34.7	DCS LFS 2023
Average Monthly Income (LKR)	52,800	55,400	76,500	HIES 2022
Share in Informal Sector (%)	64	59	49	ILO, 2023

The labour market outcomes in the Northern and Eastern provinces reveal persistent structural disparities compared to the national average (Table 2). Unemployment levels in both provinces remain higher than the national figure of 4.5%, with the Northern Province recording 7.9% and the Eastern Province 6.8%. The challenge is particularly acute for youth, where unemployment rates reach 24.5 percent in the North and 21.8 percent in the East, far exceeding the national rate of 16.3%. These figures point to systemic barriers that prevent young people from integrating into the labour market, including limited access to quality education, skills mismatches, and a lack of formal employment opportunities. Female labour force participation also remains a critical concern, averaging just 26.4% in the North and 28.1% in the East, compared to 34.7% nationally, reflecting entrenched gendered constraints on women's economic participation. Income disparities are equally evident, with average monthly earnings in the two provinces-LKR 52,800 in the North and LKR 55,400 in the East-falling significantly below the national average of LKR 76,500. Furthermore, informality is pervasive: nearly two-thirds of employment in the Northern Province and 59% in the East are concentrated in informal sectors, well above the national average of 49 percent. This dominance of informal employment underscores the precarious nature of livelihoods in these regions and highlights the urgent need for targeted interventions that expand access to decent work, strengthen skills development, and create pathways into the formal economy. In summary, it has been observed that youth unemployment is significantly higher in the North and East, suggesting systemic barriers to labour market integration. Female labour force participation lags nearly 10 percentage points behind the national average. Informality is pervasive, with nearly two-thirds of employment in Northern Province occurring outside formal labour markets. SMEs in post-war provinces face lower survival rates and reduced access to finance.

Table 3: SME Characteristics by Region

Indicator	Northern	Eastern	National	Source
% SMEs in Agriculture/Agribusiness	42	37	24	CBSL/SME Survey 2022
Access to Formal Finance (%)	18	22	46	CBSL 2022
SME Survival Rate (3 years)	48	52	63	World Bank Enterprise Survey 2022
Average No. of Employees	6.3	7.1	11.8	SME Census 2021
Digital Adoption (% using online platforms)	21	25	44	ADB 2022

The SME sector in Northern and Eastern Sri Lanka reflects significant structural weaknesses compared to national averages, underscoring the fragility of enterprise activity in post-war regions (Table 3). A much larger share of SMEs in the North (42%) and East (37%) is concentrated in agriculture and agribusiness, compared to just 24% nationally, indicating a continued reliance on low-value, primary-sector activities. Access to finance remains one of the most pressing challenges: only 18 percent of SMEs in the North and 22% in the East report using formal financial services, in stark contrast to the national average of 46%. This exclusion from the formal banking system constrains opportunities for business expansion and resilience. Survival rates also highlight vulnerability, with fewer than half of SMEs in the North (48%) and just over half in the East (52%) remaining operational after three years, compared to 63 percent nationally. Enterprise size is typically smaller, with SMEs in the North averaging 6.3 employees and in the East 7.1, well below the national average of 11.8, reflecting limited growth potential. Furthermore, digital adoption is strikingly low-only 21% of Northern SMEs and 25% in the East use online platforms for business, compared to 44% nationally-restricting their ability to access wider markets and integrate into modern value chains. Taken together, these findings underscore that SMEs in post-war provinces operate in a constrained ecosystem, with limited financial inclusion, low technological integration, and high business mortality. This can be summarized as follows; A higher share of SMEs in Northern and Eastern provinces are concentrated in low-value agriculture and petty trade. Less than one-quarter of SMEs have access to formal finance compared to nearly half nationally. Digital adoption is strikingly low, limiting access to wider markets. Remittances represent an important lifeline but are rarely invested in SMEs.

Table 4: Diaspora Engagement in Northern and Eastern Provinces

Indicator	Northern	Eastern	Sri Lanka	Source
Household Receiving Remittances (%)	38	29	19	HIES 2022
Average Annual Remittance per Household (USD)	3,200	2,850	2,600	CBSL 2023
Share of Remittances for Consumption (%)	76	71	63	IOM 2022
Share of Remittances Invested in Business (%)	7	9	18	IOM 2022

Diaspora contributions constitute an important, yet underutilized, resource in the economies of Northern and Eastern Sri Lanka (Table 4). Household survey data indicates that 38% of households in the North and 29% in the East receive remittances, compared to just 19% nationally, underscoring the critical dependence of war-affected households on diaspora income. The average annual remittance per household is also higher in these provinces, relative to the national average, reflecting strong global networks that are established by conflict-induced migration. Despite the scale of these inflows, their developmental impact remains muted. The overwhelming majority of remittances are used for consumption-76% in the North and 71% in the East-while only a small fraction, 7 to 9%, is invested in businesses, compared to 18% nationally. This pattern highlights the absence of structured mechanisms to channel diaspora resources into productive investment. Moreover, the reliance on remittances for basic household needs reflects the lack of alternative livelihood opportunities and the persistence of economic vulnerability. While diaspora flows are crucial for sustaining household consumption and welfare, their transformative potential in SME development, entrepreneurship promotion, and job creation remains largely untapped. Harnessing this potential requires trust-building mechanisms, blended finance models, and institutional platforms that align diaspora capital with local development priorities. The following point may be highlighted; Northern households are more reliant on remittances than Eastern or national households. The overwhelming share is used for consumption, with only a small fraction allocated to business investment. Structured mechanisms for channeling diaspora funds into SMEs are absent.

Table 5: Logistic Regression Results

Variable	Coefficient (β)	Std. Error	Odds Ratio	p-value
Education (Years)	0.145	0.032	1.16	0.000 ***
Gender (1=Male)	0.521	0.118	1.68	0.001 ***
Access to Credit	0.364	0.142	1.44	0.012 **
Digital Skills (1=Yes)	0.473	0.129	1.60	0.000 ***
Location (1=Urban)	0.298	0.114	1.35	0.008 **
Constant	-1.246	0.321	–	0.000 ***
N = 400; Pseudo R^2 = 0.21				

The logistic regression results (Table 5) indicate that several factors significantly influence youth employment. Education emerges as a strong determinant, with each additional year of schooling increasing the likelihood of employment by 16%, highlighting the critical role of human capital development. Gender also plays a significant role: male youth are 68% more likely to be employed than female youth, signaling persistent gender disparities in labor market access. Access to credit and digital skills further enhance employment prospects, with youth possessing these advantages being 44% and 60% more likely to find employment, respectively. Additionally, residing in urban areas modestly increases the likelihood of employment by 35%, reflecting the concentration of economic opportunities in cities. Overall, the findings suggest that educational attainment, financial inclusion, digital competencies, and urban location substantially enhance youth employability, while female youth remain disproportionately disadvantaged. They are in summary forms as fellows: Education, gender, access to credit, and digital skills significantly increase the likelihood of youth employment. Female youth remains disadvantaged, with odds of employment 40% lower than male counterparts.

Table 6: Determinants of SME Revenue

Variable	Coefficient	Std. Error	p-value
Access to Finance	0.274	0.065	0.000 ***
Diaspora Mentorship	0.318	0.089	0.001 **
Digital Adoption	0.236	0.071	0.002 **
Number of Employees	0.152	0.048	0.004 **
Owner Education (Years)	0.112	0.043	0.010 **
Managerial Experience (Years)	0.098	0.041	0.015 *
Participation in Business Training (1=Yes)	0.124	0.052	0.018 *
Constant	0.956	0.210	0.000 ***

Model statistics: Adj. R^2 = 0.46; N = 120 SMEs

The OLS analysis of SME revenue reveals (Table 6) that financial, human, and organizational factors jointly shape business performance. Access to finance remains a strong determinant, enabling SMEs to invest in productive assets and expand operations. Diaspora mentorship continues to play a critical role, with SMEs receiving guidance from diaspora networks earning, on average, 32% more than those without such support, highlighting the value of external expertise and knowledge transfer. Digital adoption is also positively associated with revenue, underscoring the importance of integrating technology for improved operational efficiency and market access. Beyond these factors, firm size-measured by the number of employees—contributes significantly to revenue generation, reflecting the advantages of greater organizational capacity. Importantly, the expanded model further demonstrates that entrepreneur-specific characteristics matter: owner education, managerial experience, and participation in business training are all positively correlated with SME revenue, indicating that human capital and skill development enhance decision-making, innovation, and overall business performance. Collectively, these findings emphasize that SME growth in the Northern and Eastern provinces depends on a combination of financial resources, diaspora engagement, digitalization, organizational scale, and entrepreneur capability, suggesting that interventions targeting both firm- and entrepreneur-level factors are essential for strengthening revenue and long-term resilience. Hence the access to finance, diaspora mentorship, business training, level of education, managerial experiences, and digital adoption are significant positive predictors of SME revenue. SMEs with diaspora mentorship earn on average 32% more than those without.

Table 7: Cox Regression Results (SME Survival Beyond 3 Years)

Variable	Hazard Ratio	Std. Error	p-value
Access to Credit	0.72	0.11	0.004 **
Sector (Agri = 1)	1.34	0.21	0.019 **
Female-Owned (1=Yes)	1.42	0.25	0.008 **
Diaspora Support (1=Yes)	0.61	0.12	0.001 ***

The Cox regression analysis (Table 7) reveals critical determinants of SME survival beyond three years. Access to credit and diaspora support significantly reduces the risk of business failure, suggesting that financial backing and external networks provide resilience against early exit. Conversely, female-owned SMEs face higher risks, indicating structural gendered barriers that compromise long-term business sustainability. Similarly, agricultural SMEs are more vulnerable than their service-oriented counterparts, reflecting sector-specific challenges such as market volatility and climate-related risks. These findings highlight the need for targeted interventions that improve credit access, strengthen support networks, and address gender and sectoral vulnerabilities to enhance SME longevity.

In summary, the findings indicate that access to credit and diaspora support play a significant role in reducing SME failure risks. However, female-owned SMEs remain more vulnerable due to persistent gender-related constraints, while agricultural enterprises face greater survival challenges compared to service-based businesses, reflecting differences in market access, productivity, and resilience capacity.

Key Findings

The analysis reveals several critical insights into youth employment and SME performance, highlighting structural and systemic challenges as well as opportunities for intervention. First, structural barriers remain a persistent challenge: youth, particularly young women, experience disproportionately high rates of unemployment and are overrepresented in informal and precarious employment. Gendered disparities, limited access to education, and uneven geographic distribution of opportunities exacerbate these labor market inequalities.

Second, SMEs exhibit significant fragility, with low survival rates beyond the three-year mark. Constraints such as limited access to finance, insufficient digital adoption, and weak organizational capacity undermine business resilience and growth potential. Agricultural enterprises, in particular, face higher risks compared to service-oriented SMEs, reflecting sector-specific vulnerabilities.

Third, the potential of diaspora engagement remains largely untapped. While remittances contribute significantly to household incomes, they are underutilized as a source of capital, mentorship, and knowledge transfer for business development. Diaspora networks that are effectively leveraged can enhance SME revenues and survival prospects, but such linkages remain sporadic and underdeveloped.

Finally, econometric evidence from the regression analyses underscores the importance of key enablers for both youth employment and SME performance. Education, access to credit, and digital skills substantially increase the likelihood of youth employment, while diaspora mentorship, financial access, and digital adoption emerge as strong predictors of SME revenue and longevity. These findings collectively suggest that targeted interventions addressing education, gender equity, financial inclusion, digitalization, and diaspora engagement can substantially improve employment outcomes and strengthen the resilience of SMEs.

Discussion

The findings demonstrate that unemployment, particularly among youth and women, is deeply entrenched in the post-war North and East. Youth unemployment rates of 24–25% reflect both a skills mismatch and structural weaknesses in labour demand. Logistic regression confirmed that education and digital skills are decisive factors influencing employability. However, limited vocational training opportunities and outdated curricula mean that youth remain ill-prepared for emerging sectors such as ICT, renewable energy, and agribusiness value chains.

Women's exclusion is even more pronounced. Labour force participation rates of 26-28 percent reveal the persistence of socio-cultural barriers, including gendered norms around mobility and household responsibilities. Female-owned SMEs also face higher survival risks, as shown by Cox regression results. These findings echo global literature that highlights how women entrepreneurs in fragile contexts face a "double burden" of structural and cultural exclusion (World Bank, 2017).

The descriptive and econometric evidence underscores the vulnerability of SMEs in the North and East. With survival rates below 50% and limited access to formal finance, SMEs are often trapped in a cycle of low productivity and precarity. Access to credit significantly reduced SME failure risks in the survival model, confirming the critical role of financial inclusion in enterprise resilience. Yet, only one in five SMEs in these provinces access formal financial products, compared to nearly half nationally.

The OLS results show that diaspora mentorship and digital adoption substantially improve SME performance. However, uptake of digital technologies remains low. This reflects not only infrastructural constraints but also limited digital literacy, particularly among older entrepreneurs. Without interventions to promote digital skills, SMEs in these provinces risk falling further behind in national and global markets.

Household and enterprise data reveal the paradox of diaspora contributions. Remittances are widespread-received by nearly 40% of Northern households-but their use is overwhelmingly skewed toward consumption. Only 7–9% of remittances are invested in businesses. This suggests that while diaspora capital flows are substantial, institutional mechanisms to channel them into productive use remain weak.

The regression models, however, provide strong evidence that diaspora engagement can be transformative when structured. SMEs with diaspora mentorship showed 32% higher revenues, while diaspora-supported enterprises had a 39 percent lower risk of failure. These findings align with the transnational development framework, highlighting the potential of structured diaspora involvement in entrepreneurship ecosystems.

The findings are consistent with three key theoretical perspectives. From a structural transformation perspective, the dominance of SMEs in low-value agricultural activities reflects an incomplete transition toward higher-productivity sectors, highlighting the need to promote services, ICT, and modern agribusiness. The evidence also supports inclusive growth theory by demonstrating that economic recovery requires targeted interventions to overcome persistent gender and youth inequalities through skills development, finance, and enterprise support. Furthermore, the role of diaspora networks aligns with transnational development theory, emphasizing their potential as sources of finance, knowledge, and market access, while also highlighting the need for stronger institutional mechanisms to overcome trust deficits and enhance their developmental contribution.

Policy Implications and key actionable Recommendations

The study identifies several critical insights into youth employment and SME performance, highlighting structural constraints, opportunities, and actionable pathways for intervention. First, structural barriers continue to limit labor market participation: youth, particularly young women, experience disproportionately high unemployment and are overrepresented in informal employment. This indicates an urgent need for policies that promote inclusive education, gender-responsive employment programs, and geographically targeted interventions to reduce regional disparities.

Second, SMEs face considerable fragility, with low survival rates and limited growth potential. Weak access to finance, low digital adoption, and constrained organizational capacity undermine resilience, particularly in the agricultural sector. These findings suggest the importance of tailored financial products, digital literacy programs, and sector-specific support mechanisms to enhance SME sustainability.

Third, diaspora engagement represents an underutilized resource. While remittances constitute a significant source of income, they are not systematically leveraged for business development, mentorship, or knowledge transfer. Strengthening formal linkages with diaspora networks can provide both capital and expertise, improving SME revenues and survival rates. Programs that facilitate diaspora investment, mentorship platforms, and business incubators could unlock this potential.

Finally, the econometric evidence reinforces the critical role of key enablers. Education, credit access, and digital skills significantly increase youth employability, while diaspora mentorship, financial access, and digital adoption enhance SME revenue and longevity. These results highlight the importance of integrated interventions that combine skills development, financial inclusion, digitalization, and diaspora engagement to achieve measurable improvements in employment outcomes and business resilience.

Collectively, these findings highlight the need for a comprehensive and inclusive recovery framework that strengthens human capital, enhances SME resilience, and promotes equitable participation in post-war economic transformation. Key policy priorities include expanding market-oriented skills development and digital literacy programs, improving SME access to finance through blended finance mechanisms, incubation support, and digital platforms, and promoting women- and youth-focused enterprise development. In addition, institutional innovations such as diaspora investment mechanisms, public–private-people partnerships, and stronger local governance systems are essential to mobilize resources, foster entrepreneurship, and build sustainable economic resilience in Northern and Eastern Sri Lanka.

Conclusion

This study examined pathways for catalyzing inclusive economic recovery in Sri Lanka's post-war Northern and Eastern provinces, focusing on employment, entrepreneurship, and SME development. The findings reveal entrenched structural barriers: high youth and female unemployment, fragile SMEs, and limited digital adoption. Yet, they also highlight opportunities for transformation. Education, access to credit, digital skills, and diaspora mentorship emerge as critical determinants of both employment and enterprise success.

Rather than promising rapid job creation, this research emphasizes the generation of evidence-based insights and the piloting of scalable models. Inclusive strategies-particularly those targeting women and youth-are essential to ensure that recovery fosters not only growth but also social cohesion. Diaspora engagement represents a powerful but underutilized resource that can provide both financial capital and knowledge transfer.

By integrating the lenses of structural transformation, inclusive growth, and transnational development, the study demonstrates that sustainable recovery requires aligning internal and external resources, empowering marginalized groups, and building resilient SME ecosystems. The policy recommendations offered here provide practical entry points for government, development agencies, and diaspora networks to co-create a recovery trajectory that is inclusive, resilient, and locally anchored.

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