

Findings of the Survey to assess the impact of the economic crisis on MSMEs in Sri Lanka

Department Of Census & Statistics(DCS)

Ministry of Finance, Economic Stabilization and National Planning

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Introduction

- This survey of Micro, Small and Medium Enterprises (MSMEs) is an institutional survey conducted by the Department of Census and Statistics (DCS) to gauge the impact of the crises faced by the country.
- This report presents the findings of a survey conducted at the request of the Presidential Secretariat to assess the impact of the economic crisis on small and medium enterprises engaged in the non-agricultural sector in Sri Lanka.
- The survey findings revealed that 79.8% of the MSMEs operating in 2018 will remain operational at the end of 2022. 20.2% of businesses closed permanently or temporarily, 8.3% of closures were reported due to economic crisis and 11.9% were due to reasons other than economic crisis. The number of permanently closed businesses is more than three times that of temporarily closed businesses. The highest percentage of closures was recorded for 2020 with 33.4%. Of the total businesses that closed during 2019-2022, 41.1% reported an economic crisis as the reason for closing their businesses, indicating that 58.9% of the closures were not due to an economic crisis.

- Furthermore, 45.3% of closed businesses reported the Covid pandemic as a reason for closure, indicating that 54.7% of closures were not due to the Covid pandemic.
- A sectoral comparison of closed businesses reveals that only 78.8% of businesses are currently active and the micro sector is the most affected. Small businesses were least affected with 91.7% of businesses operating. Also, micro scale businesses engaged in all three categories of industry, trade and services are equally affected. In small scale business, industrial sector units are most affected and in medium scale it is service sector.
- Small and medium employment has fluctuated over the years since 2018. The decline was high in 2020 and 2021 and a slight increase was noted in 2022.

Methodology

- Coverage : All the Micro, Small and Medium Enterprises / Businesses (MSME) involved in non-agricultural economic activities, which were active during 2018.
- Reference Period: 2018 – 2022
- Sampling Method: Stratified random sampling
- Strata : Economic activity, MSME
- Sample Size: 7,813 business establishments
- **Industry and construction sector contribution to the sample**
 - Micro : 1630
 - Small: 901
 - Medium: 482
- Data collection
 - By District Statistical Divisions, used advanced Communication technology to monitor island-wide (Dashboard)
 - Editing through dashboards and emails

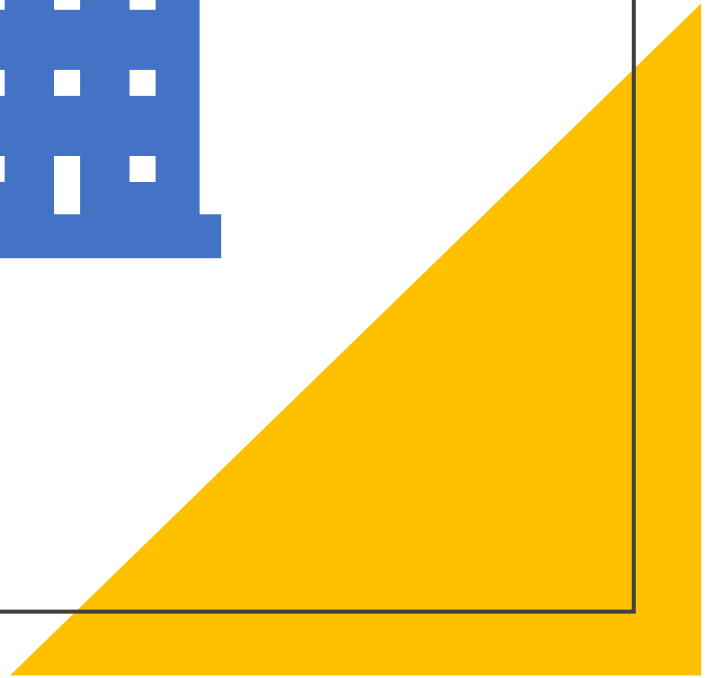
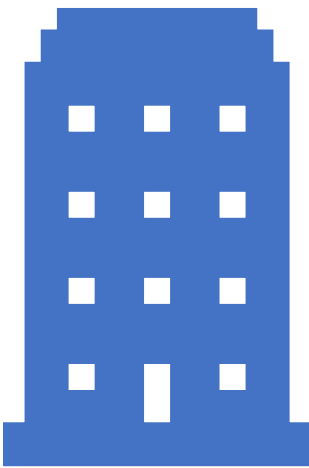
Methodology

Definition Used:

The definition derived from the Economic Census 2013/14 using number of persons engaged

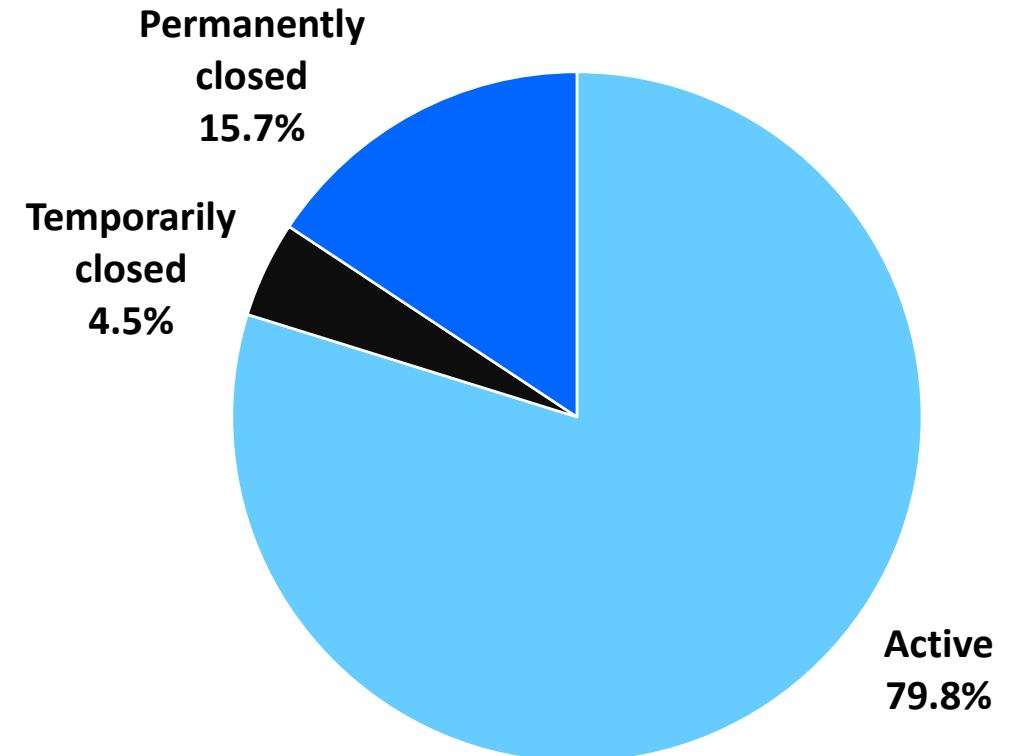
Sector	Micro	Small	Medium
Industry and Construction	Less than 5	5-24	25-199
Trade	Less than 4	4-14	15-34
Services	Less than 5	5-15	16-74

Establishments closed after 2018



Status of MSMEs 2018-2022

Present Status	No. of MSMEs (000')	%
Active	1,037.1	79.8
Temporarily closed	59.1	4.5
Permanently closed	204.1	15.7
Total	1,300.3	100.0



It includes all sectors of trade, services, industry and construction and depicts the closure of those businesses in the 5 years from 2018 to 2022.

State of Micro, Small and Medium Enterprises 2018 - 2022

Industry and Construction Sector

Present Status	%
Active	79.6
Temporarily closed	7.8
Permanently closed	12.6
Total	100.0

This includes only the industry and construction sectors and depicts the closure of those businesses over the 5 years from 2018 to 2022.

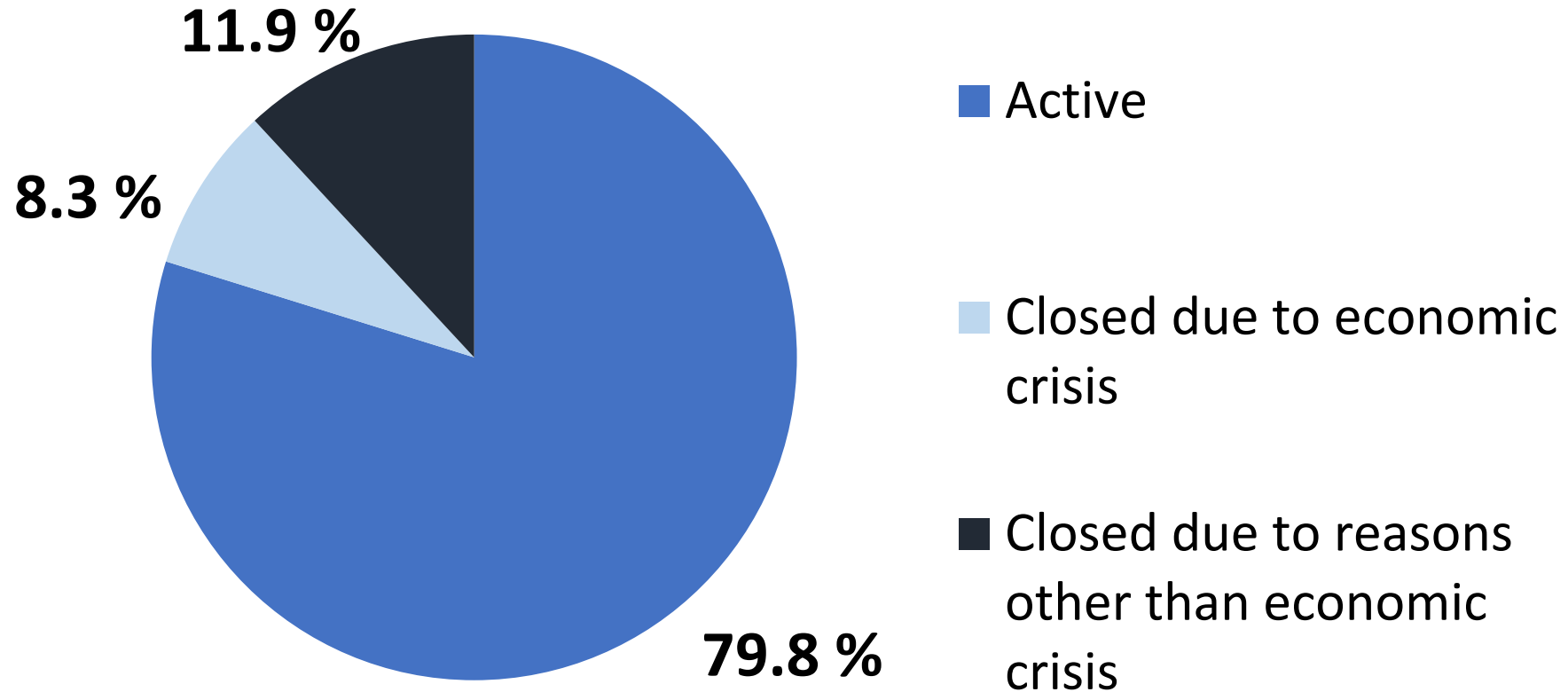
Permanently or temporarily closed businesses by year of closure

- Percentages were calculated with respect to the total number of closed businesses during 2019 – 2022
- The highest number of closures occurred between 2019-2022 was reported for 2020.
- The lowest number of closures was reported for 2019.

Year of Closure	%
2019	9.9
2020	33.4
2021	27.4
2022	29.3
2019 to 2022	100.0

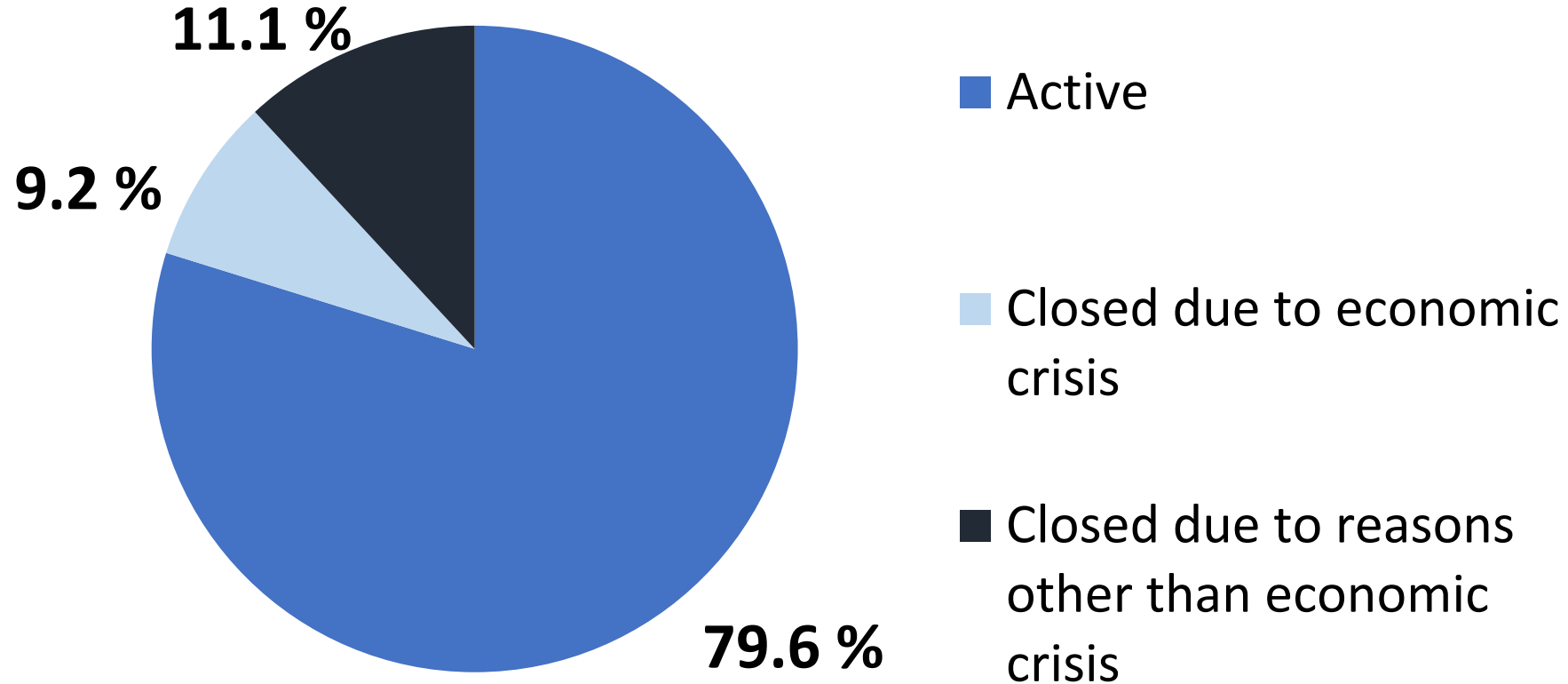
*Note: Closing **year was not reported** in several no. of closed businesses. Hence the percentages in the table were calculated out of the total number of businesses those closing years were reported*

Status of MSMEs by the reported reason for the closure



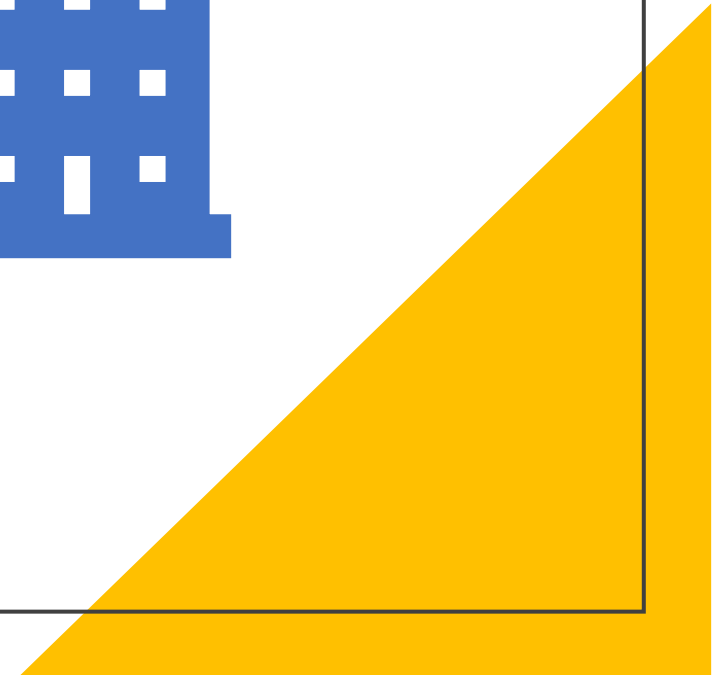
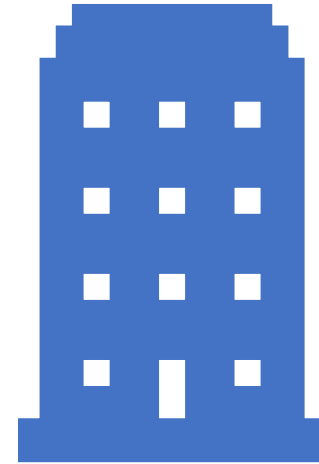
8.3% of units have reported economic crisis as a reason for the closure of their businesses

Status of MSMEs – **Industry and Construction** by the reported reason for the closure



9.2% of units have reported economic crisis as a reason for the closure of their businesses

Status of Businesses at 2022



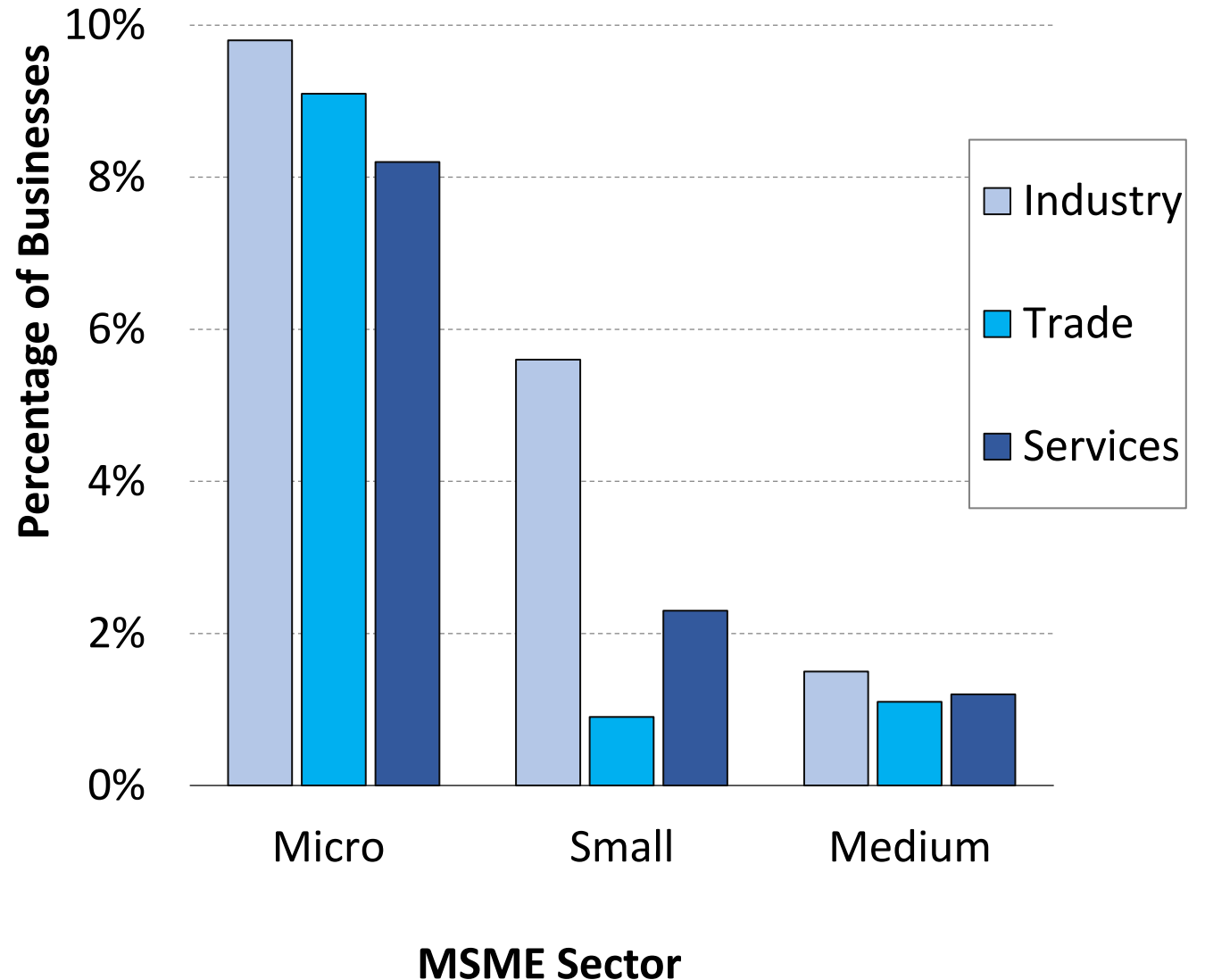
Status of businesses by scale of businesses - 2022

- The highest percentage of closed businesses due to the economic crisis was recorded in the industrial sector compared to the trade and service sector.
- Service activities recorded the lowest percentage of active businesses (77.2%) and the highest percentage of closed businesses (22.8%).

Major economic sector	Micro			Small			Medium		
	Active %	% Closed: Economic Crisis	% Close: Covid or Other	Active %	% Closed: Economic Crisis	% Close: Covid or Other	Active %	% Closed: Economic Crisis	% Close: Covid or Other
Industry	78.5	9.8	11.7	87.1	5.6	7.3	92.7	1.5	5.7
Trade	79.8	9.1	11.0	96.6	0.9	2.5	97.1	1.1	1.7
Services	78.4	8.2	13.4	90.0	2.3	7.7	77.2	1.2	21.6
Total	78.8	8.8	12.4	91.7	2.7	5.6	86.8	1.3	11.9

Distribution of closed businesses due to economic crisis by the main economic sector and scale of businesses

- More than 8% of micro-enterprises have been closed due to the economic crisis of all three economic sectors while it is less than 2% for Medium scale enterprises.
- The lowest percentage of closed due to economic crisis was reported in small sector trade businesses and the percentage is less than 2%.



Industry Sector and Construction Sector

Status of 2022

Economic Activity	Active	Closures due to economic crisis	Closures for other reasons
Mining and quarrying	55.8	24.6	19.6
Manufacture of food products	77.5	11.9	10.6
Manufacture of beverages	85.7	4.6	9.7
Manufacture of textiles	74.7	4.1	21.2
Manufacture of wearing apparel	86.5	5.9	7.6
Manufacture of leather and related products	76.5	1.8	21.7
Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting	88.0	6.0	6.1
Manufacture of paper and paper products	75.7	0.4	23.9
Printing and reproduction of recorded media	80.5	6.5	12.9
Manufacture of chemicals and chemical products	82.9	12.2	4.9

Economic Activity	Active	Closures due to economic crisis	Closures for other reasons
Manufacture of other non- metallic mineral products	68.3	15.2	16.5
Manufacture of fabricated metal products (except machinery and equipment)	79.2	10.2	10.6
Manufacture of furniture	89.7	2.2	8.1
Other manufacturing	86.0	8.5	5.5
Repair and installation of machinery and equipment	95.2	1.3	3.5
Other Industry (water supply, sewerage, waste management etc.)	89.8	2.7	7.5
Construction	71.3	13.0	15.7

More than 20% i.e. more than 1/5 of the above are covered fields during 2018-2022. It is significant quantitative analysis.

The above industry classification is classified according to the Sri Lanka Standard Industry Classification (revision iv) prepared by the Census and Statistics Department. Among the businesses included in the sample, all the businesses related to the industry and construction sector are included in the above mentioned sub-sectors.

Employment Trends



Indicator	Scale	2018	2019	2020	2021	2022
No. of Persons engaged (in 000')	Micro	1637.8	1635.2	1.686.7	1644.7	1673.3
	Small	673.3	630.5	414.6	456.2	586.3
	Medium	485.5	414.4	262.4	266.1	291.6
	Total	2796.6	2680.1	2363.7	2367.0	2551.2
Change of the person engaged with respect to 2018 (%)	Micro	100.0	99.8	103.0	100.4	102.2
	Small	100.0	93.6	61.6	67.8	87.1
	Medium	100.0	85.4	54.0	54.8	60.1
	Total	100.0	95.8	84.5	84.6	91.2

Number of persons engaged by scale of business and % change during 2018 – 2022

- Steady decrease in the total number of employees from 2018 to 2020 with a slight increase of 0.1% in 2021. But it has not reached the level of 2018
- The number of employees in Small and Medium sectors decreased up to 2020 and witnessed an increase from 2021 onwards
- The micro sector is the least affected experiencing only slight fluctuations in employment throughout the years

Sector	No. of Persons engaged (in 000's)				
	2018	2019	2020	2021	2022
Industry	899.9	854.1	710.4	705.6	725.7
Trade	776.1	764.7	700.3	704.9	746.1
Services	1,120.5	1,061.3	953.0	956.4	1,079.4
Total	2,796.6	2,680.1	2,363.7	2,367.0	2,551.2

Number of persons engaged by industry sector during 2018 – 2022

- There has been a steady decrease in the total number of employees in the industry sector from 2018 to 2021 with a slight increase in 2022.
- The number of employees in the Trade and Services sectors decreased up to 2020 and witnessed an increase from 2021 onwards

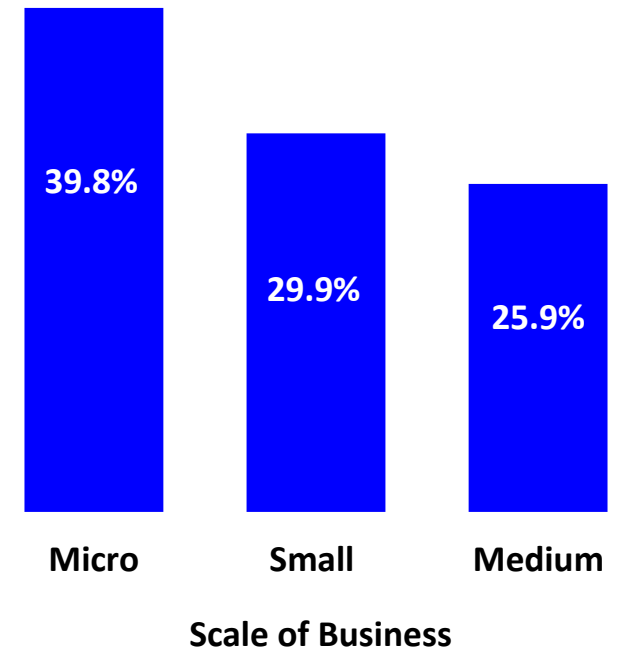
Facing the challenges



Credit obtained sources by scale – 2022 (%)

Sources	Scale		
	Micro	Small	Medium
Bank	67.4	79.2	91.0
Other financial institution	39.8	29.9	25.9
Money lender	13.4	14.8	8.7
Other	2.8	1.7	1.3

Credit obtained from other financial institutions by scale

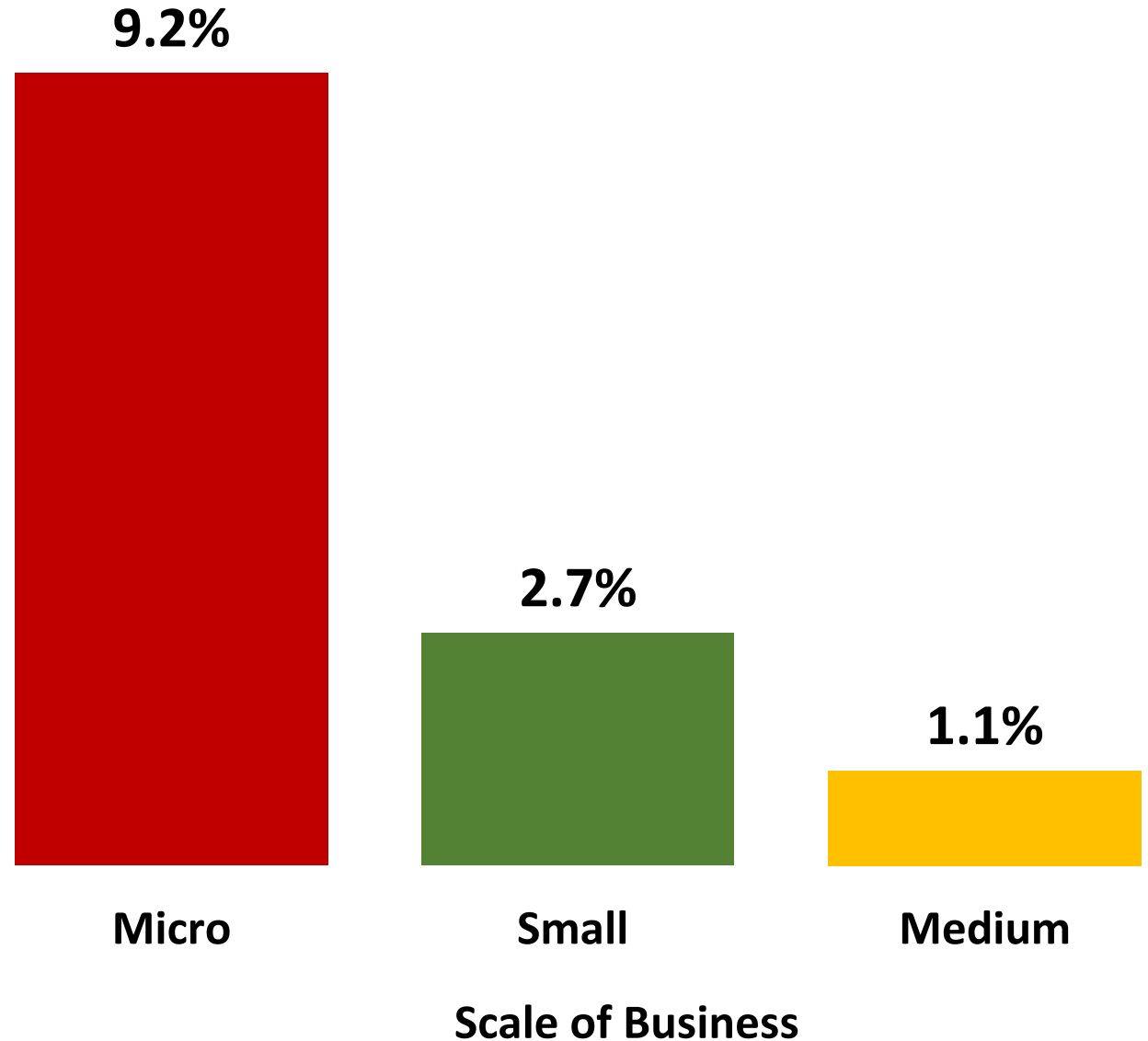


Strategies adapted for loan settlement and by scale – 2022 (%)

Strategies	Industry	Trade	Services
Debt restructuring by financial institutions	15.4	18.6	20.2
Increasing the solvency of the business by limiting its expenses	15.1	15.4	9.7
Obtaining new loan or other financial facility	15.5	18.0	13.1
Disbursement of company assets, utilization of savings/fixed deposits of the business	10.9	12.3	8.0
Liquidating personal assets, withdrawing FDs, pawning or managing with personal resources	17.0	18.1	15.3
No action taken	3.7	2.3	4.6

No action taken on loan settlement—2022 (%)

- 9 in 100 micro sector enterprises have done nothing on loan settlement
- That amount (9.2%) is remarkably higher than other scale of businesses
- A proper system for enhancing financial literacy among micro-scale enterprises is needed



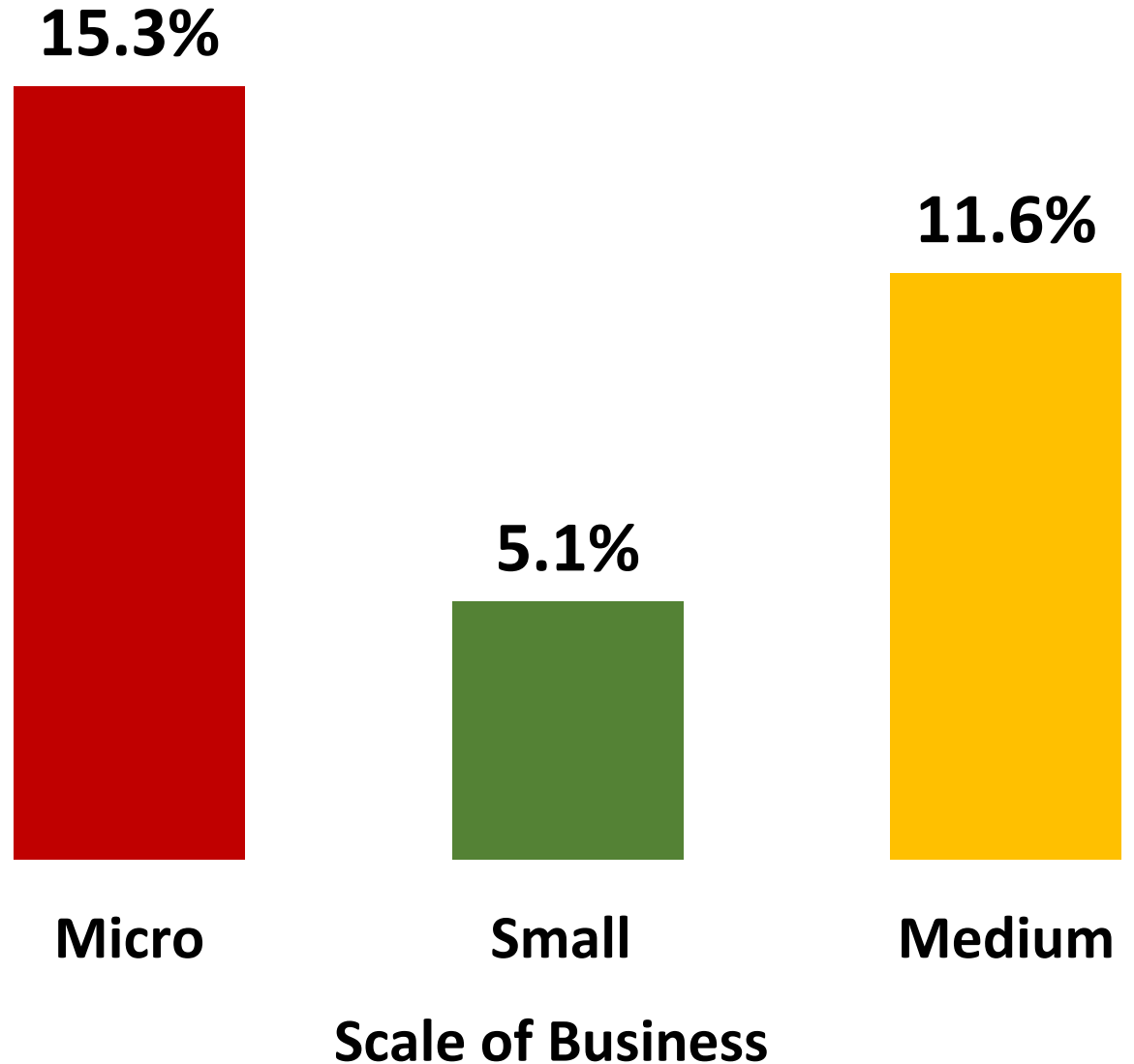
Strategies adopted to mitigate the financial difficulties – 2022 (%)

- Enterprises in all three scales limited their expenses
- Comparatively greater number of micro and small-scale enterprises obtained services from money lenders than those of Medium scale

Strategies	Scale		
	Micro	Small	Medium
Limiting business expenses	46.0	62.4	66.1
Utilization of savings/fixed deposits of the business	27.1	40.9	36.9
Liquidating personal assets, withdrawing FDs, pawning or managing with personal resources	33.6	38.9	34.5
Obtaining service of money lenders	29.1	29.2	19.0
Limiting the activities by stopping/reducing the import/trade of specific items or services	15.2	21.4	16.9
Disbursement of company asset	10.9	17.0	13.9
No action taken	15.3	5.1	11.6

No action taken for mitigating financial difficulties – 2022 (%)

- 15 out of 100 micro sector enterprises have done nothing to mitigate financial difficulties
- That amount is considerably high in Medium scale enterprises too as they have enough capacity to face it.
- A proper system for enhancing financial literacy among micro-scale enterprises is needed



Measures taken to manage the impact - 2022

Strategies	Industry			Trade			Services		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
1.Increasing product's prices	50% & above	35% - 49%	20% - 34%	50% & above	35% - 49%	20% - 34%	50% & above	35% - 49%	20% - 34%
2.Substituting raw materials with suitable alternatives	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%
3.Decreasing/limiting the production /specific products/ imports/working days	20% - 34%	20% - 34%	20% - 34%	20% - 34%	20% - 34%	20% - 34%	Less than 5%	Less than 5%	Less than 5%
4.Cutting down and minimizing less important expenditures	20% - 34%	20% - 34%	35% - 49%	20% - 34%	35% - 49%	35% - 49%	20% - 34%	35% - 49%	20% - 34%
5.Changing the economic / business activity	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%
6.Reducing the number of employees	Less than 5%	35% - 49%	20% - 34%	Less than 5%	20% - 34%	35% - 49%	Less than 5%	20% - 34%	20% - 34%
7.Enabling remote work for employees	Less than 5%	Less than 5%	20% - 34%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%
8.Reducing employee benefits /compensation of employees	Less than 5%	Less than 5%	Less than 5%	Less than 5%	20% - 34%	Less than 5%	Less than 5%	Less than 5%	Less than 5%
9.Outsourcing specific business activities	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%
10.Changing processes, products, quality or packaging, adjusting marketing strategies	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%
11.Obtaining new loan or any other financial facility	20% - 34%	20% - 34%	35% - 49%	20% - 34%	20% - 34%	35% - 49%	20% - 34%	Less than 5%	20% - 34%
12.Disbursement of company assets, utilization of savings/fixed deposits	Less than 5%	20% - 34%	20% - 34%	Less than 5%	20% - 34%	20% - 34%	Less than 5%	Less than 5%	Less than 5%
13.Obtaining financial resources from personal capacity or other forms of support	Less than 5%	20% - 34%	20% - 34%	20% - 34%	20% - 34%	20% - 34%	Less than 5%	20% - 34%	20% - 34%
14.informal arrangement to obtain foreign exchange	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%
15.Focusing on the domestic market or specific market segments	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%
16.Using alternative methods for transportation	Less than 5%	Less than 5%	20% - 34%	Less than 5%	Less than 5%	20% - 34%	Less than 5%	Less than 5%	Less than 5%
17.Establishing generators, solar systems	Less than 5%	Less than 5%	20% - 34%	Less than 5%	20% - 34%	35% - 49%	Less than 5%	Less than 5%	20% - 34%
18.Changing the number of working days or shifts	20% - 34%	35% - 49%	50% & above	Less than 5%	20% - 34%	20% - 34%	Less than 5%	20% - 34%	Less than 5%
19.No action taken	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%	Less than 5%

Colour code



Future plans (%)

Plan	Scale		
	Micro	Small	Medium
Continuation of current business	75.4	77.3	73.3
Expanding the current business	11.4	12.8	20.7
Starting another business while carrying on the current business	6.4	4.7	3.2
Changing the current business to another economic/business activity	1.6	0.7	0.2
Contraction of business activities (reducing or curtailing production/laying off employees etc.)	1.0	1.8	1.7
Selling or leasing the business	1.3	1.3	0.3
Closing the business	2.9	1.3	0.6
Total	100.0	100.0	100.0

Future plans (%)

Plan	Industry	Trade	Services
Continuation of current business	73.6	73.5	77.5
Expanding the current business	16.4	14.9	7.8
Starting another business while carrying on the current business	4.8	4.0	8.1
Changing the current business to another economic/business activity	0.7	2.0	1.5
Contraction of business activities (reducing or curtailing production/laying off employees etc.)	1.6	1.7	0.5
Selling or leasing the business	0.7	0.9	1.7
Closing the business	2.2	2.9	2.9
Total	100.0	100.0	100.0

Source...

- ❖ http://www.statistics.gov.lk/Industry/StaticalInformation/OtherTablesReports/MSMEs_Report

Special thanks..!

- ❖ Department of Census and Statistics
- ❖ Ministry of Industries