



## AN ECONOMIC IMPACT OF COVID-19 ON SME SECTOR IN SRI LANKA

K.G.N.W.Abeyrathna

D.G.A. Chamara

asaibankingschool@gmail.com

Article history:	Abstract:
<p><b>Received:</b> 10<sup>th</sup> October 2021 <b>Accepted:</b> 11<sup>th</sup> November 2021 <b>Published:</b> 27<sup>th</sup> December 2021</p>	<p>Covid- 19 is a health hazard and crisis which has been affecting human immune system badly. This pandemic became a social and economic threat to every society throughout the world. Due to the lockdown and temporary travel restrictions imposed, businesses had to face a serious decline and as a result of this impact made on small and medium enterprises, they too had to face several problems such as short term and loan term financing, employment declining, bank loan facility problems and other financial and non-financial issues which finally led to the closure or slow growth of their businesses. To explore the above reasons, still a comprehensive a study has not been done in Sri Lanka and in other countries due to the ongoing pandemic. This study was conducted to explore the causes and consequences for the issues faced by SMEs in Sri Lanka and the rest of the world. This study represents fifty Small and Medium Retail shops, printing and photocopy shops and tuition providers in the Gangodawila, Nugegoda, in Sri Lanka and this research used the purposive sampling technique. The research also used the Google documents for the data collection due to the travel restrictions and health reasons. This study will hopefully contribute to the factor for support, rehabilitation and to sort out the problems of the businesses as well as to contribute to the policy. measures of the government.</p>

**Keywords:** Small and Medium Enterprises, Covid-19, Business, Health, Economy

### INTRODUCTION

The Covid-19 pandemic also known as the Corona virus continues unabated in the world causing severe damages to the human life including deaths. This virus was first identified from Wuhan in China in December 2019. Covid-19 started to spread around the world with different kinds of variants resulting in lock downs, curfews, travel restrictions and every other possible limitation to every human activity around the world. Due to every kind of restrictions imposed, almost all businesses including import, export and other support services drastically declined making a very adverse impact on the world economy at large. The economic shockwave caused by this dreadful virus has reflected its terrible consequences on every kind of economies in the developed, underdeveloped and developing countries. Hence Sri Lankan economy was also prone to a terrible economic crisis during this pandemic causing severe damage to the employment sector, business transactions, profits and business segments of each and every category. During the pandemic, some kinds of giant companies enhanced their profits making use of the quarantine law and travel restrictions. Hemas, Heyles, John Keels, Medical and

drug companies increased their profit with the supply of essential services which was of high cost. While this kind of profit maximization and development continued, over four million small and medium sector businesses had to face a steady decline in their businesses. Covid-19 made a terrible impact on the closure of retail stores and disruption of transport services and other product delivery chains (Karabag, 2020). Every kind of SME industries became paralyzed or declined drastically due to the slow growth, declining demand, working capital problems, short term and long term loan issues, export order cancellation, shortage of raw materials and transport disruptions. Being a victim of the above problems, SME businesses were unable to manage properly due to the lack of funds and poor management skills. COVID-19 badly affected the small businesses because they lacked funds to manage or prepare for such a long term disturbance (Kalogiannidis, 2020). Moreover, SMEs were unable to pay the salaries of their employees and they were not able to travel for their day today work due to the travel restrictions imposed by the government to prevent the general public contracting the virus. Hence, these business owners



had to supply limited services under the limited manpower and strict health precautions. Within a few months, some SMEs suffered bankruptcy and others had to supply very limited services to their customers. This research explores the impact of covid-19 on SME sector decline using secondary and primary data.

### **LITERATURE REVIEW**

Covid-19 is an ongoing fatal disease spreading fast throughout the world. This pandemic outbreak first originated from Wuhan in China in 2019 and gradually developed into a global pandemic and spread among two hundred countries within a few months. According to the World Health Organization, Covid-19 was considered as a global pandemic (WHO, 2019). Within relatively a short period of time, this pandemic badly affected the life style of every single inhabitant all over the world. As a repercussion of the pandemic, 233,576,636 people became covid-19 victims and 4,779,201 deaths were reported as at September 29 2021. (worldometer, 2021). This pandemic has been affecting over 200 countries including America, Asia, Australia, Africa and European region, (WHO, 2019). Due to the Covid-19 outbreak, countries had to impose several restrictions such as travel restrictions, social distancing, working being at home, limited entry restrictions to office premises and several other restrictions have been imposed for health reasons. This became a common scenario for every kind of economies. To contain and mitigate the covid-19 pandemic, several Southeast Asian countries had to impose travel restrictions, social distancing and to postpone all the pre-planned events. (Fabeil, Pazim and Langatt, 2020). Due to the above restrictions, countries had to face enormous economic drawbacks such as import restrictions, export declines, domestic transportation and distributing, market synchronizing for the harvest, shops and supermarket business declining. Employment opportunities were declining and market was declining as well all of which led to the emergence of an economic downturn. This situation affected on every type of economies of the world. Mainly small and medium enterprises had to suffer a terrible economic downturn caused by the covid-19 which severely harmed its business flow. SMEs have been providing many great opportunities for employment and making a great contribution for the economy from employment, tax, social well-being and several economic and non-economic benefits. Roughly 50% of business entities faced the negative effect of the Covid-19 and 15%-20% was equipped with three month working capital requirement. (Bohn,

Mejia and Lafortune, 2020: U.S. Census Bureau). Being a most influential and strong part of the economy of the U.S.A., SMEs also had to face this kind of economic hazards and recessions due to the Covid-19. This situation spread out across the world making a high risk and several negative effects for the SMEs. In the retail sector, 43% of businesses were temporarily closed down while 40% of employment had declined in the U.S.A. (Alexander et al, 2020). With the fast outbreak of the pandemic, every sector of the SME had to close their businesses. The economy of several SME sectors have been disrupted, including the food and beverage industry, retail business, travel and tourism, transport, construction and agriculture in Malaysia (Saari, 2020). This negative effect has influenced the whole world generating a host of other related problems such as unemployment. In every country, SME sector generates a high percentage of employment opportunities for the nation, but with this pandemic SME had to stop the employment of their employees and had to supply limited services. In this period, SME entrepreneurs received low incomes and had to cancel their businesses or had to supply limited services due to the decline of the supporting sector businesses ((Fabeil, Pazim and Langatt, 2020).

### **IMPACT OF COVID-19 ON SRI LANKAN SMALL AND MEDIUM ENTERPRISES**

SME businesses have got considerable shares in the Sri Lankan economy. It is estimated that 52% of the gross domestic product (GDP) is contributed by the SME sector with 45% of the total employment. Due to the most open sector to the economy, SME had to face the enormous effects of the Covid-19. In 2020 March, Covid-19 badly affected Sri Lanka and this state of affairs continued to spread soon everywhere. With more and more infected cases being reported from every nook and corner of the country, the government had to close the schools and imposed curfews, lockdowns and travel restrictions from time to time to control the spread of the virus. With this situation developing fast, lot of SMEs had to face the business continuing problems and other hardships. Agriculture sector had some relief to continue with the pandemic but other sectors were not able to perform well. As the pandemic continued globally, SME decline also continued simultaneously throughout the world and this condition made an adverse impact on the Sri Lankan industries during this particular period of time. Income of the SME sector in Sri Lanka declined from 2019 to 2020 May by Rs. 106,957 million and



employment of people by SME dropped by 56.8 in 2020 (January to May) (Department of Census and Statistics, 2020). In 2020 March, tourist arrival has declined by 70.8 and 388,407 direct and indirect employees were also affected and 3000 leather industry small scale manufacturers were severely affected. According to the Small and Medium Garment Exporters Association (SMGEA), they own 80 membership companies which contribute 30% to the industry. Those companies were badly affected by severe working capital problems. Salon industry, tuition industry, three wheel drivers, bus staff, shop and supermarket owners and staff, school transport and other transport facilitators, construction workers and several SME related business owners and staff have been facing more serious economic, social, psychological inconveniences during this period of pandemic. Covid-19 pandemic caused enormous economic costs to every economic activity (Kalogiannidis, 2020). Sri Lankan government has been formulating various policies, making donations and preparing activities to recover the pandemic cost incurred to the individuals and SME entities.

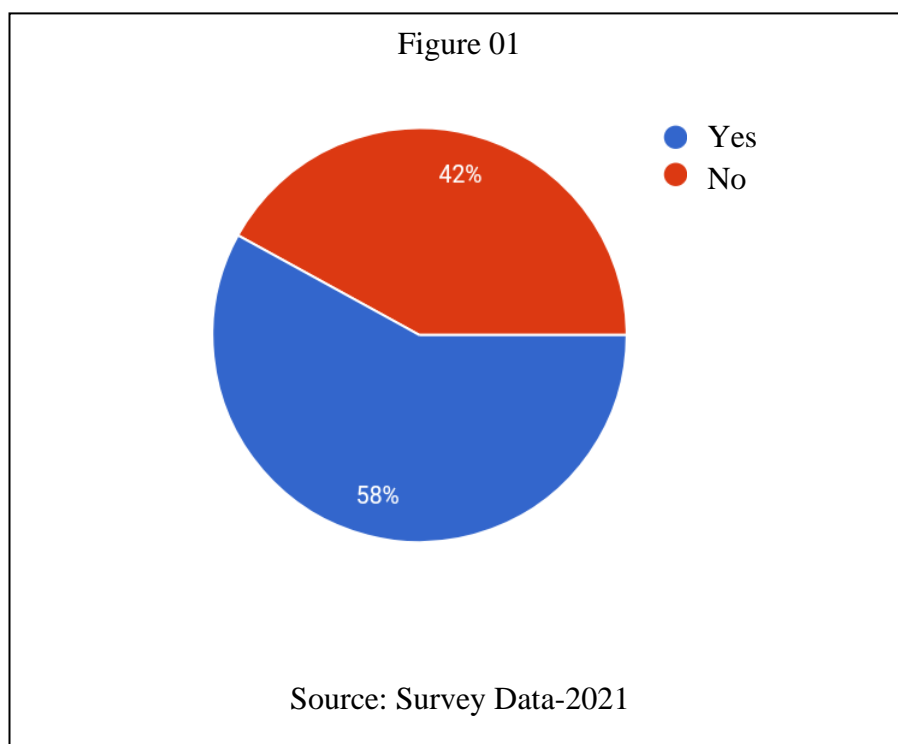
#### RESEARCH METHODOLOGY

This research uses the mix method to prove the impact of Covid-19 on SME business entities in Sri Lanka. Primary data was collected from using Google form through the Gmail and Face book because it is restricted to travel and handover the printed research

questionnaires due to the health reasons and precautions imposed by the relevant authorities. This research used purposive sampling technique because it aimed at the small and medium retail shops, printing and photocopy shops and tuition providers who deliver their business around the Gangodawila Gramaniladari Division which belongs to the Maharagama Divisional Secretariat. Quantitative research method was used by the researcher to get the answers for the questionnaires because some respondents refused to type long answers for the online questionnaires. Twenty-five questions were used to get the responses excluding demographic details. Questionnaires were delivered to 65 individuals and 60 questionnaires were used for the research and the other 5 had to be omitted due to the incompleteness. Secondary data was collected from "Survey to assess the impact of covid-19 (MSME Sector)" 2020 report prepared by the Department of Census and Statistics and used relevant data to prove the research question.

#### SURVEY RESULT Primary data

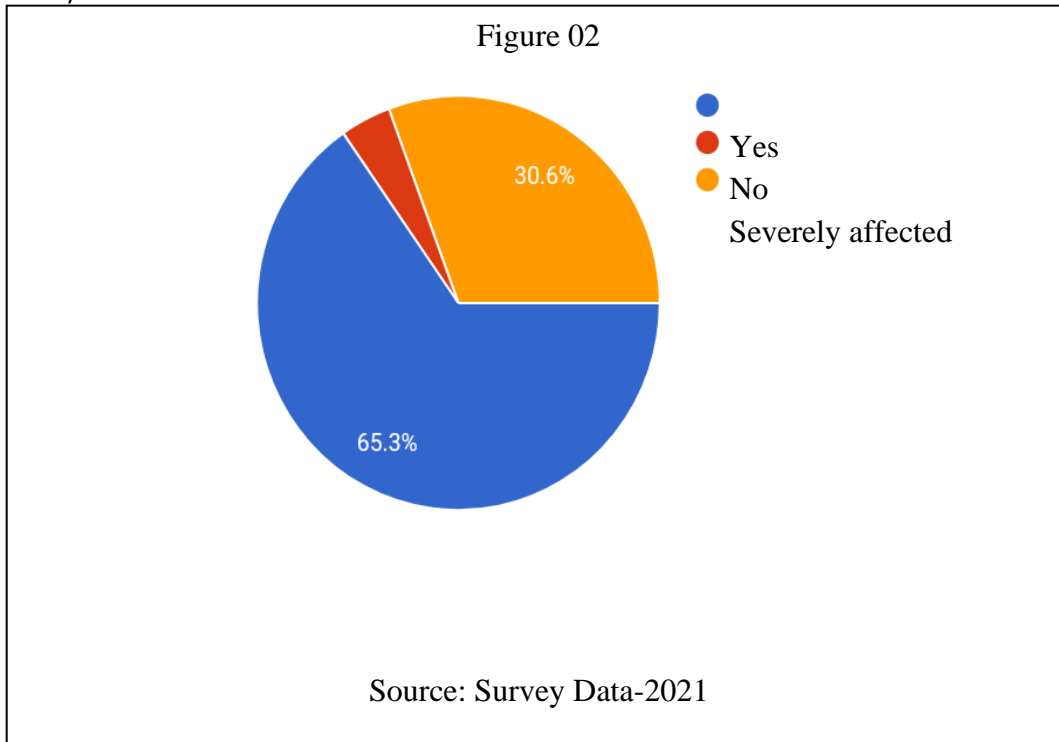
This survey consists of 53% of printing and photocopy shops, 31% of the tuition providers, and 16% of retail shops. Fifty-eight percent of business entities were registered and 42% was not registered at the relevant authority.





This graph depicts 58% registered businesses and 42% unregistered businesses. Business registration depicts the basic knowledge of the entrepreneur because registered entity has more legal power, economic benefits and unregistered businesses find it difficult to ask for any kind of credit moratorium, government funds, or other benefits. Most of the

unregistered business owners don't have business knowledge about business registration. Moreover, 90.2% of businesses were equipped with 5-10 staff and 5% had between 10-20 staff and the rest had 20-30 staff. 19.6% of businesses had to stop the employment of the staff and the rest didn't do so.

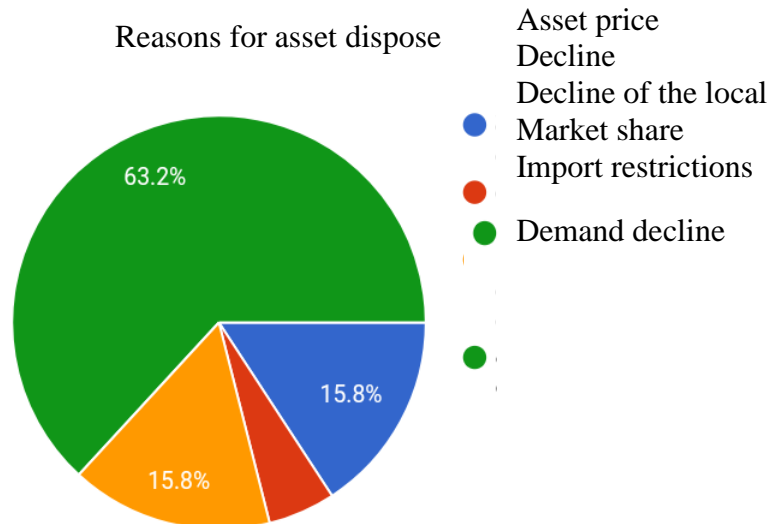


Above chart depicts the 30.6 respondents were severely affected by the covid-19 and 65.3 respondents were generally affected. But 4.1% respondents hadn't any kind of effect from the covid-19. According to the survey 70.8% had to temporary close down their businesses due to the travel restrictions, lockdowns or other health reasons. 12.5% of the businesses have been affected by labor shortage because employees had to face transport problems, home quarantine or other related problems.

Another 8.3% of businesses had to face financial difficulties during this time and another 8.4% suffered supply chain and utility related problems. As every entrepreneur should have his future plans being developed as a main skill, 45.8% of entrepreneurs had future plans to avoid the avoidable and non-avoidable risk and then they faced successfully against the Covid-19 but the other 54.2% didn't have proper plans for mitigating the future risks



Figure 03

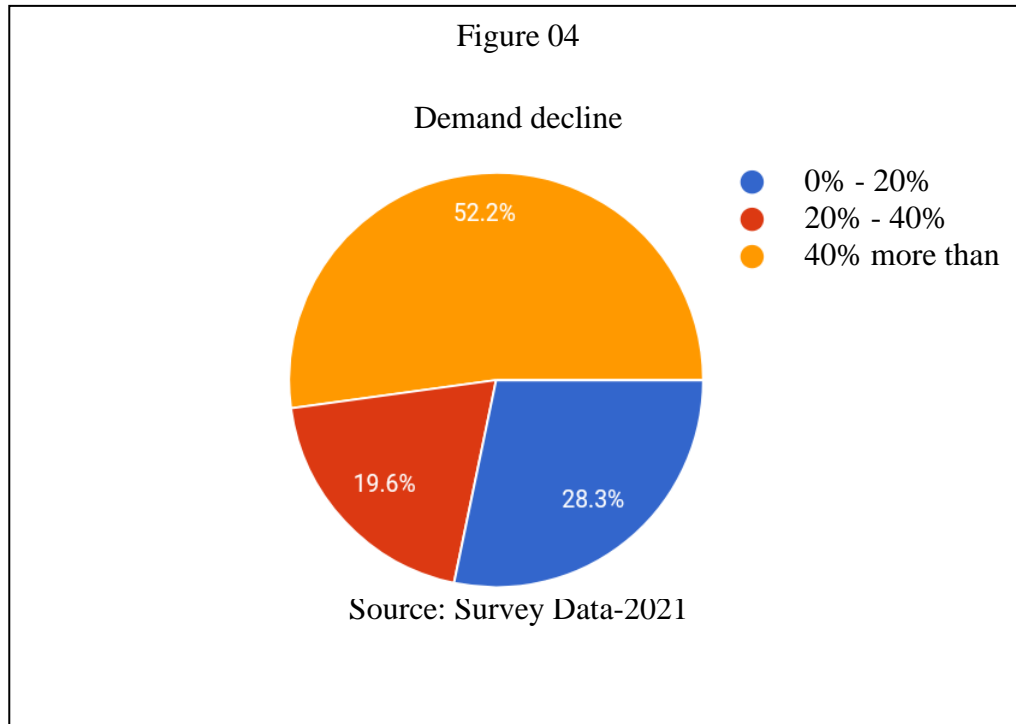


Source: Survey Data-2021

The above chart describes the reasons for disposing of business assets for the purpose of fund-raising to continue their businesses. 63.2% SMEs had to sell assets to continue their businesses due to the demand declining of the products and 15.8% SMEs sold their assets due to their presupposition that asset price would decline in future and the other 15.8% had sold their assets due to import restrictions imposed on raw materials, and the rest 5.2% SMEs had to sell their assets due to the declining of the market share. Due to the outbreak of the pandemic, businesses had to face severe economic downturns. According to the survey, 39% businesses have shown a 40%-60%

business decline and 18% of businesses reported an 80%-100% decline and 16% of businesses reported a 20%-40% downturn. Moreover, 14% businesses reported a 60%-80% business decline. The following figure depicts those details.

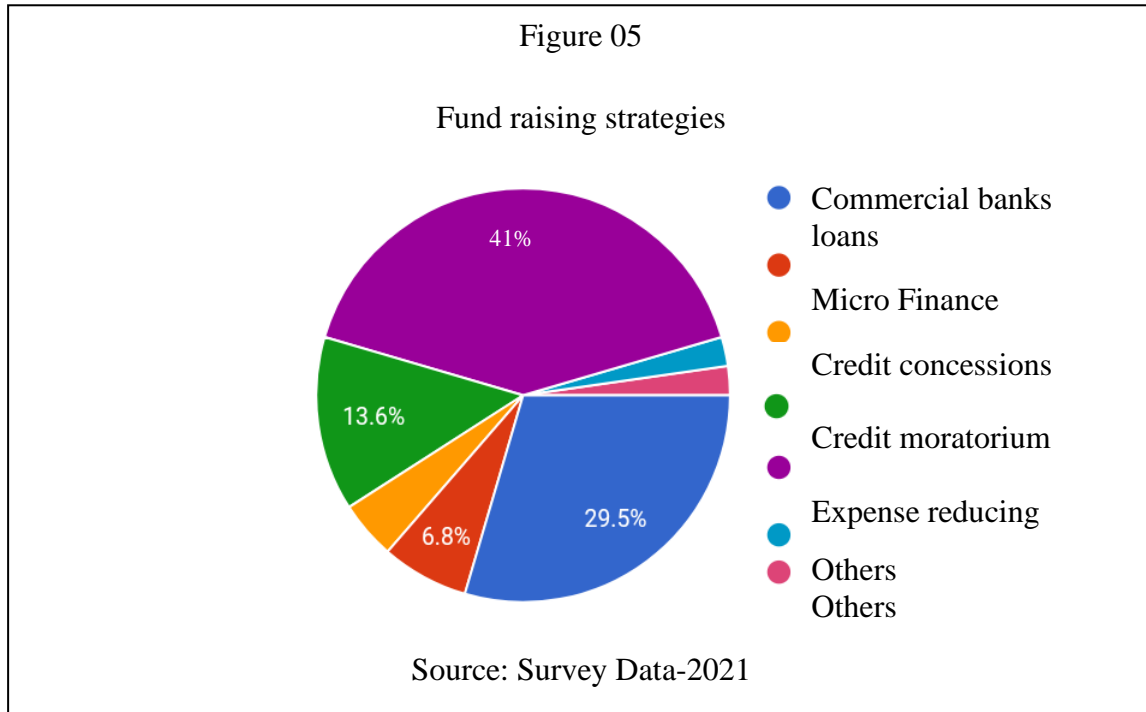
According to the survey, respondents revealed that they suffered heavy losses due to the Covid-19 by the Sri Lankan Rupee. Here, 45% respondents suffered a loss amounting to around Rs. 500,000 during the year and 35% suffered a loss of around Rs.1000, 000 and others suffered a loss of over Rs.1000, 000. During the lock down period, businesses had to face a severe demand decline for their product and services.



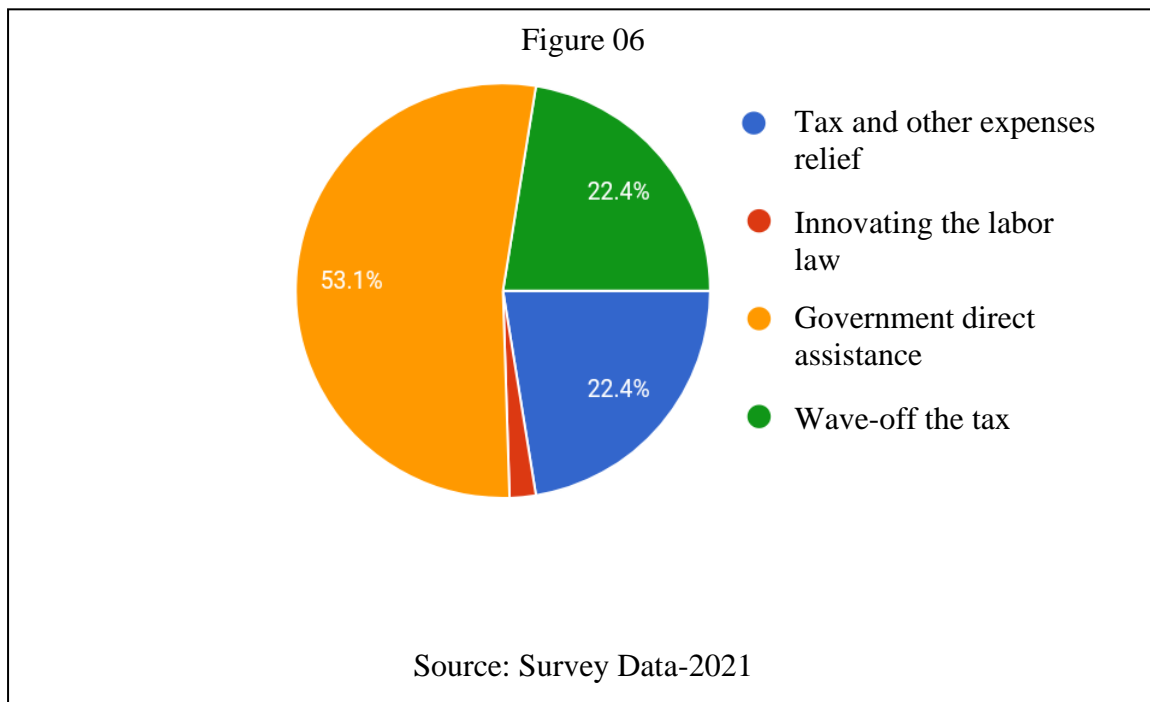
The above pie chart depicts the demand decline of the SME here. Accordingly, 52.2% of the businesses had to face a 40% decline and 20% SMEs had to face a 20% - 40% decline. The rest of the SMEs had to face a 0% to 20% market decline. Here 85.1% had to postpone the pre-approved investment for their business development and 14.9% were willing to continue the pre-approved investment.

Changes of the respondents' financial situation was also a considerable factor because most of them were unable to manage the finance related issues during the pandemic. To solve the financial issues, 45% of the SMEs requested the working capital funds, loan reschedule and postponement of the loans and credit

moratorium and 55% SMEs said that bank facility disrupted their businesses and hence didn't request the help of the bank. Here 58% of respondents' banks vehemently demanded to repay the loans taken by them without any concession or any grace period being given and 22.6% of respondents' bank agreed to supply the facilities. Moreover, 19.6% respondents' banks agreed to provide working capital loans to the businesses. Here, 77% of the respondents believe that the bank should grant the loans to overcome the crisis situation and 23% believes that banks should provide working capital facilities for their businesses because 50% of respondents don't have sufficient money to continue their businesses at the moment.



In line with the above chart, respondents used different ways to manage their businesses and to raise funds consecutively and 41% of the SMEs minimized the day today expenses as a management tool, 29.5% of the SMEs opted the bank facilities, 13.6% of the SMEs asked for the concessionary (Moratorium) period from the creditors and another 15.9% used the micro finance and other financing methods for continuing their business. In addition to finance methods, respondents were more concerned with the government reliefs for their businesses.

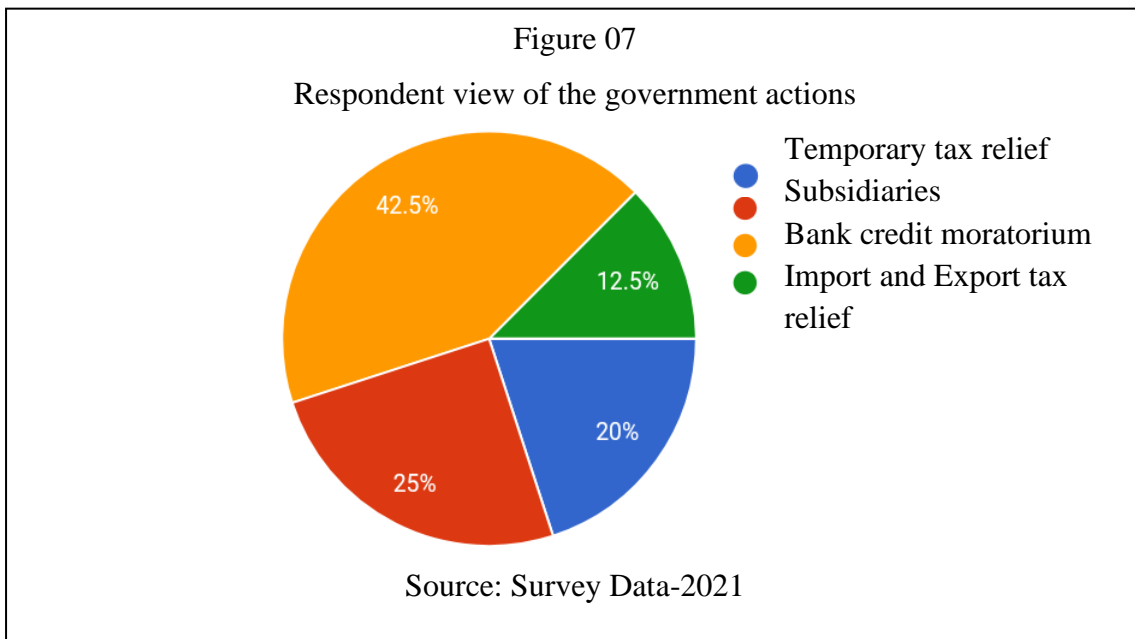






Here 53.1% of the respondents expect that government should directly help their businesses to overcome the crisis situation through immediate loan packages and tax reliefs. 22.4% respondents believe

that the government should intervene to write off every kind of payments of the businesses during the pandemic period. Others believe that the government should waive tax from the SME owners.



According to this graph, the respondents' view and vision of the government policies can be observed. Here, 42.5% think that the most valuable grant of the government is the bank credit moratorium while the other 25% believes subsidiaries of the government are

**Secondary Data**

Secondary data was extracted from the Department of Census and Statistics from the "Survey to assess the impact of Covid-19 MSME Sector" Report which was published on 20/10/2020. Here they have revealed the income decline of the SME sector from 2019 and 2020 January to May.

more valuable. Another 20% of the respondents admire that the temporary tax relief of the government would be effective while 12.5% believes that import and export facility reliefs are more effective.

In 2019, SME income had a declining trend in January to February by Rs. 6790 million and raised the profit again in March and April and again it declined in May by Rs. 29,954 million compared to April. Moreover, in 2020 SME profit records slightly declined between January to February and again it rose by 37,533 million in May compared to April. This data shows the mix result of the income of the SME. SME income dropped by the percentages of 0.4, 40.9, 74.2, and 55.2 in February and May in 2020 with regard to the corresponding month in 2019 and in April 2020 it reported the highest drop since the lock down (Department of Census and Statistics, 2020). According to the survey details, construction and mining sectors had the highest drop than the other sectors. When the subsectors such as real estate, education, arts, administration and support services, professional, technical activities, food services, accommodation sectors are considered, they recorded

Table 01

Total revenue of firms: first five month in 2019 and 2020 "000"

Month	2019	2020
January	249,920	256,000
February	243,130	242,265
March	261,478	154,615
April	268,954	69,424
May	239,000	106,957

Source: Department of Census and Statistics





low profits in 2020 with regard to the corresponding month in 2019. In addition to the revenue, Sri Lankan SME sector greatly contributed for the employment of the country. During this time, employment of the SME institutions declined.

Table 02

Total number of person's engagement in SME: first five month in 2019 and 2020

Month	Employment
January	2,747,156
February	2,729,424
March	1,688,662
April	494,436
May	915,667

Source: Department of Census and Statistics

In January and February, there were not any significant differences of the employment due to the law enforcement and the lifting and relaxation of the lock down but from February to April, this became less valuable than in previous months and started to recover from May. Employment decline from January to February was 0.6, then 38.5 percent, 82 percent, and 66.7 percent during the next months (Department of Census and Statistics, 2020). According to the Department of Census and Statistics, subsectors of the employment and education dropped by 80.4%, and Arts entertainment dropped by 75%. These secondary data reveals that SME sectors have been declining by considerable amount during the considered time.

## CONCLUSION

The Covid-19 has been badly affecting major sectors of the society resulting in a bad effect for the human lives. According to the survey, businessmen had to face severe working capital problems and labor shortages as well as supply shortages during the pandemic. Here SME owners had to postpone or decline their investment and development plans of their businesses due to the decline of the customer demands. Bank credit moratorium and other reliefs also did not positively affect everyone and tax relief was the major hope and relief expected. According to the secondary data, Covid pandemic also adversely affected on education, arts and entertainment, construction, mining related SME industries. Finally, travel restrictions accelerated the closure of the businesses.

## REFERENCES

- Alexander W. Bartika, Marianne B, Zoe C, Edward L. Glaeser, Michael Lucac,1 and Christopher S. (2020). 'The impact of COVID-19 on small business outcomes and expectations', <https://www.pnas.org/lookup/suppl/doi:10.1073/pnas.2006991117/-/DCSupplemental>.
- Bohn, S., Mejia, M. C., & Lafortune, J. (2020). 'The economic toll of COVID-19 on small business'. Public Policy Institute of California.
- Department of Census and Statistics, 2020 of Sri Lanka (2020). Survey to assess the impact of covid-19 (MSME Sector). Ministry of Finance.
- Fabeil, N.F, Pazim, K.H, Langatt, J. (2020). 'The Impact of Covid-19 Pandemic Crisis on Micro-
- Enterprises: Entrepreneurs' Perspective on Business Continuity and Recovery Strategy', *Journal of Economics and business*, 3(12), pp. 837-844.
- Kalogiannidis, S. (2020). 'Covid Impact on Small Business', *International Journal of Social Science and Innovation*, 6(12), pp. 387-391.
- Karabag, S. F. (2020). 'An unprecedented global crisis! The global, regional, national, political, economic and commercial impact of the coronavirus pandemic', *Journal of Applied Economics and Business Research*, 10(1), pp.1-6.
- Saari, M. Y. (2020). Fahami cara covid-19 beri impak kepada rakyat dan ekonomi, Institut Kajian Dasar Pertanian dan Makanan, UPM, retrieved from <http://www.astroawani.com/berita-malaysia/fahami-caracovid-19-beri-impak-kepada-rakyat-dan-ekonomi-235835>
- Wordometer(2021). Available at: <https://www.google.com/search?q=worldometer&aq=chrome.1.69i57j0i10i433j0i10i512j0i512j0i10j0i10i512j0i10i433i457.4117j1j4&sourceid=chrome&ie=UTF-8>
- World Health Organization (2020) Coronavirus disease (Covid-2019) situation reports. Available at <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports/> (Accessed: 5 October 2020).