



Media Release

**Impact of the economic crisis on MSMEs in Sri Lanka**

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The Department of Census and Statistics (DCS) conducted an establishment-level survey from March to June 2023 to assess the impact of the economic crisis following the COVID-19 pandemic on MSMEs in Sri Lanka. The survey encompassed micro, small, and medium-scale non-agricultural business establishments across economic sectors, including industry, trade, and services.

The criteria used for determining the micro, small, and medium scale of a business in this survey were established by the Department of Census and Statistics. These criteria are derived from the data collected during the Economic Census held in 2013 and are detailed in Table 1.

Table 1: Criteria for determining the scale of a business

Main Economic Activity	Scale of business	Criterion (According to the number of persons employed)
Industry and Construction	Micro	1 - 4
	Small	5 - 24
	Medium	25 - 199
Trade	Micro	1 - 3
	Small	4 - 14
	Medium	15 - 34
Services	Micro	1 - 4
	Small	5 - 15
	Medium	16 - 74

Within the Micro category, individuals engaged in the following activities were also considered as a part of the survey coverage:

- ❖ Three-wheel drivers
- ❖ Owners of small grocery shops
- ❖ Proprietors of barber shops
- ❖ Individuals undertaking construction work on a contract basis.

This establishment survey collected information pertaining to the respective businesses from 2018 to the end of 2022, focusing on active businesses in 2018. It is important to note that newly started businesses during that period (after 2018) were not included in the sample for this survey.

Table 2: Status as of May 2023 of Micro, Small, and Medium Enterprises that were Active in 2018.

Status	Number of Businesses (000')	%
Active	1,037.1	79.8
Temporary Closed	59.1	4.5
Permanently Closed	204.1	15.7
Total	1,300.3	100.0

It was reported that at the end of 2018, the number of active micro, small, and medium-scale businesses was 1.3 million. Furthermore, it was revealed that 79.8% of these businesses remained active at the time of the survey in May 2023, while the remaining 20.2% were either permanently or temporarily closed.

Despite the challenges in gathering detailed information from businesses that have closed, the survey included inquiries about the year of closure.

The following table illustrates the percentages of businesses that were temporarily or permanently closed in each year from 2019 to 2022. It is important to note that this information pertains to businesses for which details about the closure year could be obtained.

Table 3: Percentage Distribution of Micro, Small, and Medium-Scale Enterprises that Closed (Temporarily or Permanently) from 2018 to May 2023.

Closed year	%
2019	9.9
2020	33.4
2021	27.4
2022	29.3
From 2018 to 2022	100.0

* The number of businesses closed after 2022 to May 2023 was also added to 2022.

The closure rate of 9.9% observed in 2019 indicates that the closure of micro-scale institutions, which are relatively less stable, is influenced not only by factors such as epidemics or economic crises but also by various other aspects. However, due to the COVID-19 epidemic and the economic crisis, there has been a notable increase in the number of micro, small, and medium-scale businesses either temporarily or permanently shutting down.

Table 4: Changes in the number of micro, small, and medium enterprises up to 2022 compared to 2018

Indicator	Scale of business	2018	2019	2020	2021	2022
Number of businesses (000')	Micro	934.2	942.8	982.6	972.6	948.9
	Small	88.4	82.1	48.4	58.3	80.8
	Medium	14.5	12.2	6.1	6.2	7.5
	Total	1037.1	1037.1	1037.1	1037.1	1037.1
Change in the Number of Businesses Compared to 2018 (%).	Micro	100.0	100.9	105.2	104.1	101.6
	Small	100.0	92.8	54.8	66.0	91.3
	Medium	100.0	84.3	42.0	42.5	51.7
	Total	100.0	100.0	100.0	100.0	100.0

*Estimated number of businesses active from 2018 to 2022 are considered.

Based on Table No. 1, there is a notable decrease in the count of small and medium-sized businesses in 2020 compared to 2018.

The number of small businesses decreased from 82.1 thousand in 2019 to 48.4 thousand in 2020, while the number of medium-sized businesses declined by 50 percent, from 12.2 thousand in 2019 to 6.1 thousand in 2020. Subsequently, the count of small-scale businesses demonstrated a slight increase, reaching 58.3 thousand in 2021 and further rising to 80.8 thousand by 2022. A similar trend is observed in the medium sector, with figures reaching 6.2 thousand in 2021 and 7.5 thousand in 2022. However, despite this growth, it remains insufficient to match the levels seen in 2018.

A noteworthy rise in micro-scale businesses was observed from 2018 to 2020. It's important to note that the number of employees plays a pivotal role in determining the scale of a business, whether it falls under the category of micro, small, or medium scale. The COVID-19 epidemic and ensuing economic crisis have prompted some businesses to downsize, leading to a shift to the micro scale due to reductions in employee numbers within small and medium-sized enterprises. This factor has significantly contributed to the notable growth of micro-scale businesses from 2020 to 2022 compared to 2018.

Graph 1: Percentage change in the number of micro, small, and medium business establishments up to 2022 compared to 2018

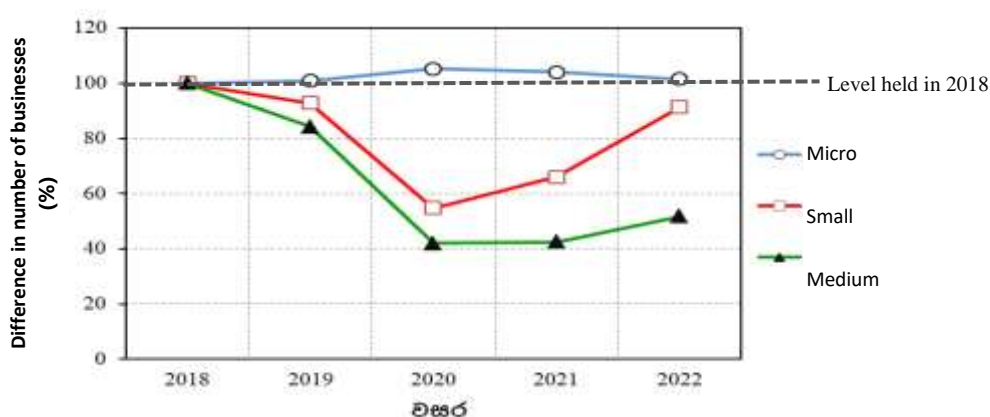


Table 5: Changes in the employment of micro, small, and medium enterprises up to 2022 compared to 2018

Indicator	Scale-of business	2018	2019	2020	2021	2022
Number of employees (000')	Micro	1637.8	1635.2	1.686.7	1644.7	1673.3
	Small	673.3	630.5	414.6	456.2	586.3
	Medium	485.5	414.4	262.4	266.1	291.6
	Total	2796.6	2680.1	2363.7	2367.0	2551.2
Change in number of employees compared to 2018 (%)	Micro	100.0	99.8	103.0	100.4	102.2
	Small	100.0	93.6	61.6	67.8	87.1
	Medium	100.0	85.4	54.0	54.8	60.1
	Total	100.0	95.8	84.5	84.6	91.2

From 2018 to 2020, the workforce of micro-scale businesses increased from 1,637.8 thousand to 1,686.7 thousand. Compared to 2020, the number slightly decreased to 1,644.7 thousand in 2021 and then increased again to 1,673.3 thousand by 2022.

These results indicate that changes in business scale have had a greater impact on the increase in employment within micro-scale enterprises.

However, SMEs face numerous challenges. In the small business sector, the number of employees decreased from 673.3 thousand in 2018 to 414.6 thousand in 2020. Similarly, in the medium-sized sector, the number of workers employed decreased from 485.5 thousand in 2018 to 262.4 thousand in 2020.

After 2020, there was a marginal improvement in both sectors. However, due to the impact of the epidemic and the economic crisis, they have not yet returned to the levels observed in 2018 by the end of 2022

Department of Census and Statistics (DCS)