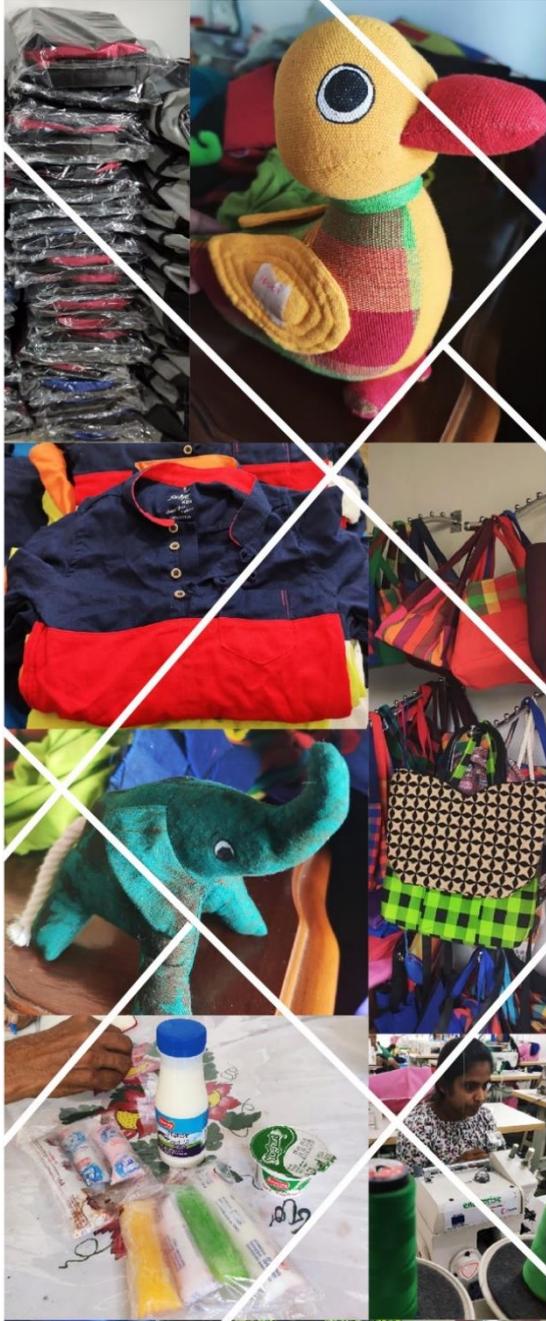


The Impact of COVID19 on the MSME Sector in Sri Lanka

May, 2020

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Abstract

This report gives an overview of the socio-economic aspects of Sri Lanka which includes sector wise GDP contribution, growth, population and employment by sector. A detail account of the MSME sector including the contribution to the economy, scale wise composition, geographical distribution and employment is also given in the report.

The impact of COVID 19 virus threat to the MSMEs is addressed in detail covering the main sub-sectors. A summary of the relief measures introduced by the Government of Sri Lanka and the present status of the MSMEs are analyzed in detail. The writer in his opinion discuss the measures to build resilience, recommendations for revival and sustenance of the MSME sector.

Abbreviations

BDS	-	Business Development Service
CBSL	-	Central Bank of Sri Lanka
CRIB	-	Credit Information Bureau of Sri Lanka
DCS	-	Department of Census and Statistics
EDB	-	Export Development Board
GDP	-	Gross Domestic Product
GoSL	-	Government of Sri Lanka
IDB	-	Industrial Development Board
MSME	-	Micro, Small and medium Enterprises
NEDA	-	National Enterprise Development Authority
SME	-	Small and Medium Enterprises

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1) Introduction

Sri Lanka is an island with an area of 65,610 sq.km and has a total population of 21.67 Million (mid-year 2018). The country has a good average literacy rate of 91.71% and average life expectancy at birth is 76.8 years. Government expenditure on health and education is 1.6% and 1.9% of GDP respectively where health sector is predominantly operated by the government and the health services are offered free¹. In addition, there are a considerable number of private hospitals, majority of them are located in the Western Province and rest are located in main cities and suburbs around the country. There are 3.6 beds per 1,000 persons one Doctor per 1,203 persons one Nurse per 570 persons in government hospitals¹.

2) An Overview of the Economy of the Country

2.1. GDP Contribution - Sector wise

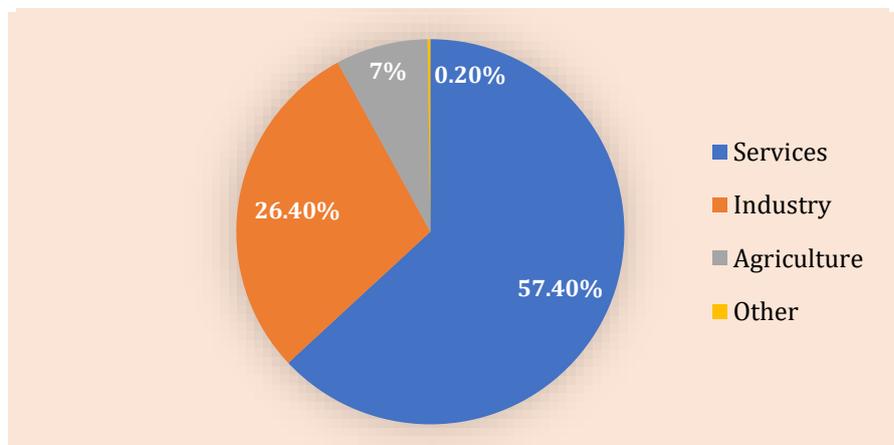


Figure 1: GDP Contribution - Sector wise

Sri Lanka GDP estimated as US \$ 84.0 billion in 2019 covered with key sectors of Services, Industry and Agriculture with contributions from 57.4%, 26.4% and 7% respectively¹. Tourism sector in the country has integrated with an extensive backward and forward linkages to other economic activities under Services and Industry. Such linkages were immensely disturbed with the Easter Sunday attacks and the effects continued throughout the year.

Manufacturing activities recorded a slow growth of 1.9% in 2019 despite the contraction of the production of rubber, plastic, wood and other products. However, apparel and textile industry has contributed positively to the growth of the overall manufacturing sector. Agriculture production index broadly remained unchanged during 2019 owing to key drivers such as growing of oleaginous fruits¹. The Purchasing Manager Index (PMI)² under manufacturing and services recorded its historically lower levels of 41 and 45.3 respectively in April reflecting the impacts of the event. On top of these drawbacks the country has fallen into a desperate situation due to the outbreak of COVID 19 virus.

¹ <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2019>

² https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/SL%20Purchasing%20Managers%20Index%20-%20Apr%202019_En.pdf (PMI)

2.2. GDP Growth



Figure 2: GDP Growth

Source - Central Bank annual report 2019

The real GDP of the country recorded a sluggish growth of 2.3% in 2019 compared to 3.3% growth in 2018. The main contributor to the sluggish growth was attributed to the Easter Sunday terrorist attack in 2019 April on Churches and some leading hotels in Colombo which adversely affected the income from the tourism industry¹.

2.3. Comparison of Imports & Exports



Figure 3: Comparison of Imports & Exports

Source - Central Bank Annual Report 2019

2.3.1. Exports

The major destinations of Sri Lankan exports are USA 25%, U.K 7.7 %, India 6 % Germany 6 %, Italy 4 % and China 2.4 %. In 2019. The industrial exports accounted for 78.9% of total export earnings and increased slightly with marginal growth of textile and garments which recorded as 46.9% of industrial exports in the same year. Agricultural exports which accounted for 20.6% have declined mainly due to price fluctuations in global tea market, reduction in production of other agricultural exports and lack of demand specially in EU for seafood exports. The major industrial exporter is the Apparel sector which accounts for 46.9 % of the total industrial exports

and the main export destinations were US 25%, U.K 8%, EU 22% and India 6%. More than 70% of exports to the US are women's intimate wear, knitted and woven suits, sweaters, shirts and gloves³.

2.3.2. Imports

The major import origins of Sri Lanka are India 20%, China 17%, Singapore 7.9% and UAE 7%. Major composition of imports comprised of intermediate goods which accounted for 57%, followed by Investments goods 23.1% and consumer goods 19.8%.

2.3.3. Employment

The total labour force in Sri Lanka is 8.39 million and the participation rate is 51.8% and the total employed was 8.18 million in 2019 while the unemployment rate has been 4.4%. While the services sector accounts for 47% of the total employment the industrial sector contribution is 28% and agriculture 25%.

The employment by sector is given in figure 4.

2.3.4. Employment by Sector

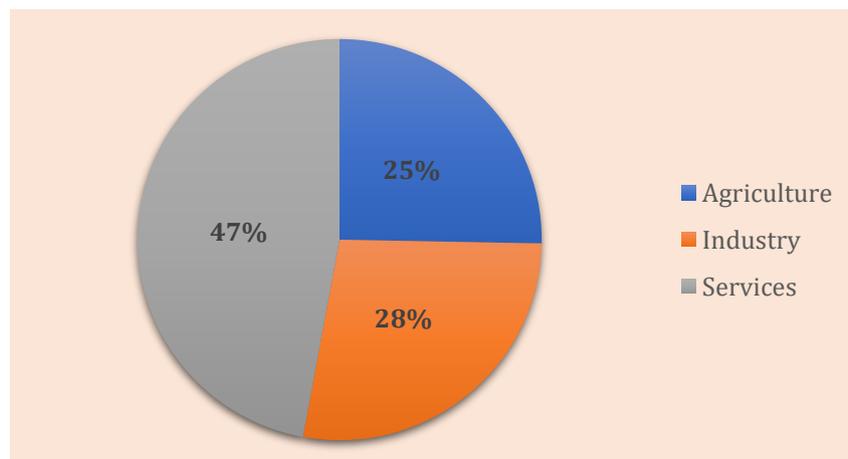


Figure 4: Employment by sector
(Source- CBSL Annual Report 2019)

³ <http://www.statistics.gov.lk/Pocket%20Book/chap03.pdf>

3) The MSME Sector in Sri Lanka

The Micro Small & Medium Enterprises (MSME) plays a vital role in the socio-economic development of the country. It is estimated that MSMEs contribute 52% to the GDP and are considered as the backbone of the economy. In Sri Lanka it is estimated that the MSMEs accounts for over 90% of the total enterprises in the non-agricultural sector and 45% of the total employment. As per the Department of Census and Statistics (DCS) Economic Census 2013/14, the number of establishments in the SME sector is 1.017 million providing livelihood to nearly 2.255 million persons in the non-agricultural sector.

The Definition of the MSMEs approved by the Cabinet is given in the Table 1.

Table 1: The Definition of the MSMEs

Size/Sector	Criteria	Medium	Small	Micro
Manufacturing	Annual Turnover	Rs. Mn. 251-750	Rs. Mn. 16-250	Rs. Mn. 15 or less than Rs. Mn. 15
	Number of Employees	51-300	11-50	10 or less than 10
Service Sector	Annual Turnover	Rs. Mn. 251-750	Rs. Mn. 16-250	Rs. Mn. 15 or less than Rs. Mn. 15
	Number of Employees	51-200	11-50	10 or less than 10

(Source: National Policy Framework for Small Medium Enterprise (SME) Development

3.1. Distribution of establishments

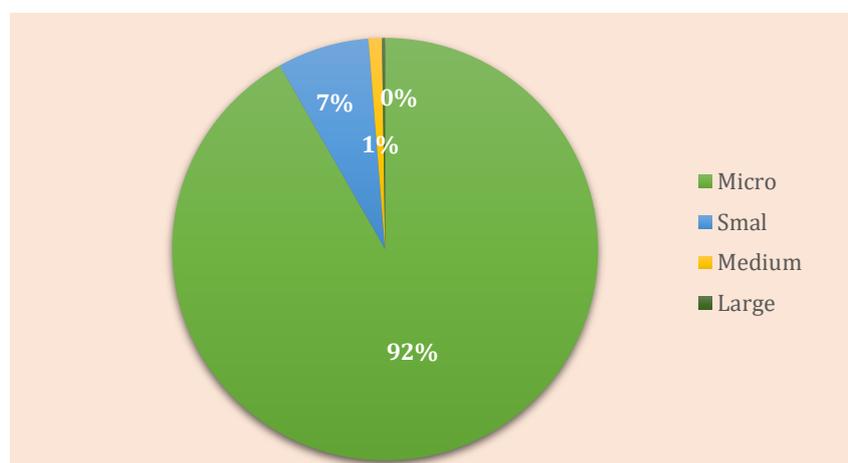


Figure 5: Distribution of establishments

(Source: Non-Agricultural Economic Activities in Sri Lanka, Department of Census and Statistics, 2013/14)

The figure 5 indicates the distribution of establishments in the country in relation to the four categories Micro with 935,736 (91.8%), Small, 71,126 (7.0 %) Medium 1% and large 0.2% establishments. The total MSME sector accounts for 99.8% of the total establishments in the country.

3.2. Distribution of employment

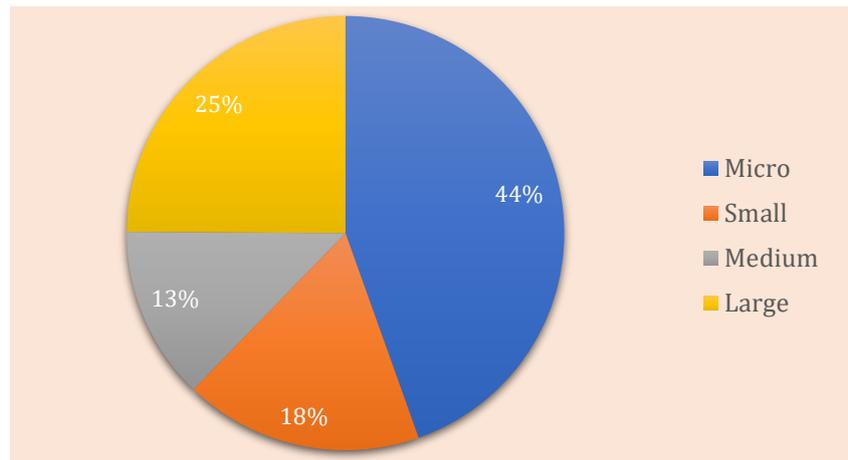


Figure 6: Distribution of employment

(Source: Non-Agricultural Economic Activities in Sri Lanka, Department of Census and Statistics, 2013/14)

The figure 6 shows the distribution of employment and it shows that MSME sector accounts for 75% of the total employed in the non- agricultural economic sector. The number employed in Micro is 1,338,675 Small 529,751, Medium 386.756 and the large sector 747,937 representing 25% of the employment.

3.3. Distribution of MSMEs by geographic sectors urban, rural and estate

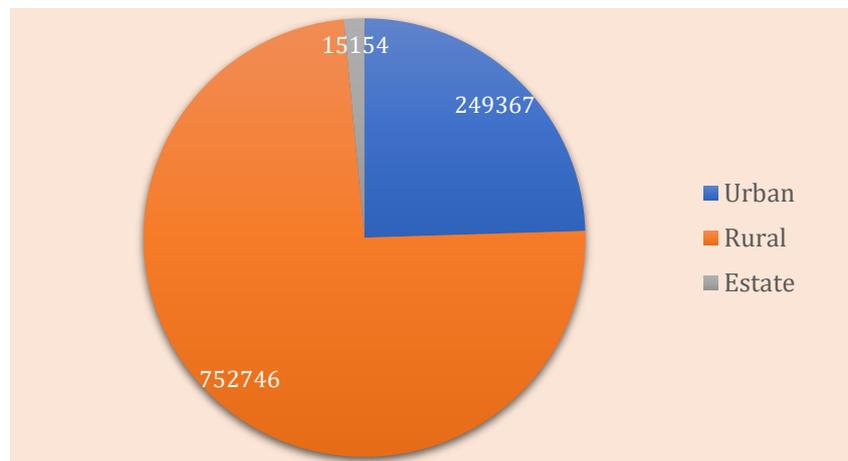


Figure 7: Distribution of MSMEs by geographic sectors urban, rural and estate

(Source: Non-Agricultural Economic Activities in Sri Lanka, Department of Census and Statistics, 2013/14)

The figure 7 shows that around 75% of MSMEs are in the rural sector thus depicting the socio-economic impact of the sectors in rural areas. The estate sector consists of plantations and they are also located in rural areas. Therefore, any adverse effect on the MSMEs has a greater impact on rural citizens⁴.

⁴ SME action plan –Ministry of Industry & commerce.

The number of Establishments and the percentage distribution scale wise and sector wise is given in table 2.

Table 2: Number of Establishments and percentage distribution economic sector wise

Scale of the Est.	Total No Est.	Industry %	Trade %	Service %	
Total	1,019,681	100%	25.6	41.0	33.4
Micro	935,736	91.8	25.3	42	32.7
Small	71,126	7.0	28.8	31.3	39.9
Medium	10,405	1.0	32.0	19.6	48.4
Large	2,414	0.2	31.6	36.9	31.5

(Source: Non-Agricultural Economic Activities in Sri Lanka, Department of Census and Statistics, 2013/14)

The number of persons engaged and percentage distribution, economic sector wise is given in table 3.

Table 3: The persons engaged and percentage distribution economic sector wise

Scale of the Est.	Persons Engaged		Sector wise distribution, Percentages		
	No.	%	Industry	Trade	Service
Total	3,003,119	100	100	100	100
Micro	1,338,675	44.6	29.7	68.1	44.6
Small	529,751	17.6	14.0	16.8	22.6
Medium	386,756	12.9	16.7	5.5	13.9
Large	747,937	24.9	39.6	9.5	18.9

(Source: Non-Agricultural Economic Activities in Sri Lanka, Department of Census and Statistics, 2013/14)

The table 3 indicates that the highest percentage is engaged in the Micro level service sector. Although the Large-scale establishments accounts for only 0.2% of the total establishments, 24.9% of the persons is engaged in this sector.

The analysis of registered enterprises is given in Figure 8

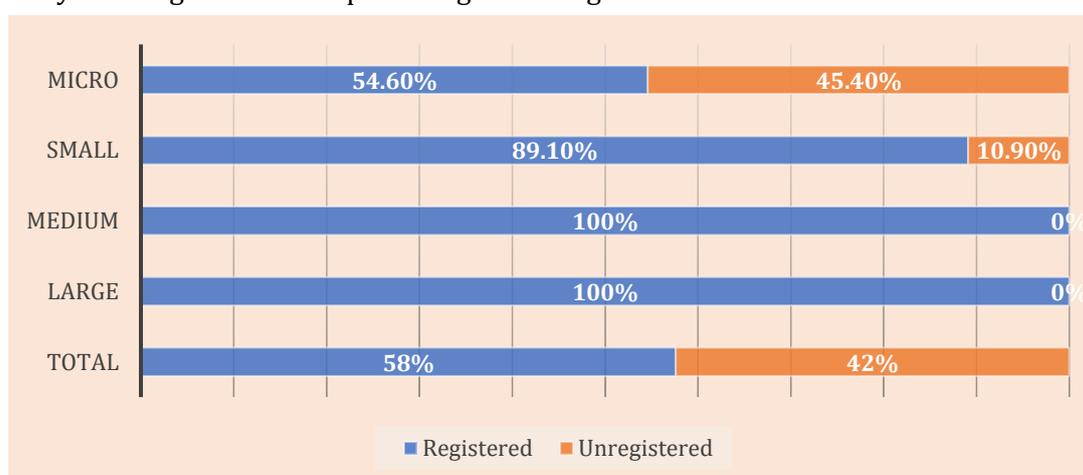


Figure 8: The analysis of registered enterprises

(Source: Non-Agricultural Economic Activities in Sri Lanka, Department of Census and Statistics, 2013/14)

The figure 8 indicates that from the total of 1,338,675 Micro enterprises 45.40% could be classified as informal sector as they are not registered anywhere and this makes 43% of the total enterprises in the country are unregistered. The Micro and Small sector is mostly registered as Sole Proprietor or Partnership, medium and large as Limited liability Companies and some are public quoted companies.

4) The Impact of COVID 19 Pandemic on MSME Sector of Sri Lanka

The real impact of the pandemic was felt by Sri Lanka around mid-March 2020 with the detection of the first Sri Lankan case and the closure of schools. Thereafter with more and more infected cases being detected specially through persons arriving from abroad and the government introduced the 14-day quarantine programme for all those arriving from foreign countries and all those who come in contact with infected persons. With the increasing number of infected cases more and more quarantine centers were established and self-quarantine system was introduced. Subsequently, curfew and lockdown of some areas was introduced as a measure to control the spread of the virus. Curfew was released from time to time to enable the people to obtain daily needs and preventive measures such as Social Distancing, compulsory wearing of face masks and use of other personal protective equipment were introduced. With this situation most of the economic activities were badly affected causing the MSMEs to undergo severe hardships. The daily wage earners (persons engaged on casual basis) were the most affected and, in this scenario, and government offered several relief measures for their sustainability.

Although the proactive measures taken by the government were successful at the initial stages to contain the spread to identified clusters and control was expected to reach a good level by early May to resume normal activities. However, due to fast spreading nature of the pandemic the number of infected cases are increasing further and it is difficult to predict normalcy once the people's movements are relaxed. However at present the spread is confined to identified clusters in quarantine centers and some security personnel who were involved in the operational activities and the virus is not socialized according to health authorities.

There were some districts that were not affected and with the release of curfew the economic activities have begun. The agriculture sector was able to continue without much difficulty was a positive factor in this situation. The main subsectors which are affected by the COVID pandemic with special reference to MSMEs are discussed below. It worth noting that these are also the subsectors where most MSMEs in Sri-Lanka concentrates.

4.1. Tourism Industry

The income from the tourism industry has recorded US\$ 3.59 billion in 2019 compared to US\$ 4.38 billion (4.9% to GDP) in 2018 a drop of US\$ 0.79 Billion mainly due to the Easter Sunday attack. The outbreak of COVID 19, closing of the Sri Lankan border for foreign passenger arrivals in mid-March, combined with global travel restrictions and finally closing down of the Air Port has resulted in massive losses combined with the loss of revenue which occurred last year following the Easter Sunday attacks. In the months of January, February and March 2020 the tourist arrivals have dropped by 6.5%, 17.7% and 70.8% respectively and in April it could reach almost 100% level.⁵

⁵ https://sltda.gov.lk/storage/common_media/Arrivals_Report_March_2020517418073.pdf
<https://sltda.gov.lk/storage/documents/0cb228cd03762f638bd51>

There are 3,926 establishments catering to tourism as per a survey done in 2018 by the Sri Lanka Tourism Development Authority (SLTDA) employing a total of 169,903 and the indirect employment provided in the value chain such as the handicraft trade, gems and jewelry shops, liquor shops laundries, etc. belongs to Micro and Small category was estimated at 219,484 making the total to 388,487. The indirect employees belong mostly to the MSME sector and the COVID outbreak would have affected them severely. It is expected that at least a period of six months will be required to reach a satisfactory situation once the global COVID threat is over.

4.2. Apparel sector

The estimated number employed in the apparel sector is around 300,000 and around 100,000 are employed in Small & Medium Industries. In addition to this there is a large number employed in the informal sector engaged in production of garments mainly catering to the local market. When indirect employment is considered it could be estimated that this sector provides livelihood to around 600,000 persons in the country which consists of over 80% females. More than 75% of the exports from this sector is to USA and the next highest is EU countries. The large-scale factories are catering to high end retail chains mainly in USA and the SME sector use the Generalized Scheme of Preferences Plus (GSP+) benefit to cater to the EU market. According to the manufacturers the orders are getting cancelled and some fabrics are in cut form, some importers are not settling the dues for the goods supplied. The Small and Medium Garment Exporters Association (SMGEA) which has 80 factories under their membership and estimated to be responsible for 30% of the total exports claims that they are the worst affected to due limited working capital. *(Interview with the president SMGEA, Mr. Bandula Fernando)*

“Our customers have postponed some of the orders and some have lost the orders while some have deferred payments for our exports. We are facing many financial issues. Given this situation, it is very difficult for us to pay the salaries of these employees for the months of April and May. With no source of income, our members are also unable to repay the capital loans they have already obtained. Our only expectation at this moment is to protect our valuable human resources”.

Executive member at Press conference of SMGEA, 20th April 2020 - [FT TV E-PAPER](#)

In addition to the above most of the SMEs in the apparel sector depends on fabrics, accessories supply from China and the disruption of the supply chain has affected them severely. The Micro level garment manufacturers also obtain their raw material from wholesale agents who import the items in bulk also mainly from China and India and the breakdown of their supply chain added with the restrictions imposed by the curfew have made them almost inactive.

4.3. Foot wear and Leather sector

The footwear industry, which is highly labour intensive, clearly has a significant potential for being a key contributor to the economy of the Country. Value addition in the footwear sector is between 35% to 45%. The industry at present employs about 40,000 people directly and indirectly includes 10 large companies, 30 medium scale companies and about 3000 small scale manufacturers. Diverse range of modern shoes like canvass and rubber boots, thongs, sports shoes, leather shoes etc. are produced, using a variety of raw materials. In the MSME Footwear

and Bags sector the main raw material is genuine leather manufactured locally using a byproduct of the meat Industry. The exports income from this sector is US\$ 119 Million in 2018.⁶

This sector also faces the common problems such as working capital, supply chain breakdown and marketing issues.

Quote” The leather and foot wear is not given adequate attention although it makes a significant contribution to the economy and provide livelihood opportunities to a large number of people. The MSME sector was severely affected by the COVID 19 threat as they lost the main sales opportunity in the festival season of April. They are currently saddled with unsold stocks and facing liquidity problems. Further their supply channels are disrupted. A helping hand should be given to the entrepreneurs at this stage for sustenance.” unquote

Nimal Samarakkody – Chairman Advisory Committee on, leather sector.

4.4. Processed food industry

Processed food industry in Sri Lanka is one of the emerging and lucrative industries in terms of production, consumption, export and growth prospects. Processed food sector consists of Dehydrated Fruits & Vegetables, Processed Gherkins & Cucumber, Herbal Tea, Frozen meat, Sauces and Tomato ketchup and prepared foods such as Ambul Thial, Katta Sambol, and Dried Sprats etc.

The industry counts more than 110 manufacturing and marketing companies. In 2016 the industry’s export value was close to US\$400 million, representing about 4% of total goods’ exports. About 40% of micro, small and medium enterprises nationwide are involved in the sector and EDB has estimated that the sector employs more than 2 million. (*National Export Strategy of Sri Lanka 2018-2022 Processed Food & Beverages Strategy*)

With the changes in life styles, more and more supermarket appearing new opportunities have emerged for MSMEs to supply value added agricultural products and processed food items. In the recent past a considerable number of entrepreneurs have stepped into this subsector with innovative ideas. They have been guided by NEDA and IDB and many entrepreneurs have received assistance and are being supported through various projects of the Government, Ministry and NGOs which has shown positive results. The outbreak of COVID virus is a big blow that they had to face at this development stage.

4.5. Handloom and Handicraft industry

The traditional hand loom and craft industry provide livelihood to many rural folks especially to women in the country. In absence of real data, it could be estimated that there are around 10,000 handlooms in the country operated by the Private sector entrepreneurs, Provincial councils and Cooperative societies. While a major portion of the production in handloom fabrics are catered to local market there are few well established producers who are catering to the export markets.

⁶ <https://www.srilankabusiness.com/ebooks/footwear--2019.pdf> - EDB industry capacity report

The handloom industry depends mainly on yarn imported from India and they will be able to continue if the supplies are restored.

The market for handicraft products in the local market is limited and was catering to the tourism sector. This market was affected badly with the Easter Sunday attack and was recovering slowly when the COVID 19 threat came. They do not have any problem on raw materials or continuing production but marketing the products will be a big issue. It is mainly the rural folk who are engaged in this trade using mostly skills passed down from generations.

The highest demand period for handloom, handicrafts products in the local market is from March to May as Sinhala and Hindu new year falls in mid-April and Vesak and Ramadan festival in May. The entrepreneurs produce stocks to cater to this main festival season and usually they earn profits and some recover their losses during this period. The COVID 19 threat commencing from mid-march has put them into a precarious situation.

4.6. Other industrial thrust areas

The Small and Medium Industries (SMIs) coming under the subsectors, Rubber & plastic, wood-based industry ceramic use mostly local raw material and will not have a major issue with regard to their supply chain except for special items like chemicals, tools. These sectors consist of large and MSMEs and the main area is finished rubber products exports which accounted for US\$ 768 Mn (2016). The Plastic industry has 400 companies comprised of large and MSMEs and caters to export as well as local market. The exports were affected and the loss of marketing opportunities in the high demand period of March to April have also affected them severely.

Metal Products and Machinery, Boat Building, Automobile & transport equipment industry, Electrical and electronic industry and Pharmaceutical & Cosmetics Industry also will face similar obstacles. In case of the Pharmaceutical & Cosmetics Industry there could be more opportunities due to limited imports once the movement restricts are relaxed.

5) Relief Measures offered by the Government of Sri Lanka (GOSL)

The Central Bank of Sri Lanka has decided to set up a Re-financing Facility as per a decision taken by the Cabinet of Ministers on 20 March 2020 to introduce a wide range of fiscal and financial concessions for COVID-19 hit business activities including self-employment businesses and individuals. A summary of the relief measures covering key points applicable to SMEs is given below.

(Refer *Annex II* for the Circular No. 5 of 2020, issued on 27th March 2020 by the Monetary Board Central Bank of Sri Lanka)

I. Eligible businesses/sectors:

- a) Tourism, direct and indirect export-related businesses including apparel, IT, tea, spices, plantation and related logistic suppliers that have been adversely affected by work disruption and overseas lockdowns resulting from COVID – 19.
- b) Small and Medium Enterprises (SMEs) engaged in business sectors such as manufacturing, services, agriculture (including processing), construction, value addition and trading businesses including authorized domestic pharmaceutical suppliers with turnover below Rs. 1 bn.
- c) Self-employment businesses and individuals who have lost their jobs or income due to the outbreak of COVID-19.

II. Concessions for Existing Performing Loans as at 25. March 2020

- a) A six-month debt moratorium on leasing rentals which includes vehicles, related assets by self-employed/owners
- b) A debt moratorium until 30May2020 on personal loans granted to all private sector non-executive employees.
- c) A three-month debt moratorium for all personal loans and leasing where the granted amount is less than Rs. 1 million.
- d) A six-month debt moratorium for affected industries in small & medium enterprises, tourism, apparel, plantation, IT and related logistic service providers.
- e) Extension of permanent overdraft maturity as at 25March 2020 by 6 months, extension of temporary overdraft by 2 months the rate of interest to be limited to 13% during the extended period.
- f) Eligible trade finance facilities falling due for settlement or maturing or were under review during the period up to 25.03.2020 shall be extended up to 30 September 2020.

III. Concessions for Existing Non-Performing Loans (NPLs) as at 25, March 2020

- a) The penal interest charged up to 25 March 2020 to be waived off by the concerned financial institutions.
- b) Rescheduling of loans and advances
- c) Suspension of recovery actions.

- d) All financial institutions shall suspend legal action against nonperforming borrowers who have been accepted under this Scheme.

IV. **New Working Capital or Investment Purpose Loan**

- a) Financial institutions may grant an additional loan or a new loan facility in Rupees for working capital or investment purposes subject to the following conditions, provided that the borrower submits a credible business plan:
- The working capital purpose loan facility to eligible performing and non-performing borrowers in Rupees not exceeding Rs. 25 million per bank per borrower and Rs. 10 million per other financial institutions per borrower or 2 months working capital requirement whichever is higher, based on the requirement for working capital cycle. Such loan shall be repaid over two years at an interest rate equal to 4% p.a. CBSL will subsidize interest cost up to 4% for licensed banks and up to 7% for other financial institutions as a rebate.
 - The investment purpose loan facility to be granted only by banks and only for performing borrowers in Rupees not exceeding Rs. 300 mn per bank per borrower to expand business activities. Such loan shall be repaid over five years at an interest rate equal to maximum of AWPLR plus 1.5%.
- b) A moratorium for a period 25.03.2020 to 30.09.2020 will be granted for both working capital loans and investment loans.
- c) Financial institutions may obtain suitable collateral to mitigate the risk relating to any additional credit facilities granted under this re-finance facility.

V. **Repayment of Capital by Banks under Refinance Schemes**

The Government has indicated its willingness to defer capital repayments on refinance loans granted to licensed banks falling due from 01, January 2020 until 31, December 2020.

VI. **Financial Institutions are expected to have a mechanism not to decline loan applications solely based on an adverse Credit Information Bureau (CRIB) record.**

VII. **Samurdhi Welfare Programme**

Samurdhi is a welfare programme which provide a monthly financial assistance for poor families which has been in existence for decades and a well-organized institutional structure is available covering the entire country headed by an Authority.

All Samurdhi recipients were given an additional Rs 5000/= to overcome immediate difficulties and a loan of Rs 10,000/= was offered through the Samurdhi Bank to recipients. The cabinet also has approved to issue a food card using which they can obtain a package of food items. This grant may be extended to further one or two months depending on the situation.

In addition to the above Micro and self-employed were also granted Rs 5000/= to overcome the situation.

a) Loss of livelihood opportunities

The self-employed and daily wage earners are the most affected. In this scenario the relief packages such as Rs 5000/= grant and free food items provided by the government have helped them to meet the very basic needs. Distribution of dry rations and vegetables by companies, social organizations, individuals, voluntary groups, religious organizations to the needy people have immensely helped to upkeep their families. Majority of Sri Lankans living in rural areas have a secondary income through their agriculture activities or at least basic food items for their consumption are available therefore a real food shortage was not felt by the rural community. A loan of Rs 10,000/= was granted for Samurdhi beneficiaries with the objective of providing a working capital to commence the small-scale business activities they were involved in. These are all short-term measures and economic cycle should be reactivated to solve this issue at least to a certain extent.

Some companies are compelled to lay off the work force as they have no means of paying salaries and some have made only partial payments. Those who cannot lose highly skilled personnel keep them on board even at a loss.

6) The Present Status of MSMEs

The main issue faced by the Micro and Small enterprises is apparently the breakdown of their supply chain due to lockdowns and curfew. In addition, majority of them face working capital problem as they do not receive payments for goods supplied and other income sources also have declined. Price escalation of raw material due to limited availability also has affected their operations. The curfew and lockdowns also have imposed constrains on disposable income affecting the economic cycle. The relief measures that were taken by the Government would not create a swift cash flow into the hands of these MSMEs and the vulnerable groups such as daily wage earners. The challenge of the Government will be to implement measures for sustenance of business and minimize job losses.

The lockdown of Western province in which the commercial capital Colombo is located is a major issue in the supply chain. All imports, exports, wholesale warehouses and the entire logistic operations are centered on Colombo.

The apparel sector has got some relief by getting export orders for making face masks and safety clothing which could help them to keep a certain level of operation without laying off employees. However, the supply of fabrics and accessories for this trade is mainly from China and until Chinese exports resume to normal level the industry will be in deep trouble. This also should lead the policy makers to promote backward linkages in this industry which could provide some buffer in a situation like this. The majority of SMEs who are supplying to EU countries will not receive orders until the normal life is resumed in those countries. Therefore, they should be guided to produce alternate products to capitalize on the new opportunities that have arisen in sectors such as health. In addition, government organizations, such as NEDA, and Chambers of Commerce are also providing online trainings for MSME entrepreneurs on e-commerce and online marketing skills.

The MSMEs connected to the tourism industry is in a desperate situation and to pick up even local tourism may take some time.

The agro based industries will be able to start their work once the curfew is relaxed as they will have less problems in the supply chain and labour availability. However, they are also confronted with working capital issues to recommence business.

6.1. New opportunities

Although there were so many adverse effects due to the Covid-19 threat, new opportunities also have emerged specially for agro based value addition processes. The agriculture sector was not much affected due to the COVID threat and people realized the value of the country being self-sufficient in rice and basic food items. With the lockdowns and curfew, the Government also encouraged home gardening and cultivation of bare lands and many responded to these requests. Further import restrictions were imposed on items that could be produced in the country. This will definitely pave a way for production of value added agro based products, local cosmetic industry based on herbal products. Many local industries which were doing well has faced difficulties or compelled to close down in the recent years due to inability to compete with cheap low-quality material that was imported to the country.

Current situation in the country has greatly affected almost all businesses. Most of entrepreneurs in our list are dependent on external raw materials suppliers. Due to the present situation they have a difficulty of obtaining the essential materials for their production processes. Movement restrictions, limited stocks, import restrictions are the reasons for the shortage of raw materials. Price fluctuations and high prices of raw materials have created working capital issues. Social distancing and restrictions imposed by government has resulted drop-in sales. Entrepreneurs in Nuwara Eliya and Matale districts have expected high sales in the April festival season but the prevailing situation has deprived them of that opportunity to generate a good income. Some are faced with high amount sales returns and finished goods in their inventories, they have stopped production while some have the difficulty of paying the salaries of their employees.

Mr. Pranama Munasinghe

Pranama is the Director, Trivet Technologies, an emerging Consultancy & IT solution provider company. Presently engaged in a consultancy assignment on Mentoring & coaching for SMEs in Nuwara-Eliya and Matale Districts which includes nearly 100 MSMEs who have received grants from Chrysalis.

There were many innovations done by students, SMEs, during this period and the relevant authorities should look into developing the basic ideas to commercial level.

Online marketing, online teaching and knowledge sharing, Webinars, web-based lecture programs also increased significantly. Many private sectors developing online working for their staff is a significant change that has taken place due to the present situation.

7) Building Resilience

The MSMEs are the most vulnerable to any external impact and this effect was also seen during the natural disaster caused with unprecedented floods and landslides in 2016 and 2017 in Sri Lanka. However, the direct threat lasted only a few weeks hence it was possible to recover in many aspects within a reasonable period. The COVID 19 is a pandemic with very high infection rate, causing danger to lives therefore the Government and health authorities were compelled to impose restrictions for the benefit of the people which caused hardships to all economic activities. The situation is somewhat complicated as the outbreak of COVID 19 pandemic has triggered the worst global recession according to IMF.

The Major impact on the MSMEs as identified above in this report are;

b) Working capital issues

Although the GOSL has granted a relief package it would be important to see how many MSMEs have benefited. This will benefit the formal sector and among them also there are many at lower levels who lacks awareness to get the benefit.

The informal sector cannot be ignored as more than 90% entities belongs to this category and make a big impact on the socio and economic aspect of the country with women being the majority engaged. Therefore, it is necessary to formulate a mechanism to assist the viable informal businesses to raise their heads at this moment while using this opportunity to convert such informal entities to formal entities.

The banks and financial institutes are reluctant to give the working capital loan as per CBSL Circular 5 of 2020 (Annex II) . Many entrepreneurs who are really in need are unable to get the relief under this package as they have already provided their assets as collateral to obtain loans.

c) Supply chain breakdowns

Supply chain breakdowns will ease out with the release of curfew and movement restrictions. China accounts for 17% of the total imports and major portion of the industries, and services depend on supplies from China and once the imports are restored a large number of enterprises will be able to commence business. The GOSL should look into facilitating the logistics reducing obstacles for smooth flow of goods from Colombo to other places.

d) Limited access to Markets

The lockdowns, restricted movements and social distancing have severely affected the marketing channels of the majority of MSMEs who are catering to the local market and this situation is expected to improve within a few weeks with relaxation of restrictions. The export market depends on opening of other countries; however, some exports are continuing and the garment industry is now engaged in manufacturing personal

protective items such as masks which may help them to maintain operations at some level without closing the factories.

e) Psychological trauma associated with the pandemic

Researchers are warning that COVID 19 pandemic could inflict long-lasting emotional trauma on an unprecedented scale. In Sri Lanka in a backdrop of several disasters such as Easter Sunday attack in 2019, natural disasters added with slow recovery in civil conflict areas the COVID 19 has put the MSMEs into a worst scenario.

The field level studies carried out by MSME service providers have found that although some are affected there are many with positive thinking and waiting for the opportunity to restart.

Wearing of masks, gloves under hot humid conditions and social distancing also leads to demoralization and also reduce efficiency. The people in tropical climates who are not used to wearing such items may take time to get accustomed to such practices.

Strategic vision outlook needed to help SMEs impacted by Covid-19 pandemic crisis

The global impact of Covid-19 which is visible is only the tip of iceberg. It will definitely create a totally different world with a "new normal" in which all of us have to do our work and economic activities. Since the entire business eco-system is being changed owing to the impact of Covid-19 and the businesses are being crushed in several ways where SMEs are also not an exclusion, SMEs will have to encounter a massive challenge in retaining their business lives and getting back to business. In these four aspects are paramount when SMEs in Sri Lanka are concerned. a) Making them aware of the real picture of impact of Covid-19 on their businesses b) Strengthening their entrepreneurial spirit to withstand the blow while motivating them to get up in the accurate pose and grab the opportunities to sustain their businesses c) Influencing the SMEs to go for business resilience planning d) strengthening the business-doing climate

Dr. Premasiri Gamage

Chairman, Business Development Center (Pvt.) Ltd. Management Consultant, Visiting Lecturer University of Sri Jayewardenepura who is presently actively engaged in MSME sector, conducting webinar sessions on positive thinking, building resilience to MSMEs

8) Conclusion

- I. MSMEs are the most vulnerable and affected by natural disasters that took place in the country with floods and landslides in 2016, 2017, the Easter Sunday terrorist attack in 2019 was in a recovering stage when COVID 19 threat came.
- II. The loss of sales targeted for the New Year Season in April season is the biggest blow faced by the MSMEs catering to local market. They have not received payments for goods delivered mostly on 45 days credit basis in January and February to shops, wholesalers and also left with stocks produced and returns from the market.
- III. The Agriculture and local raw material based and localized MSMEs have shown a good resilience to external shocks.
- IV. The enterprises who had established backward linkages in raw material supply has also been able to cushion the impact.
- V. Most of the entrepreneurs have not been able to reap the benefits of Government relief packages due to lack of awareness and/or inability to meet the requirements of Banks. The entrepreneurs are fighting a lone battle to get out of their financial crisis.
- VI. It is interesting to note that many MSMEs in rural areas are in a positive mind and have high expectations to return to normal soon. However, there are many who need coaching, counselling to get out of the traumatic condition.
- VII. The current situation has provided new opportunities for some innovative entrepreneurs and also some have diversified their product range.
- VIII. Online marketing, home based online operations has improved significantly. More opportunities are bound to be created for MSMEs in the IT service sector in the new normal environment.

9) Recommendations

- I. At this critical moment it is important to implement strategies to revive the economic activities and move towards a concrete programme to retain jobs while not reducing the attention given to contain the COVID 19 as the pandemic has delivered the fastest and deepest economic shock in history
- II. It is recommended to appoint a Task Force, or a Coordinating Body without delay for a concerted effort to assist the MSMEs to revive businesses;
 - ✓ Identify gaps & draw up strategies
 - ✓ Coordinate to avoid duplication and resource optimization of Business Development Service (BDS) providers.
 - ✓ Develop a mechanism to provide one to one coaching and guiding sessions focused to generate working capital, revive supply chain, develop marketing links, Business continuity plans
- III. The monetary relief packages and provision of food parcels is good to overcome the immediate financial shock. The loan or Rs. 10,000/= offered to Micro and self-employed should be strictly disbursed for economic activities and not for consumption.
- IV. It is also important to make such relief packages apolitical, transparent and gain confidence of the people demonstrating government commitment to assist and also to motivate the self-employed and micro enterprises.
- V. The application process for disbursing concessionary Bank loans and other relief packages, should be streamlined and MSMEs should be guided by the public, private service providers, Chambers and Trade Associations.
- VI. Often the large and upper level medium scale businesses get the benefits while the Micro and small sector are overlooked. While the former is also important the later should be given adequate attention not only as a social factor but also considering the contribution to the GDP. It is recommended that the service providing institutions to act as a catalyst in this matter.
- VII. Most of the entrepreneurs have not been able to reap the benefits of Government relief packages due to lack of awareness and/or inability to meet the requirements of Banks. Therefore, it is recommended find a solution by developing a **scheme to provide a guarantee by the government for MSMEs to raise working capital on project viability basis.**
- VIII. It is also important that gender sensitive policies are implemented as a large number of MSME are run by women and they should have equal access to Bank facilities.
- IX. It is also important to launch an island wide trauma management programme for the resource constrained MSMEs without much delay. Resilience building, proactive measures with positive thinking to make them competitive is important.

- X. It was noted that several innovations supporting the health services emerged during this period. It is recommended that Ministries in charge of the subject of Industry, science and technology, trade supported by related institutions to give a helping hand to these innovators to improve, their products, obtain patent rights and to commercialize suitable inventions.
- XI. It is also recommended to complete the Business Service Center (one stop shop) in Monaragala where all the ground work, including training of staff was done and planned to open in March. If this pilot center is put to operation some of the recommendations mentioned above could be implemented through this center in Monaragala.
- XII. Establishment of One Stop Shops in other districts is also recommended to commence at the earliest possible time using existing facilities available in District Secretariats which could act as the focal point in districts coordinating the activities to revive the businesses.

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11) Annexures

11.1. Case Studies

Case Study 1

“Packed Foods” is a business located in the Matale District in the Central Province which is engaged in manufacturing and selling of processed and packed food and spices. The business was started on a small scale and registered in 2013. The entrepreneur while working as a sales representative for some other organization has conceived an idea of developing a card on which a number of sachets containing different herbal products could be displayed. He restricted the products to those frequently used by the people in the area who often opted to purchase items in small quantities to meet their immediate requirements. These cards when displayed in shops captured the attention of the shoppers and was an instant success.

Based on this success, he has decided to engage full time in this business. Along with his wife and another employee he has expanded the market and added several new products including packed processed food items. At present his range of products include Dried Fish Sambal, Lime Pickle and 22 other products packed in sealed plastic bags printed with labels as per the regulations. He claims that he is the leading supplier of Lime Pickle in the Central Province.

He has expanded his marketing area to several towns outside the province and has four vehicles engaged in distribution and sales are also carried out through some appointed agents. He has obtained approval for seven of his major products from the Agriculture Research Institute, Gannoruwa Sri Lanka. Although he expected the COVID 19 will cause a severe blow to his business, it didn't as he had sufficient stocks of raw material to continue operations. His customers continued their purchasing pattern in spite of the curfew. His cash flow was not adversely affected as he obtained the raw materials as payment against his products. (Bartering). Since he is carrying out his work in the same premises where he lives and only himself, wife and one outsider are engaged in the work there was no labour issue due to the curfew. During the times the curfew was relaxed he was able to distribute goods as the Government relaxed restrictions for delivery of food items. He is of the opinion that he will have some draw backs but the business could continue at a reasonable level once the difficult period is over.

However, it was found that he is not maintaining proper records of his financial transactions.

Analysis

He was not adversely affected by the impact of CoronaCovid-19, purely due to circumstances and not due to any contingency planning. Not maintaining proper accounts and irregular personal drawings could lead this enterprise to a difficult situation. Enterprises starting on micro scale when growing up should gradually introduce at least basic business/enterprise management systems otherwise the business developed with great efforts could end up as a total failure. These entrepreneurs need to be guided on business continuity planning.

Case Study 2

“Spices” is a business located in the Kandy District, Central Province owned and managed by a women entrepreneur, started in 2008 and developed over the past twelve years to a Small-scale enterprise employing 15 persons. She has converted her informal business to a formal business by registering her business in 2010. The entrepreneur has commenced her business by producing Chili Powder, Chili Pieces, Turmeric Powder and Curry Powder which were sold through the shops in her locality. At the initial stages she was faced with working capital issues and meeting the quality standard expected by the customers. However, with her perseverance she was able to improve the quality and introduced a special Meat Curry Powder mixture which became popular and picked up the market at an unexpected rate. As ingredients she uses local raw material obtained from suppliers in the area and few imported items such as Pepper and Coriander. She was running her business successfully but the COVID 19 virus threat affected her business in mid-March 2020.

Although there was an immediate impact on her sales, after a few weeks her market has gradually picked up amidst restrictions such as the curfew imposed by the Government mainly because her product is an essential item for cooking and she was catering to the customers in her locality. She is with a positive mind and feels that she can get back to normal once the curfew restrictions are relaxed.

Analysis

This is a case where the entrepreneur has developed a set of loyal customers. When people get accustomed to a taste in food ingredients, they always look for the same and the special meat curry powder mixture has this advantage. When the economic activities are resumed, she has an advantage over others to expand her market as her enterprise has uninterruptedly continued operations. Further she will not be faced with a major working capital issue as her sales have continued and will be able to collect at least a fair amount of her dues from sales. The nature of the business, loyal customer base, size and scale of business has provided resilience to the impact. Moreover, her positive thinking and determination will carry her forward.

Case Study 3

“Araliya Garments” located in the Matale District of Central Province was started by an enterprising young lady who had previous experience as an account assistant. She had started with one standard domestic sewing machine to supply children’s wear, shirts etc. to a trader in Colombo. She has never worked in the garment trade nor undergone any formal training in clothing manufacture. Using her talents, she had expanded her business and undertaken a subcontract from an exporter. As the profit margins from this order was very low and she could not operate her enterprise profitably, she ventured into supplying her products to some leading clothing stores in Colombo. Her products range included children’s wear both girls and boys, for age range from 1 ½ years to 10 years. The quality of her goods was good and she received orders from some up-market shops and continued her business smoothly. She had a production line with more than 30 machines employing 18 females at the time the COVID 19 threat struck.

The first blow to her profitable venture came with the Ester Sunday terrorist bomb attack in April 2019. The supply of goods to leading retail chains dropped significantly and it took several months to recover. There were delays in receiving payments and she could not pay three installments of a loan taken from a leading Bank in the country. According to her the bank has taken steps to initiate legal action on her assets given as collateral. Further the name of the enterprise has gone to the CRIB. However, when she had negotiated some terms with the bank trying to overcome her difficulties, the COVID 19 virus threat struck.

In February 2020 she had received orders for a large quantity of items for the anticipated New Year season sales, but could not deliver due to the effect of the Corona Virus and at present she is stuck with a stock of 1500 pieces. She has not received payments for the supplies delivered prior to the Corona and the shops have still not come into operation. She has not given up hope. She has started sewing Face Masks for the local market and at present employing six operators is making an operational profit to keep the company going. The masks sewn with her brand name has a good demand due to the reputation established. At present she is faced with a severe working capital issue and has approached a bank which agreed to release a one million Rupee loan but has back tracked as her name is in the CRIB records. According to her, she is unable to obtain any relief through the packages announced by the Government.

Analysis

This is a case where an enterprising young woman starting from scratch has developed her venture to a small-scale business providing employment to 18 women in the areas. A profitable well managed SME, had to face two major disaster situations and although the enterprise was affected badly the resilience build up has helped her to continue business without closing down operations. It is rather disappointing to note that Banks, and Governmental institutions have not come to her assistance at the hour of need. She like many other SMEs are fighting a lone battle. The government relief packages are mostly enjoyed by influential parties who do not need such assistance. The Banks and financial institutes also prefer to support traders and large-scale enterprises. The writer in his field visits has come across many such cases where the poor MSMEs are not given proper attention. This type of situation leads the entrepreneurs to seek assistance of private Micro Finance entities which charge heavy interest going up to even 24% per annum and pawn brokers charging around 30% per annum. The authorities should examine who gets the benefit of loan moratorium, concessionary loans granted at 4% per annum. A mechanism to help the most deserving parties should be set up.

Case Study 4

“Coco Drinks” is an enterprise located in the Western province a youth who wanted to do something different has seen a paper article that around 50,000 liters of coconut water go waste in the country. This conceived an idea for him to bottle king coconut water. With many failures and over 200 trials done with the support of his wife he has succeeded in producing bottled and canned sparkling king coconut water without any chemical additives. He has a long story behind his attempt carrying bottles in public transport busses to introduce to hotels, restaurants with so many failures where he has not given up. He has developed his own technology and also fabricated machines with the help of local technicians and has the capacity to produce 1200 bottles per day. In addition, he has Orange drink (local Variety) Coco soda in his product range. At present he has a good demand in the local market as also exporting to several countries which stated initially exporting to China and Russia and now, he has expanded to USA and Canada.

With the outbreak of COVID 19 people started drinking brewed coriander to develop immunity against the Corona virus. While confined to home during the curfew he and his wife got the idea of making bottled and canned coriander and ginger mixed drink adopting the traditional Ayurveda recipe. Their attempt has been successful and has a very good demand and running profitably. At the interview with him he mentioned that although COVID 19 has adverse effects on many SMEs it has created a new opportunity to him.

Analysis

This is clear case of a youth with innovative ideas where an adverse situation was converted to an opportunity. He has no raw material problems as the area in which he is operating has sufficient king coconut small scale plantations which also provided them an earning opportunity during the difficult period. He is also very unhappy about the attitudes shown by the Banks and also determined to develop his business back to normal and progress further with his own effort.

Case Study 5

“Creative design” was formed in 2017 by three young entrepreneurs who wanted to support and empower struggling artisans in the local community by providing them with a platform to market their products. Their business venture has operated successfully catering to the local market; currently exporting to Australia and France and was in the verge of expanding to other international markets when the COVID virus threat affected the country. Their product range includes coasters, placemats, and coconut shell spoons, bamboo straws, floating pool trays, cheeseboards and serving platters. All products are manufactured using natural materials and their by-products, with a core focus on cork and wood. They use only sustainable sources and do not use any plastic in the production of items. This business is inclined towards a social enterprise which provides livelihood opportunities to craftsmen who have a wealth of skills passed down from generations. They expect the business to pick up when the situation improves.

The business was affected with the outbreak of COVID 19 Virus and during the curfew time they started using their resources to undertake online delivery services to the corporate sector to keep their business going. They also do online business to deliver their products although the business is limited at present. At the discussion it was revealed that so far, they have managed with their own funds and have not gone to Banks to get assistance. They also have not been able to obtain the concessionary 4% interest loan offered by the Government due to various conditions imposed by the Banks.

Analysis

This enterprise is inclined towards the social enterprise concept providing livelihood opportunities to craftsmen in rural areas. This enterprise has been somewhat resilient to the impact as they were doing online marketing and catering to a niche market. Using the opportunity of linking with the corporate sector in home delivery of goods has helped them to keep the operations at a certain level and providing employment to at least some people working with them. This also shows the innovative capability and might develop more opportunities with this operation. The business is capable of managing the impact and will be back to business when with more strength gradually when the global economic cycle starts rolling.

Case Study 6

“Eastern Handloom” is a small-scale enterprise located in the Eastern Province which was operating successfully over 8 years and the nature of the business is more inclined towards a handloom weaving cluster. At the Central place there about six looms working and preparation work for weaving is done. There is a cluster of weavers attached to the enterprise who carry out weaving according to the designs given by the center. The yarn and other raw material are supplied to them through the center and the main products are Sarees and Bed sheets. The designs, color schemes weaving instructions, quality control is done by him and the yarn is imported from India. The weavers are paid on piece rate. His enterprise provides direct employment to about 15 women in the vicinity. The traders come from Colombo to collect the products and also he supplies to shops in Kandy and several other cities. During the first quarter of the year he has produced the maximum targeting the sales in the New Year season in April.

Presently he is unable to get payment for the goods supplied in February and March due to lockdowns and curfew and also has a stock awaiting delivery. As a result, he is faced with a severe liquidity problem. Further he doesn't have sufficient raw material as the entire supply chain has broken down. The weavers do not get an income as they work on piece rate. However, if he gets the raw materials he can start work as the team of weavers are waiting for an opportunity. He has good hopes that he will be able to revive the business gradually and may take several months to pick up the market. The entrepreneur and the weavers have received the special relief payment of Rs. 5000/= form the Government which has been very helpful to the weavers.

Analysis

The handloom fabrics are predominantly produced in the Eastern province which caters to the local market. This is again a case where the entrepreneur is faced with breakdown of raw material supply chain which is linked to India. Further inability to get payments for goods produced until the economic cycle starts working has put him into serious liquidity problem. The weavers are also denied of their income due to the situation and undergoing hardships and awaiting to start work. It is necessary to facilitate these enterprises to obtain yarn which is the main component required to keeps the wheels turning.

Author's Comments

- 1) The COVID 19 virus attack has been like the adage “falling from frying pan into the fire” for many entrepreneurs who were trying to raise their heads after the Easter Sunday terrorist attack in April 2019.
- 2) Many entrepreneurs have stretched their full capacity and produced anticipating the New Year sales in April. They are now faced with severe liquidity problems awaiting payments for the goods supplied or saddled with stocks of unsold finished goods.
- 3) The MSMEs who are in production of spices and processed food items in small scale in polythene packed or bottled form targeting the households in their locality has shown some resilience to the impact.
- 4) The innovative entrepreneurs have found alternative solutions to keep their enterprises functioning during the difficult period while some have ventured into new areas.
- 5) The author observed that majority of the entrepreneurs who were interviewed are with a positive mind and hopes are there to return to normal soon. However, there are many who needs coaching, counselling to get out of the traumatic condition.
- 6) The entrepreneurs are fighting a lone battle to get out of the situation and has very little hope that Government authorities and financial institutes would come into their assistance.
- 7) The restrictions imposed by the Government on selected imports are welcome and expectations are there to provide them good opportunities. However, they mention that import of raw material required for their production should not be restricted.
- 8) Most of the entrepreneurs have not been able to get the benefits of the relief packages offered by the Government due to various reasons and Government authorities should look into this matter.

The author has interviewed/discussed on line a considerable number of MSMEs on random basis and covering different sectors and few selected case studies (pseudo names) are given in this document.



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

27 March 2020

CIRCULAR

No. 05 of 2020

**RUPEES 50 BILLION, SIX-MONTH RE-FINANCING FACILITY TO
SUPPORT COVID-19 HIT BUSINESSES INCLUDING
SELF EMPLOYMENT AND INDIVIDUALS**

1. Introduction

- (i) The Central Bank of Sri Lanka has decided to set up the above Re-financing Facility in order to implement the decisions taken by the Cabinet of Ministers on 20.03.2020 to introduce a wide range of fiscal and financial concessions for COVID-19 hit business activities including self-employment businesses and individuals. Among these concessions are debt moratorium (capital and interest) and a working capital loan at the interest rate of 4% p.a. for eligible customers.
- (ii) The licensed commercial banks, licensed specialised banks, licensed finance companies and specialised leasing companies (hereinafter referred to as Financial Institutions) will be eligible to participate in this re-financing facility to support COVID-19 hit businesses including self-employment businesses and individuals commencing 25.03.2020.
- (iii) This Circular is issued to supplement the Circular No. 04 of 2020 dated 24.03.2020 and sets out the operational guidelines to give effect to the re-financing facility.

2. General Terms and Conditions of the Financing Facility

- (i) Eligible businesses/sectors:
 - (a) Tourism, direct and indirect export-related businesses including apparel, IT, tea, spices, plantation and related logistic suppliers that have been adversely affected by work disruption and overseas lockdowns resulting from COVID – 19.
 - (b) Small and Medium Enterprises (SMEs) engaged in business sectors such as manufacturing, services, agriculture (including processing), construction, value addition and trading businesses including authorised domestic pharmaceutical suppliers with turnover below Rs. 1 bn.



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- (c) Self-employment businesses and individuals who have lost their jobs or income due to the outbreak of COVID-19.
 - (d) Foreign currency earners (individuals and corporates) who have to repay loans in foreign currency and whose incomes/ businesses have been adversely affected due to the outbreak of COVID-19.
 - (ii) For the avoidance of doubt, import facilities shall not be permitted under this re-finance facility, for imports other than pharmaceutical drugs, medical equipment, food, fertilizer and essential raw materials and machinery and equipment.
 - (iii) Credit facilities to be supported under this Financing Scheme shall be term loans, leasing facilities, pawning, overdrafts and trade finance facilities denominated in Rupees and foreign currency subject to the requirements specified.
 - (iv) Financial institutions shall offer concessions under this Scheme to all borrowers who have been affected by work disruption due to COVID – 19 and overseas lockdowns and requested relief through online facilities or other communication arrangements before 30.04.2020. The financial institutions shall complete processing of such requests within 45 days from the date of receipt of the request. Until the processing of requests is concluded recovery of loans from the respective applicants shall be suspended.

3. Concessions for Existing Performing Loans as at 25.03.2020

- (i) Upon a communication by a borrower requesting concessions under this scheme on or before 30.04.2020, the financial institutions shall offer a debt moratorium for the period as given below in respect of all eligible Rupee and foreign currency term loans.
 - (a) A six-month debt moratorium on the leasing rentals of all three-wheelers, school vans, lorries, small goods transport vehicles and buses and related assets such as motor bikes and taxies operated by the self-employed/ owners.



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- (b) A debt moratorium until 30.05.2020 on personal loans granted to all private sector non-executive employees.
 - (c) A three-month debt moratorium for all personal loans and leasing where the granted amount is less than Rs. 1 million.
 - (d) A six-month debt moratorium for affected industries in small & medium enterprises, tourism, apparel, plantation, IT and related logistic service providers.
 - (e) A six-month debt moratorium for all other eligible businesses/sectors specified under 2 (i) above.
- (ii) Financial institutions shall extend the existing tenure of loans eligible for debt moratorium by the respective moratorium period.
 - (iii) Permanent Overdraft facilities falling due for settlement or maturing or are reviewed during the period up to 25.03.2020 shall be extended up to 30.09.2020. However, in the case of Temporary Overdraft facilities as at 25.03.2020, the expiry shall be extended by two months for eligible borrowers. Interest rate on such facilities will be capped at 13 percent during the extended period.
 - (iv) Eligible trade finance facilities falling due for settlement or maturing or were under review during the period up to 25.03.2020 shall be extended up to 30.09.2020.
 - (v) Paving facilities falling due for settlement or maturing during the period up to 25.03.2020 shall be extended up to 30.09.2020.

4. Concessions for Existing Non-Performing Loans (NPLs) as at 25.03.2020

- (i) The penal interest charged up to 25.03.2020 shall be waived off by the concerned financial institutions.
- (ii) Rescheduling of loans and advances shall be as follows:
 - (a) Where the borrower has repaid 50% or more of the initial capital, 50% of the accumulated and unpaid interest (after waiver of penal interest referred to above) of the defaulted instalments up to the date of



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consideration by the concerned financial institutions under this re-financing facility shall be deferred. The balance capital outstanding, balance portion of interest of the defaulted instalments and the future interest shall be rescheduled over a 3 year period. The deferred interest shall be waived by the financial institution, after the borrower settles the rescheduled loans in the manner provided in para (c) and (d) below.

- (b) Where the borrower has repaid less than 50% of the initial capital, 25% of the accumulated and unpaid interest (after waiver of penal interest referred to above) of the defaulted instalments up to the date of consideration by the financial institution under this re-financing facility shall be deferred. The balance capital outstanding, balance portion of interest of the defaulted instalments and the future interest shall be rescheduled over a 3 year period. The deferred interest shall be waived by the financial institutions concerned, after the borrower settles the rescheduled loans in the manner provided in para (c) and (d) below.
- (c) The balance capital outstanding referred to in paragraphs (a) and (b) above shall be rescheduled and repaid over a period of 3 years.
- (d) The balance portion of interest of the defaulted instalments and the future interest referred to in paragraphs (a) and (b) above shall be transferred to a suspense account and recovered over a period of 3 years.
- (e) A moratorium up to 30.09.2020 shall be granted.
- (f) Licensed banks may reclassify NPLs under this Scheme as performing loans and advances provided that the borrower has serviced interest for six consecutive months during the debt moratorium period, if required. However, in the case of instalments in arrears before rescheduling the NPL facility is less than six months, upgrading to performing category shall be done only after the borrower has serviced interest for a period equal to instalments in arrears before rescheduling the NPL facility.



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- (iii) Suspension of recovery actions
- (a) In the case of eligible borrowers who are in the NPL category as at the date of this Circular, if financial institutions have commenced or given notice of recovery action under the provisions of the Recovery of Loans by Banks (Special Provisions) Act, No. 4 of 1990 or Mortgage Act No. 06 of 1949 as amended or Finance Leasing Act No. 56 of 2000, such recovery action will be suspended on condition that the concerned financial institution and the client reach a debt re-payment agreement.
 - (b) Financial institutions shall defer passing new resolutions under the above Acts, for recovery of loans and advances in respect of borrowers participating in this Scheme. In instances where resolutions for recovery have already been passed, auctioning of assets will be suspended until 30.09.2020 in respect of such borrowers who are participants in the Scheme.
 - (c) In instances where there are on-going litigations in courts relating to recovery, borrowers will be permitted to participate in the Scheme upon entering into an agreement by submission of affidavit to Courts agreeing to comply with the requirements set out in this Scheme.
 - (d) All financial institutions shall suspend legal action against non-performing borrowers who have been accepted under this Scheme.

5. New Working Capital or Investment Purpose Loan

- (i) Financial institutions may grant an additional loan or a new loan facility in Rupees for working capital or investment purposes subject to the following conditions, provided that the borrower submits a credible business plan:
 - (a) The working capital purpose loan facility shall be granted to eligible performing and non-performing borrowers in Rupees not exceeding Rs. 25 mn per bank per borrower and Rs. 10 mn per other financial institutions per borrower or 2 months working capital requirement



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whichever is higher, based on the requirement for working capital cycle. Such loan shall be repaid over two years at an interest rate equal to 4% p.a. CBSL will subsidise interest cost up to 4% for licensed banks and up to 7% for other financial institutions as a rebate.

- (b) The investment purpose loan facility shall be granted only by banks and only for performing borrowers in Rupees not exceeding Rs. 300 mn per bank per borrower to expand business activities. Such loan shall be repaid over five years at an interest rate equal to maximum of AWPLR plus 1.5%.
- (ii) Financial institutions shall properly evaluate the funding requirement of the borrower and agree on the loan size.
- (iii) A moratorium for a period 25.03.2020 to 30.09.2020 will be granted for both working capital loans and investment loans.
- (iv) Financial institutions may obtain suitable collateral to mitigate the risk relating to any additional credit facilities granted under this re-finance facility.

6. Repayment of Capital by Banks under Refinance Schemes

The Government has indicated its willingness to defer capital repayments on refinance loans granted to licensed banks falling due from 01.01.2020 until 31.12.2020. However, banks are required to seek extension if required and enter into supplementary agreements with the relevant Government agency in this regard.

7. Reporting to the Credit Information Bureau (CRIB) of Sri Lanka

- (i) Financial Institutions are expected to have a mechanism not to decline loan applications solely based on an adverse CRIB record.
- (ii) Financial Institutions, in consultation with CRIB, shall develop a reporting modality in respect of the capital deferment granted under this scheme to performing borrowers, so that participation in the Scheme will not have an



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impact on the credit score of borrowers in the future, or be negatively reflected in future CRIB reports.

8. Financial institutions shall discontinue charging for cheque returns, stop payments, late payment fee on all credit cards and other credit facilities during the period up to 30.09.2020.

9. Reporting Requirement

Financial institutions shall report the details of moratorium availed by their borrowers to the Bank Supervision Department and the Department of Supervision of Non-bank Financial Institutions, as relevant, as at 15th and 30th of each month, within 5 working days, commencing from 01.05.2020.

Prof. W D Lakshman

*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*