The Impact of COVID-19 to MSME Sector in Sri Lanka

Ministry of Industry and Supply Chain Management and Ministry of Small and Medium Business and Enterprise Development in conjunction with the Division for Sustainable Development Goals, Department of Economic and Social Affairs, the United Nations (DESA/DSDG)

SPEAKERS

Mr. Padmasiri Gunawardana
National Consultant, Sri Lanka

Dr. Premasiri Gamage
Training Expert for MSME Sector, Sri Lanka

Mr. Monty Ranathunga
Secretary, Ministry of Small and Medium Business and Enterprise Development, Sri Lanka

Date: Thursday, June 04, 2020
Time: 09.00 AM - 10:00 AM (EST)
06.30 PM - 07:30 PM (GMT+05:30)

Join us to discuss impacts of the Covid-19 on MSMEs in Sri-Lanka
Streamed at https://www.gotomeet.me/BDC01/theimpactofcovid-19
Opening Remarks

Dr. Amson Sibanda

Chief, National Strategies and Capacity Building Branch
Division for Sustainable Development Goals
Department of Economic and Social Affairs, United Nations
Mr. Padmasiri Gunawardana was the National Consultant, Sri Lanka UN-Division of Sustainable Development Goals (DSDG) supporting the Ministry of Industry & Commerce, in the implementation of SME action plan. He has been working in this capacity since 2019 May to 2020 May. Prior to this he has worked as a consultant covering a wide range of fields and has been involved with the MSME sector traveling widely in Sri Lanka meeting MSMEs in rural areas through consultancy assignments undertaken by him. Mr. Gunawardana was also the Technical Consultant (Textile & Apparel) to Ministry of Textile/Industry Development from 2007 to 2009. He is a Chartered Textile Technologist has held the positions of Director/CEO of the Textile Training & Services center (TT&SC) and the Clothing Industry Training Institute (CITI) from 2000 to 2006 the main public sector training institute in the country serving the textile and apparel sector prior to his retirement. Mr. Gunawardana was the consultant engaged by the Ministry of Industry and Commerce in preparation of the SME action plan and Build Back Better Guidelines (BBB) for disaster recovery for MSMEs in Sri Lanka.
The Impact of COVID19 to MSME Sector in Sri Lanka

PRESENTED BY
PADMASIRI GUNAWARDANA
Socio-economic indicators at a glance

- Area 65,610 sq.km
- Population of 21.67 Million
- Estimated GDP in 2019 US $ 84.0 billion
- Per capita GDP in 2019 US $ 3,852
- Literacy rate 91.71%
- Life expectancy at birth is 76.8 years

Source Central Bank of Sri Lanka, annual report 2019
GDP Contribution - Sector wise

- Services: 63%
- Industry: 29%
- Agriculture: 8%
- Other: 0%

Imports & Exports

- Total Imports
- Total Exports

GDP Growth

Source: Central Bank of Sri Lanka, annual report 2019
Distribution of Establishments-Non Agricultural sector

Scale wise
- Micro: 92%
- Small: 7%
- Medium: 1%
- Large: 0%

Geographical
- Urban: 25%
- Rural: 74%
- Estate: 1%

DCS Economic Census-non agriculture sector 2013/14
Employment
MSME - 2.25 million

Distribution by main Economic sectors

Agriculture: 47%
Industry: 28%
Services: 25%

Distribution scale wise non agriculture sector

Micro: 44%
Small: 25%
Medium: 18%
Large: 13%

Economic Census - non agriculture sector 2013/14 - Department of census & Statistics
Impact of COVID 19 on MSMEs Sub Sector wise
<table>
<thead>
<tr>
<th>Sub Sector</th>
<th>Importance</th>
<th>Impact</th>
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</thead>
<tbody>
<tr>
<td>Tourist industry</td>
<td>Income US $ 4.38 billion, (2018) 4.9% GDP, total registered, 2164, star class hotels 136</td>
<td>• 70% drop in arrivals-February 2020</td>
</tr>
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<td></td>
<td>Total Employment- 388,487, MSMEs.-219,484 (Source SLTDA reports)</td>
<td>• Airport closed down for tourists in March</td>
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<td></td>
<td>• No social functions, corporate events &amp; Local tourists</td>
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<td>• All most entities are closed, lay offs are inevitable,</td>
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<td></td>
<td>• MSMEs are the most affected ,may take about 6 months to revive even</td>
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<td></td>
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<td>after normalcy is achieved</td>
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<tr>
<td>Textile &amp; Apparel</td>
<td>Export 2019, US$ 5.3 Billion, 6 % GDP, Employment direct 300,000, total estimated 600,000</td>
<td>• Exports-orders cancelled, payments not received for supplies,</td>
</tr>
<tr>
<td>sector</td>
<td>including the micro level. Predominantly women. (Source central Bank, Apparel Associations)</td>
<td>• Local market-Severely affected due loss of sales targeted for April</td>
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<td></td>
<td></td>
<td>New Year season</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Lay-offs are inevitable in SME factories.</td>
</tr>
<tr>
<td>Leather &amp; Footwear</td>
<td>Average Annual production is estimated US $ 550 Mn (Rs 100 Billion) Export US$ 119 Million in</td>
<td>• Exports affected</td>
</tr>
<tr>
<td></td>
<td>2018,Employment 40,000 3000 MSMEs (Source-EDB capability reports)</td>
<td>• Local-Severely affected due loss of sales targeted for April New</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Year season</td>
</tr>
<tr>
<td>Handloom &amp; Crafts</td>
<td>Estimated around 10,000 weavers are in operation Provide livelihood to a large number of</td>
<td>• Exports affected</td>
</tr>
<tr>
<td></td>
<td>craftsman in rural areas</td>
<td>• Local market-Severely affected due loss of sales targeted for April</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New Year season</td>
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<td>Sub Sector</td>
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<tr>
<td>Processed food</td>
<td>Around 110 manufacturing &amp; marketing companies. Export value close to US$400 million (2016), Large number of SMEs estimated at domestic level 2 million <em>(Source-EDB capability reports)</em></td>
<td>• Exports affected  • Local Market Severely affected due loss of sales targeted for April New Year season</td>
</tr>
<tr>
<td>Rubber, plastic, metal, automobile other spare parts</td>
<td>The main area finished rubber products exports US$ 866 Mn (2019) Plastic industry 400 companies, export &amp; caters to local market Machinery and Mechanical Appliances export – US$ 400 Mn <em>(Source-EDB capability reports, Central bank)</em></td>
<td>Same as above</td>
</tr>
<tr>
<td>Electrical &amp; Electronic Industry</td>
<td>Provide an essential service in manufacture, assembly, repair services.</td>
<td>Since the activities came to a halt they were affected, will gain once the businesses start functioning</td>
</tr>
<tr>
<td>Services</td>
<td>57% to the GDP (2019), 28% of the total employment. ICT/BPM contribution is around 15% to GDP, workforce estimated as 124,873 (2018) <em>(Central Bank Annual reports)</em></td>
<td>Same as above, IT may have better opportunities in new normal environment.</td>
</tr>
</tbody>
</table>
Present major issues

- Supply chain Breakdowns
- Working Capital
- Marketing
- Lay-offs, loss of livelihood opportunities.
- Psychological Trauma
### Government relief packages-summary

#### CONCESSIONS ON PERFORMING LOANS
- Debt Moratorium – extending from 3-6 months
- Extension of OD facilities, TOD on concessionary 13% interest

#### NON PERFORMING LOANS
- Waive off Penal interest rates.
- Rescheduling of loans and advances
- Suspension of recovery actions. Legal action
Government relief packages - summary

NEW WORKING CAPITAL OR INVESTMENT PURPOSE LOAN

- Loan for working capital or investment. Limit Rs 25 mn for Banks, 10 mn for financial institutions at 4% interest, two year period, CBSL will subsidize the special interest cost.

- Financial institutes may obtain collateral to mitigate the risk under this refinancing facility.

SAMURDHI- SOCIAL WELFARE SCHEME

- Grant of Rs 5000/ per beneficiary for affected months

- Special loan on Rs 10,000/ through Samurdhi Development Bank
Observations

- MSMEs are the most vulnerable, affected by natural disasters in 2016, 2017, Easter Sunday terrorist attack in 2019, was in a recovering stage when COVID 19 threat came.
- Loosing the target sales in April, May festival season is the major blow to MSMEs.
- 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 the financial crisis.
Observations

- It is noteworthy that many MSMEs in rural areas are in a positive mind and expectations are there to return to normal soon.
- The Agro based, localized MSMEs have shown a good resilience to the impact.
- The enterprises who have established backward linkages has been able to cushion the impact to some extent.
- However, there are many who needs coaching, counselling to get out of the traumatic condition.
- Some have created new opportunities, diversified product range.
- Online marketing, home based online operations has improved significantly.
Recommendations

- 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, optimization of resources of BDS
  - 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

- Ensure government relief packages for Micro enterprises/self employed are strictly disbursed for reviving economic activities.

- Develop a scheme to provide a guarantee by the government for MSMEs to raise working capital on viability basis,
Recommendations

- Disbursement of relief packages should be apolitical, transparent to gain trust of the MSMEs.

- Simplify the application procedure for special bank loans, extend the ultimatums.

- MSMEs should be guided by the public, private service providers, chambers on obtaining the benefits.

- It is also important that gender sensitive policies are implemented as a large number of MSME are run by women. They should have equal access to bank facilities.

- Assist to commercialize suitable innovations, adaptations emerged during the period, provide guidance for commercialization and patent rights for appropriate cases.
New normal
Thank you
Dr. Premasiri Gamage is a training expert for MSME sector in Sri Lanka. He has a diversified experience on conducting trainings, Business & Entrepreneurship Development, Strategic Planning, Project Management, Personality Development and other applications. Dr. Gamage has completed his studies under Psychological Counseling and professional accounting which would give an added value for his profession. He has more than 30 years of experience under similar capacity covering all the districts by studying each aspect of local activities. He has successfully completed many consultancy assignments that related to ever-changing business environment in Sri Lanka. He is specialized in performing tasks of on Management, Marketing, Financial and Growth Matters of MSMEs. Dr. Gamage holds several other positions including, Executive Director of Small-Scale Enterprise Promotion foundation, Chairman of Small-Scale Enterprise Promotion for Joint project with the GoSL and Swiss contact and was the Chairman of Industrial Development Authority (Western Province). At present he is the stand-in Chairman of South Asian Entrepreneurs Development Faculty and Chairman/ Co-founder of Business Development Center.
The Way Forward to MSME Growth

Dr. Premasiri Gamage
Transformation speed matters

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>PCI ($) 1950</th>
<th>TRANSFORMATION RATE PER YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRI LANKA</td>
<td>89</td>
<td>63%</td>
</tr>
<tr>
<td>JAPAN</td>
<td>90</td>
<td>732%</td>
</tr>
<tr>
<td>SINGAPORE</td>
<td>30</td>
<td>4983%</td>
</tr>
<tr>
<td>SOUTH KOREA</td>
<td>60</td>
<td>1079%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>PCI ($) 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRI LANKA</td>
<td>3947 (43 T)</td>
</tr>
<tr>
<td>JAPAN</td>
<td>45,546 (505 T)</td>
</tr>
<tr>
<td>SINGAPORE</td>
<td>103,181 (3,438 T)</td>
</tr>
<tr>
<td>SOUTH KOREA</td>
<td>44,740 (744 T)</td>
</tr>
</tbody>
</table>
MSME Sector is the engine of growth

It needs more tuning

Post-Covid tuning should be very specific
IMPROVED MENTORING & COUNSELING SUPPORT

INCULCATING ENTREPRENEURIAL CAPABILITY

MSME SHOULD DO THEIR BUSINESSES LOOKING AT DASHBOARDS

(Blind Journey Will Be Slippery)
Business Doing Enabling Environment should be strengthened
Thank You
Mr. Monty Ranatunge has been working as the Secretary to the Ministry of Small and Medium Business and Enterprise since November 2019 to date. Prior to this he was the Director General Technical of the Ministry of Fisheries and Aquatic Resources Development since 2015 to 2017. Mr. Ranatunge has worked as an Additional Director General in the Department of Project Monitoring and Evaluation 2014 to 2015. He has further worked as the Director General Regional Development and Planning in the Ministry of Economic Development from 2004 to 2014. Mr. Ranatunge was also the National Director to plan, coordinate, monitor and evaluation of the Mine Action programme (mine and UXOs removing in war affected areas) since 2006 to 2014. He has further worked as the Project Coordinator of the Conflict Affected Region Emergency (CARE) project funded by the ADB and North East Local Service Improvement project (NELSIP) funded by the World Bank from 2009 to 2014. He has worked in the Southern Province Rural Economic Advancement (SPREAP) Project funded by the ADB coordinating and monitoring the SMEs. He is a Special Grade officer in the Sri Lanka Planning Service having vast range of experience in project planning, monitoring, evaluation and human resource development as well.
Policies and Strategies to Overcome the Situation
## DEFINITION MSME

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>CRITERIA</th>
<th>MEDIUM</th>
<th>SMALL</th>
<th>MICRO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing Sector</td>
<td>Annual turnover</td>
<td>Rs. Mn. 251-750</td>
<td>Rs. Mn.16-250</td>
<td>Rs. Mn.15 or less than</td>
</tr>
<tr>
<td></td>
<td>No. of employees</td>
<td>51 - 300</td>
<td>11-50</td>
<td>10 or less than 10</td>
</tr>
<tr>
<td>Service Sector</td>
<td>Annual turnover</td>
<td>Rs.Mn.251-750</td>
<td>Rs. Mn.16-250</td>
<td>Rs. Mn.15 or less than</td>
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<td>No. of employees</td>
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</tr>
</tbody>
</table>
COVID-19 DESTROYS MANY THINGS

- has disturbed the political, social, economic, religious, and financial structures all over the world
- estimates so far indicate the virus could cut the global economic growth by as much as 2.0% per month if current conditions continue.
- It is not possible to know / measure full impact until the effects of the pandemic reach a peak (CRS report, 2020).
- has had a major impact on the lives of people of all kinds, industries, and businesses
- the crisis has already turned into an economic and labor market shock, affecting all businesses irrespective of their size.
- receiving phone calls repeatedly by MSMBED asking for relief, solutions and advices about the problems faced by Micro, Small and Medium Enterprise
COVID-19 BEATS SMES

Consequences

- Supply chain Breakdowns
- Exhaust working Capital
- Loss of markets
- Lay-offs, loss of livelihood opportunities
- Psychological Trauma
POLICY INTERVENTION STRATEGIES

- Introduce appropriate technologies
- Establish entrepreneurial culture and skills development
- Simplify access to finance
- Facilitate raw materials and market
- Promote research and development
- Enable environment

Sustainable MSME Development
GOVERNMENT INTERVENTION IN RESPECT OF COVID-19 IMPACT

1. Appointed a task force
2. Introduced finance relief packages
3. Assessing the impact
4. Established a separate ministry
5. Ready to establish business service centers
6. Building capacities
COVID-19 BEATS SMES

- Ascertain gravity of the problem
- Identify priorities and planning
- Linking supply chain
- Increase purchasing power of citizens
- Looking possibilities for refinancing
- Identify and introduce new market linkages
- Find ways to diversify MSMEs and new livelihood opportunities
WAY FORWARD

- Conclude the study
- Identify priorities through findings
- Generate Short-term, Intermediate-term and long term plans
- Increase capability of banks
- Establish 25 BSCs to ease of doing business
COLLABORATION SOUGHT

- Share global experience with success stories
- Extend cooperative hands to revive SMES in every possible ways
- Extend financial support through donor funding to create a fund for MSME development
- Extend financial support to proliferate banking capacity
THANK YOU!
Discussion

Mr. J.A. Ranjith
Secretary, MISM

Mr. Monty Ranatunga
Secretary, MSMBE

Mr. D.P. Gunawardena
Consultant

Dr. Premasiri Gamage
Consultant

Moderator
Mr. Bhadraja Pamudu
Mr. Ranjith is the Secretary to the Ministry of Industries and Supply Chain Management, a special grade officer of the Sri Lanka Administrative Service. Prior to this position he has held the positions of Secretary, Ministry to Plantation Industries, Director General, Department of Technical Education and Training, Ministry of Youth Affairs and Skills Development, Additional Secretary, Ministry of Defense and Urban Development and many senior positions during his career in the Administrative Service of Sri Lanka. He holds Bachelor of Laws Degree, Open University of Sri Lanka, Master of Public Policy and Management, Mount Eliza Business School, Monash University, Australia, Postgraduate Diploma in Provincial Administration, Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura, Bachelor of Arts (Special) Degree in Economics with second class (Lower Division), University of Sri Jayewardenepura Sri Lanka.
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Closing Remarks

Mr. J. A. Ranjith