



# Gendered Impacts of COVID-19 on Small and Medium-Sized Enterprises in Sri Lanka

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October 2020

## Executive Summary

This report presents a snapshot of the impacts of the COVID-19 pandemic on small and medium-sized enterprises (SME) across Sri Lanka, with a focus on the different impacts experienced by women-owned and managed businesses (WSME), as compared to those owned by men (MSME) and those owned jointly by a woman and a man (JSME). Research was conducted between June 22 and July 22, 2020, with SME clients of four financial institutions and from the distribution network of one fast-moving consumer goods company. Because all surveys and interviews were conducted with active clients of financial institutions, or active distributors from CBL, there is likely to be some bias towards more formal and potentially higher capacity and more financially resilient SMEs than the broader SME population in Sri Lanka. For this reason, the results of this study should not be assumed to be representative of the whole SME population.

Small and medium-sized enterprises make up a large part of Sri Lanka's economy, with over one million SMEs accounting for approximately 75 percent of all businesses. These are found in all sectors of the economy and are estimated to contribute about 45 percent of total employment in Sri Lanka. Women's ownership of formal small and medium-sized enterprises is low, at around 25 percent of all SMEs, and most women business-owners struggle to transition away from informal micro-scale businesses, in part due to limited access to finance and lower business capacity of women entrepreneurs.

### Key findings include the following:

#### **SMEs are experiencing widespread business impacts due to COVID-19, often with limited differences among male-owned, female-owned or jointly owned companies. Some general overall impacts include:**

- Two-thirds of SMEs reported a decrease in demand for their products or services since COVID-19 and almost three-quarters reported decreased sales, with companies in the agriculture, manufacturing and construction sectors hit the hardest, followed by the services sector. Almost two-thirds of those that experienced decreased sales saw a drop of more than 25 percent on their pre-COVID monthly average.
- Eight out of ten SMEs experienced difficulties meeting operating expenses and had some shortfall in debt repayment or ability to meet financial obligations due to COVID-19.
- Notwithstanding these challenges, almost three-quarters of SMEs predicted they would continue to operate indefinitely under the current circumstances, after Companies operating in the services sector reported the least certainty in terms of continued operations, with over one-third reporting a pessimistic outlook for continued operations.

#### **SMEs experienced a range of human resource and operational challenges due to COVID-19, including:**

- WSMEs were less likely to have made staff redundant, to have granted staff leave with or without pay, or to have reduced staff salaries as a result of COVID-19. WSMEs also tended to have fewer employees.
- Half of SMEs surveyed reported challenges in allocating time to their business due to increased personal or household commitments due to COVID-19. Over half reported increased absenteeism or turnover due to increased care responsibilities, and 40 percent of SMEs reported business impacts associated with the closure of schools and childcare centers.

- Twelve percent of SMEs requested support for managing employees and HR matters during COVID-19.

#### **Most SMEs made use of some form of financial support from their financial institution, however, challenges remain in accessing the financial support needed:**

- Two-thirds of SMEs received some form of support from their financial institution, with a six-month moratorium on loan repayment the most common support received.
- Eight out of ten SMEs had to seek external funding to make up some shortfall in debt repayment, with over one-quarter reporting they were unable to access funds to make up the shortfall.
- Over three-quarters of SMEs reported difficulties accessing their regular financial services.
- WSMEs were least likely to have taken a loan from a formal financial institution and significantly more likely to have borrowed from friends or family to meet financial obligations during COVID-19.
- Working capital loans, other types of loans to support new investment, and loan moratoriums, were the areas of financial support most likely to be requested by SMEs for further support.
- Business restructuring advice and advice on how to adjust their business plan to reflect COVID-19 were the most requested non-financial services by SMEs.

#### **Few business owners used new digital technologies during COVID-19. Findings include:**

- One-third of SMEs surveyed tried at least one new digital business channel since the onset of COVID-19, however, WSMEs were significantly less likely to have done so than other businesses.



- Marketing and sales were the most common new uses among all SMEs.
- While fewer WSMEs overall are utilizing digital channels, when they did so they experienced fewer challenges and reported higher increases in sales.
- 10 percent of all SMEs requested support for transitioning to digital payments systems and eight percent requested support for using digital business platforms, with more women requesting this type of support (11 percent).

**While MSME, WSME, and JSME experienced similar impacts in many areas, there were some important differences recorded, these include:**

- WSMEs surveyed for this study tended to be smaller on average: Nine out of ten WSMEs surveyed were classified as small, compared to around three-quarters of MSME and half of JSME.
- WSMEs were more likely to have experienced a change in demand (both positive and negative) than MSME or JSME, with five percent of WSMEs reporting no change, compared to 11 percent of MSMEs and 12 percent of JSMEs.

- While most WSME experienced difficulties accessing their usual financing, they were slightly less likely to report difficulties than MSME or JSME, 72 percent of WSME reported difficulties, compared to 75 percent of MSME and 85 percent of JSME.

- WSMEs were least likely to have taken a loan from a formal financial institution (12 percent of WSME accessed a formal loan, compared to 19 percent of MSME and JSME) and significantly more likely to have borrowed from friends or family (31 percent of WSME, compared to 19 percent of MSME and JSME).

- WSME were less likely to have tried a new digital business channel during COVID-19 with one-quarter of WSME doing so compared to one-third of MSME and 42 percent of JSME.

- When asked what type of support SMEs wanted from their financial institution to help manage their business during COVID-19, JSMEs were most likely to request further loan payment moratoriums or working capital loans, while WSME and MSME were most likely to request working capital or other types of loans (over two-thirds respectively).

## Recommendations

The rapid assessment has helped to identify priority areas where financial institutions and others could focus their support for SMEs over the coming period. Potential areas of support include:

- **Increase access to Working Capital and other loans for WSMEs.** Eight out of ten of WSMEs expressed challenges in meeting operating expenses during COVID-19 and had to make up some shortfall in debt repayment or other financial obligations. Over one-third of WSME said a working capital loan and/ or some other type of loan would be most helpful to support their business going forward.

- **Increase access to capacity building and other business services.** A significant portion of all SMEs surveyed indicated they would benefit from business restructuring advice or advice on how to adjust their business plan in response to COVID-19. By providing SMEs with access to business-related training and

support, the financial services sector can help ensure their SME customers and the SME sector more broadly, are more resilient and better equipped to manage business uncertainty.

- **Support transition to digital business channels, especially for sales and payments.** There is a clear need for greater support to encourage more SMEs to take up digital business channels and to transition to digital payment methods. This is particularly true of WSMEs, who were much less likely to utilize digital channels, but were much more likely to see increased sales when doing so.

## Overview

This rapid assessment (the Assessment) was conducted between June 22 and July 22, 2020. The purpose was to understand the impacts the COVID-19 pandemic was having on small and medium-sized enterprises and whether there were any differences in the impacts being experienced by businesses depending on whether they are owned by women, men, or jointly by women and men. The outcomes of the study are being used to inform the IFC-DFAT Women in Work Program to support small and medium enterprises (SMEs) in Sri Lanka through the COVID-19 pandemic and beyond, and to help guide partner financial institutions and others to ensure they provide the type of financial and non-financial support most needed by their SME customers.

### Data for the Assessment was collected through the following activities:

- A telephone survey was conducted with the owner or manager of 413 SMEs from across Sri Lanka. The SMEs were selected at random from the customer lists of the following four financial institutions: Alliance Finance, Commercial Bank, NDB, Sanasa Development Bank, and the distributor network of Ceylon Biscuits Limited (CBL).
- Twenty-five follow up qualitative interviews were conducted with 15 women business owners, 5 male business owners, and 5 businesses jointly owned by a male and a female.

Because all surveys and interviews were conducted with active clients of financial institutions, or active distributors from CBL, there is likely to be some bias towards more formal and potentially higher capacity and more financially resilient SMEs than the broader

SME population in Sri Lanka. For this reason, the results of this study should not be assumed to be representative of the whole SME population.

For the purposes of this report, the onset of COVID-19 in Sri Lanka is taken as being mid-March 2020, post which all public schools were closed and a week before the nationwide curfew came into effect.

### The following terms will be used throughout the report:

- **SME:** refers to all small and medium-sized businesses surveyed for this study.
- **JSME:** refers to an SME that is jointly owned by a male and female
- **MSME:** refers to an SME that is majority-owned by a male.
- **WSME:** refers to an SME that is majority-owned by a female.

Lead institutions through which SME participants were identified:



## Demographics and Employment Impacts

Small and medium-sized enterprises make up a large part of Sri Lanka's economy, with around one million businesses providing employment to around 2.25 million people, and accounting for approximately 75 percent of all businesses. These are found in all sectors of the economy and are estimated to contribute about 45 percent of total employment in Sri Lanka. While there is limited data on the share of SMEs owned by women, recent estimates indicate that it remains low, at around 25 percent of all SMEs. Research suggests that most women business-owners struggle to transition away from informal micro-scale businesses, in part due to limited access to finance and business capacity of women entrepreneurs.<sup>2</sup> The study included interviews with 413 SMEs. Their ownership type, sector, and size are outlined in Figure 1.

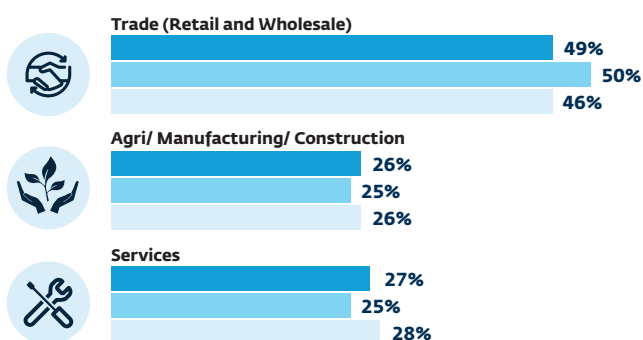
Figure 1

### Respondent Demographics by Ownership Type and Business Size

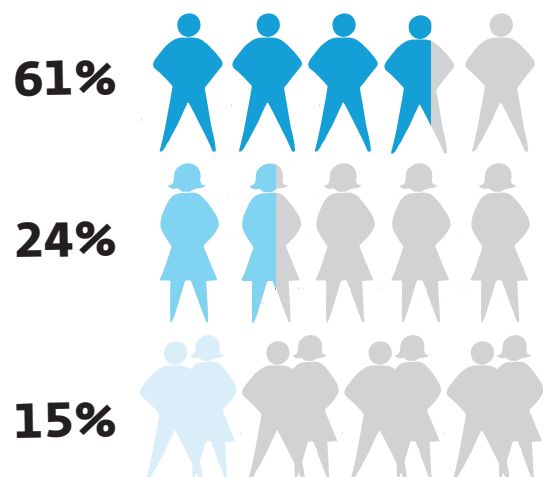
**Number of Respondents** MSME WSME JSME



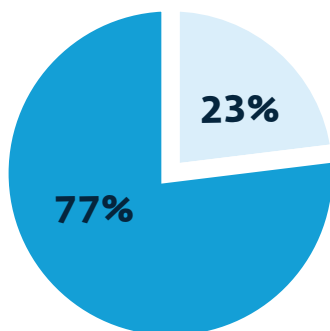
**Sector** MSME WSME JSME



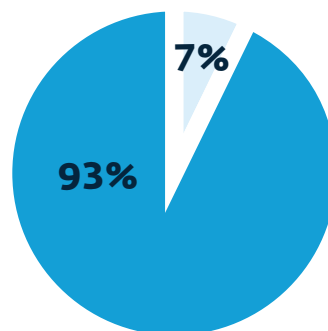
**Share of Respondents** MSME WSME JSME



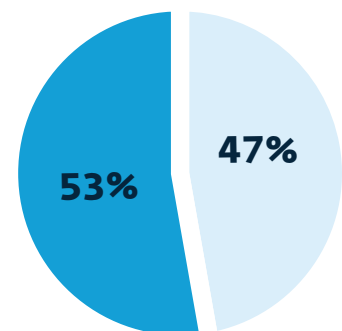
**Size** Small Medium



MSME



WSME



JSME

<sup>2</sup>National Policy Framework for Small & Medium Enterprise (SME) Development Action Plan: <http://www.industry.gov.lk/web/images/pdf/gg.pdf>, and <https://bit.ly/3otMavZ>.



## Employment

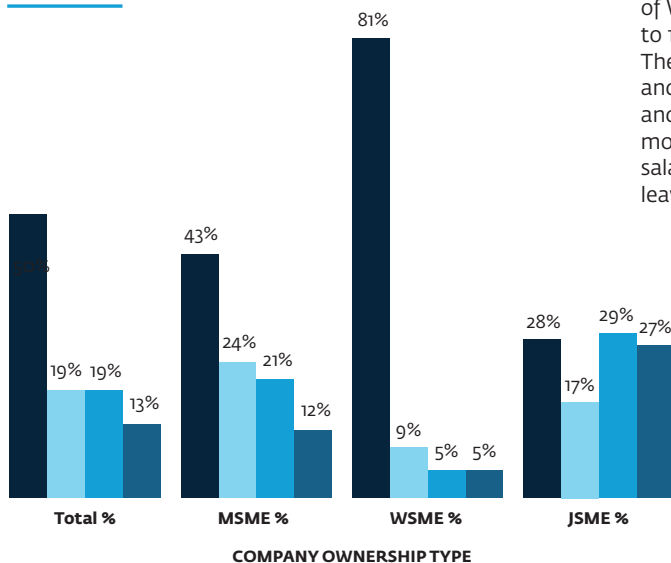
WSMEs tended to have fewer employees, with eight paid employees on average, compared to 20 employees on average among MSMEs and 49 among JSMEs (Figure 2). MSME and JSMEs are more likely to have a higher number of unpaid employees (43 percent have at least one unpaid employee) compared to WSMEs (35 percent). Not surprisingly, few SMEs (18 percent) have recruited new

staff since the onset of COVID-19. WSMEs were the least likely to hire new staff, with 12 percent doing so and hiring between one to four staff, while almost one-quarter of JSMEs (23 percent) hired new staff.

While WSMEs were less likely to hire new staff, they were also less likely to make staff redundant – 11 percent of WSMEs made staff redundant, compared to 20 percent of MSME and 27 percent of JSME. Most SMEs surveyed (84 percent) did not reduce employee salaries due to COVID-19, with WSMEs least likely to do so (seven percent of WSMEs reduced employee salaries, compared to 17 percent of MSME and 30 percent of JSME). These results may reflect the fact that MSMEs and JSMEs are on average larger than WSMEs and have more employees, therefore there is more scope for reducing employee numbers, salaries or providing staff with paid or unpaid leave in order to manage a downturn in business.

Figure 2

### Total Employees as at 31 December 2019



NUMBER OF EMPLOYEES

1 - 5   6 - 10   11 - 40   Above 41

“ WSMEs were less likely to make staff redundant as a result of COVID-19 ”

## Business Impacts

Companies surveyed expressed a range of business impacts due to COVID-19. Most (91 percent) were fully open at the time of the survey, however, four percent were still temporarily closed and five percent were open but with some restrictions. The high number of companies reporting that they were open likely reflects the fact that at the time of the survey the nation-wide curfew had ended and the economy had largely re-opened, coupled with the nature of the businesses that were surveyed – as clients of financial institutions, or distributors for a leading FMCG, they are likely to be more formally established and possibly represent a higher capacity group of SMEs than the broader SME population in Sri Lanka.

### Business Continuity

Almost three-quarters of SMEs surveyed indicated they expected to be able to continue to operate indefinitely under the current circumstances, with WSMEs and JSMEs slightly more likely to report this to be the case (77 percent of WSMEs and 80 percent of JSMEs, compared to 70 percent of MSMEs). Fifteen percent of MSMEs, however, predicted that they would only be able to continue to operate for less than two months in the current conditions. Those MSMEs operating in the trade sector were the most affected in this regard – 20 percent reporting they could only continue for up to two months. In contrast, two percent of WSME and four percent of JSMEs reported this to be the case.

Companies operating in the services sector reported the least certainty in terms of continued operations, with almost one-quarter reporting they don't know how much longer they can continue to operate for and almost one-in-ten reporting they won't be able

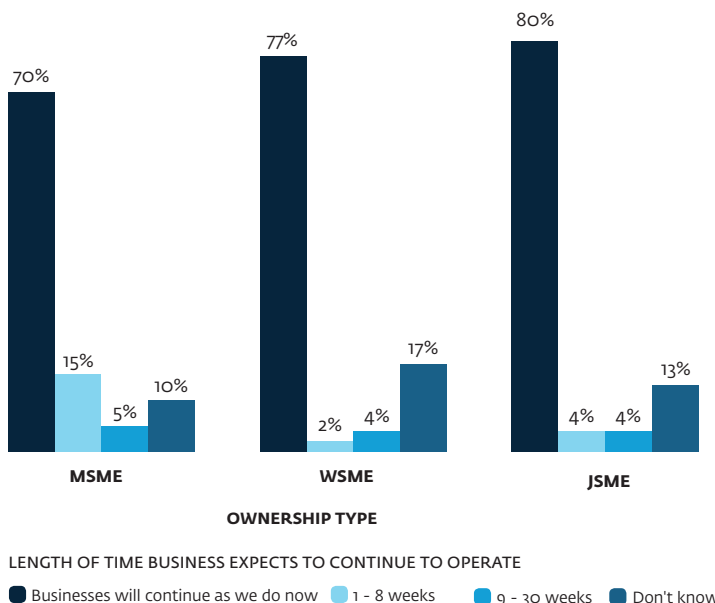
to continue for more than two-months (Figure 3). Again WSMEs were more optimistic, with 76 percent of WSMEs operating in the services sector reporting they expected to continue to operate as they do now, compared to 58 percent of MSMEs.

### Business Demand

Two-thirds of SMEs surveyed reported a decrease in demand for their products or services since COVID-19, with WSMEs more likely to have experienced a change in demand (both positive and negative) than MSME or JSME (Figure 4). One-third of SMEs reported that they changed their products or services in response to COVID-19, with limited differences among ownership types.

Figure 3

### Length of Time Businesses Expect to Continue to Operate in Current Circumstances

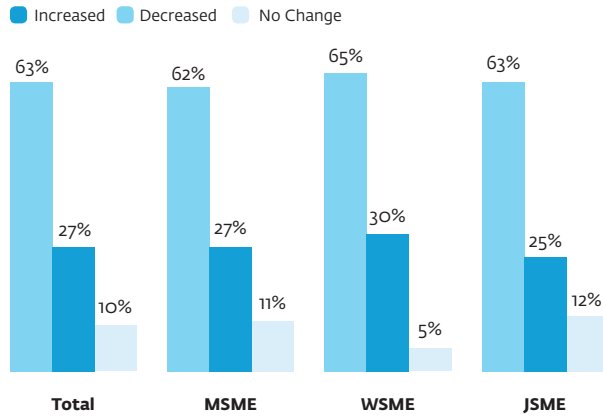


“ Almost one-quarter of companies in the services sector don't know-how much longer they can continue to operate for ”



Figure 4

## Change in Demand for Products and Services Due to COVID-19



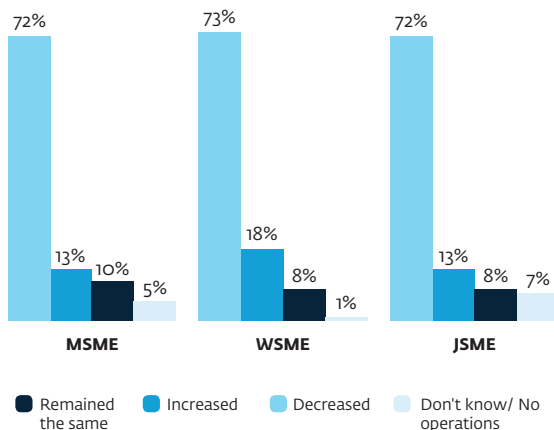
Almost three-quarters of all SMEs reported decreased sales, with WSMEs slightly more likely to report increased sales (Figure 5). Companies in the agriculture, manufacturing, and construction sectors were hit the hardest, with 83 percent reporting decreased sales, with no difference among ownership types, followed by the services sector

with 78 percent reporting decreased sales (Figure 6). WSMEs in the services sector were the most impacted, with 84 percent reporting decreased sales. In contrast, SMEs operating in the trade sector were most likely to report increased sales, with 34 percent of WSME and 23 percent of MSME operating in this sector reporting increased sales.

“ One-third of SMEs reported that they changed their products or services in response to COVID-19, with limited differences among ownership types ”

Figure 5

## Impact on Monthly Sales Compared to Pre-COVID Monthly Average by Ownership Type

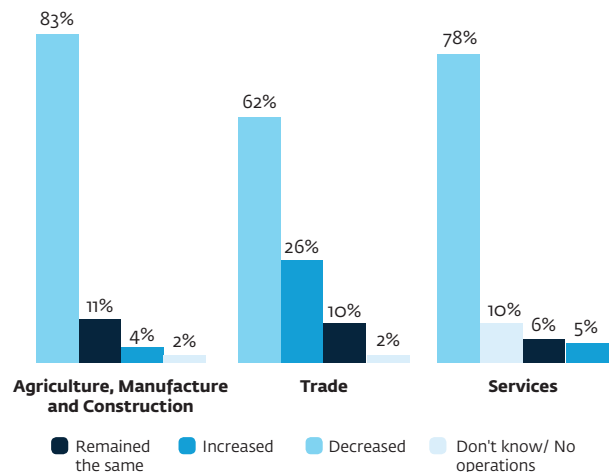


Almost two-thirds of the SMEs that experienced decreased sales, experienced a decrease of more than 25 percent on their pre-COVID monthly average, and more than one-quarter experienced a more than 45 percent reduction in sales. Overall, there was a limited difference among ownership types.

Among those companies that reported increased

Figure 6

## Impact on Monthly Sales Compared to Pre-COVID Monthly Average by Sector



sales, the increases were significant. Almost two-thirds of companies with increased sales reported a greater than 25 percent increase, and 40 percent reported a greater than 45 percent increase. WSMEs and JSMEs were more likely to report higher increases, with 78 percent of WSMEs and 76 percent of JSMEs that experienced an increase reporting more than a 25 percent increase, compared to half of MSMEs.

## Access to Finance

Over 80 percent SMEs surveyed experienced difficulties meeting operating expenses due to COVID-19 (Figure 7), with limited differences among ownership type. Over three-quarters of SMEs also experienced difficulties accessing their usual financial services, with JSMEs the most impacted and WSMEs reporting the least challenges (Figure 8).

Figure 7

### Share of Businesses Experiencing Shortfall in Operating Expenses

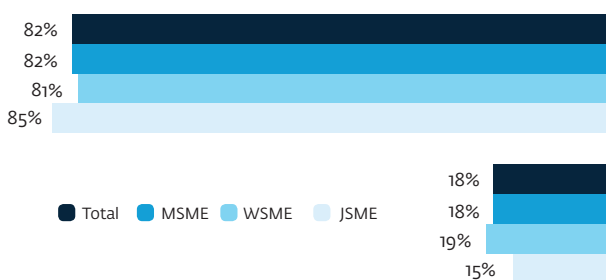
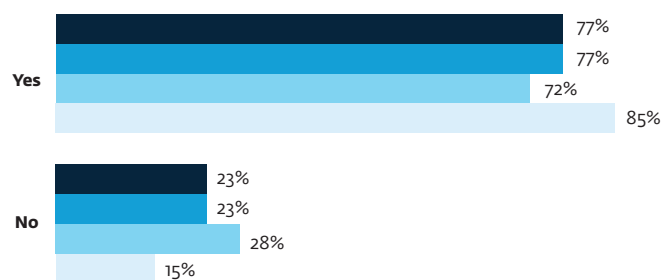


Figure 8

### Share of Companies Reporting Difficulty Obtaining Access to Usual Financial Services



“ 80 percent of SMEs had to seek additional financing to make up shortfalls in debt repayment ”

Two-thirds of SMEs had applied for some form of support from their financial institution (Figure 9), with the six-month moratorium on loan repayment the most common support received. WSMEs were significantly less likely to have received new funding to meet operating expenses, while almost one-quarter of MSME and over one-quarter of JSME received this. Women’s lower reliance on new funding may also reflect the smaller size of their businesses on average, as demonstrated by some of the feedback received from survey participants:

*“I did not purchase any raw materials and goods from suppliers for credit. And I pay my workers daily wages. Therefore, no shortfalls occurred in the business. Some electrical bills were paid by my own business savings. No funds were needed as a result.”* —Female owner of a tea shop.

*“No financial benefits were received. I did not even need any loans at that time. We closed our shop during the lockdown period. Hence, no transactions took place.”* —Female owner of a retail shop.

The difference in uptake of financial support among MSME, WSME, and JSME is particularly striking in contrast to the reported ways in which SMEs made up shortfalls in debt repayment (figure 10). Eight out of ten SMEs had to make up some shortfall in debt repayment, with over one-quarter overall unable

to make up the shortfall, and 40 percent of JSMEs reporting they have been unable to pay. WSMEs were least likely to have taken a loan from a formal financial institution and significantly more likely to have borrowed from friends or family.

When asked why they borrowed from friends and family rather than a formal financial institution, women business owners reported a range of reasons, including the ability to take smaller size loans, the ability to borrow money more quickly, and the lack of service charges:

*“I took loans from friends as I felt it can be taken quickly for emergency money needs that arise daily when running the business. But, from banks etc. we can’t take such quick loans in small amounts.”* —Female owner of a small garment manufacturing business.

*“Taking Rs.40,000-50,000 loans are not possible with banks. So to take small loans, I always need to ask from a friend or a relative.”* —Female owner of a retail shop.

*“A loan was given to me by a bank, but they cut 75 percent of it to recover old loans and only gave 25 percent. This is obviously not enough to continue the business. So how do I keep my trust in banks? Even though I could take loans from banks, I prefer to borrow from a friend or family because no service charges are applied.”* —Female owner of a baby clothing shop.

These findings are consistent with findings from the Sri Lanka Financial Inclusion Survey 2018/2019, which found greater use of informal channels by women for saving, such as community banks (24 percent of women compared to 14 percent of men) as well as

other unregulated sectors such as microfinance institutions (11 percent of women compared to eight percent of men)<sup>3</sup>. Furthermore, 64 percent of women who reported borrowing money, had done so from an informal source.

Figure 9

## Share of Companies Receiving Assistance from Financial Institution by Assistance Type

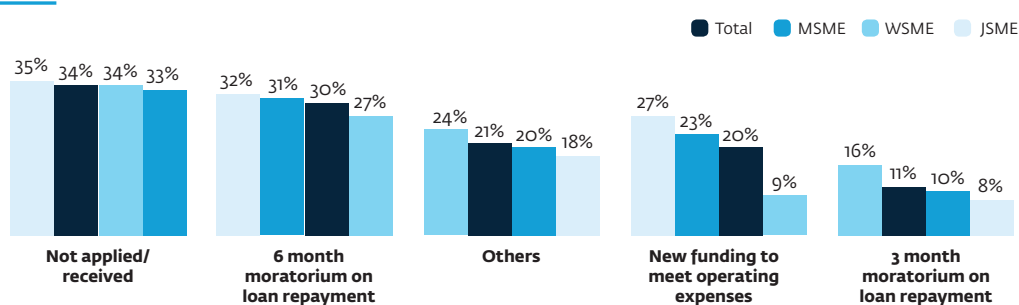
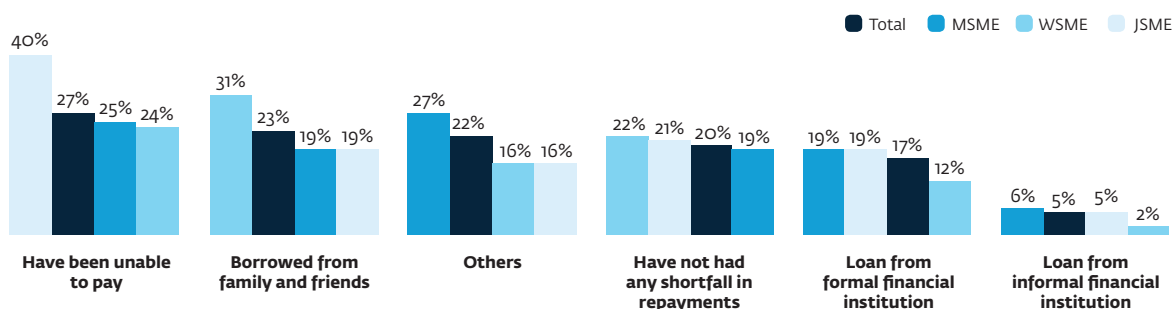


Figure 10

## How Businesses Have been Making up Shortfall in Debt Repayment or Other Financial Obligations Due to COVID-19



There were a range of reasons why almost one-third of SMEs did not benefit from financial support from their financial institution (Figure 11). WSMEs were much more likely to report that assistance was not required (44 percent, compared to 32 percent of MSME and 24 percent of JSME). This finding, coupled with the high rates of family support reported by WSMEs, suggests WSMEs may be more comfortable receiving support from friends and family than applying for support from a formal financial institution. This is supported by feedback from survey participants:

*"I took a small loan from a relative as it was difficult to contact a bank at that time with the lockdown. In my experience taking some money from a friend or a relative is easy and quick. Taking loans from a bank*

*is hard and it is obviously a long process. You need to stay on a waiting list for a long period and should visit the bank many times."*—Female owner of a construction company.

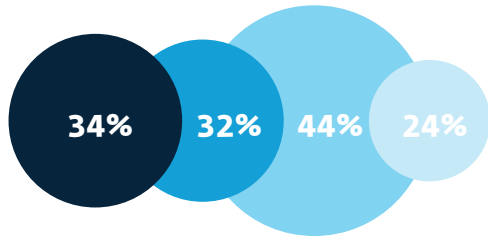
*"I had some payables in my business. That is why I borrowed some money from a friend. Despite the high-interest rates, it was easier to negotiate and discuss with the friend than discussing with a bank."*—Female owner of an electrical accessories shop.

Almost 20 percent of JSMEs reported that their application was not approved (compared to just over 10 percent of MSME and WSME). Fourteen percent also said the process was too complicated or bureaucratic.

Figure 11

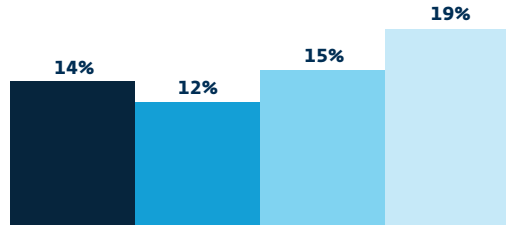
## Reasons Given for Not Benefiting from Financial Support

**Not required** ■ Total ■ MSME ■ WSME ■ JSME



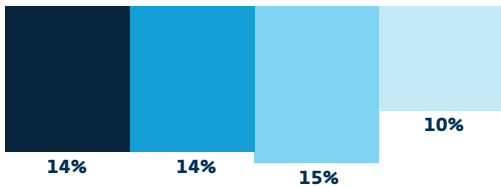
**Application was not approved**

■ Total ■ MSME ■ WSME ■ JSME



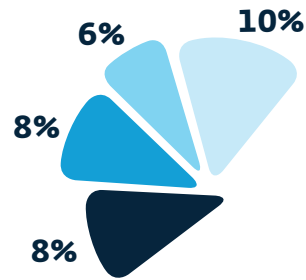
**Bureaucracy/ Process too complicated**

■ Total ■ MSME ■ WSME ■ JSME



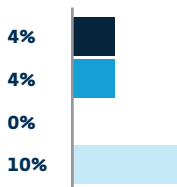
**Insufficient information about what support is available**

■ Total ■ MSME ■ WSME ■ JSME



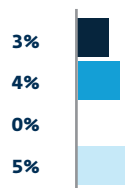
**Will be a challenge in the future for tax, labor issues, etc.**

■ Total ■ MSME ■ WSME ■ JSME

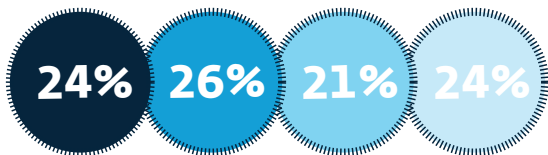


**Don't have time to apply**

■ Total ■ MSME ■ WSME ■ JSME



**Others** ■ Total ■ MSME ■ WSME ■ JSME



Note: The denominator for this graph is only those companies that reported not having received financial support from their financial institution.

“

I had some payables in my business. That is why I borrowed some money from a friend. Despite the high-interest rates, it was easier to negotiate and discuss with the friend than discussing with a bank.”

—Female owner of an electrical accessories shop

”

## Uptake of Digital Business Solutions

Around one-third (32 percent) of all SMEs surveyed tried at least one new digital business channel since the onset of COVID-19, with large differences by ownership type. JSMEs were most likely (42 percent) to have tried new digital channels, followed by MSME (33 percent), with WSMEs significantly less likely to have done so (26 percent). When asked why they were not using digital channels, survey respondents referred to not having access to the right equipment, not knowing how to use it, and not having awareness of the types of online channels they could use.

While the uptake of new digital channels was low overall, marketing, sales and payments were the most common uses, with almost one-quarter of SMEs using digital channels for any of these purposes (Figure 12). However only 14 percent of WSMEs utilised new payment methods, and fewer than 20 percent utilised new marketing or sales channels.

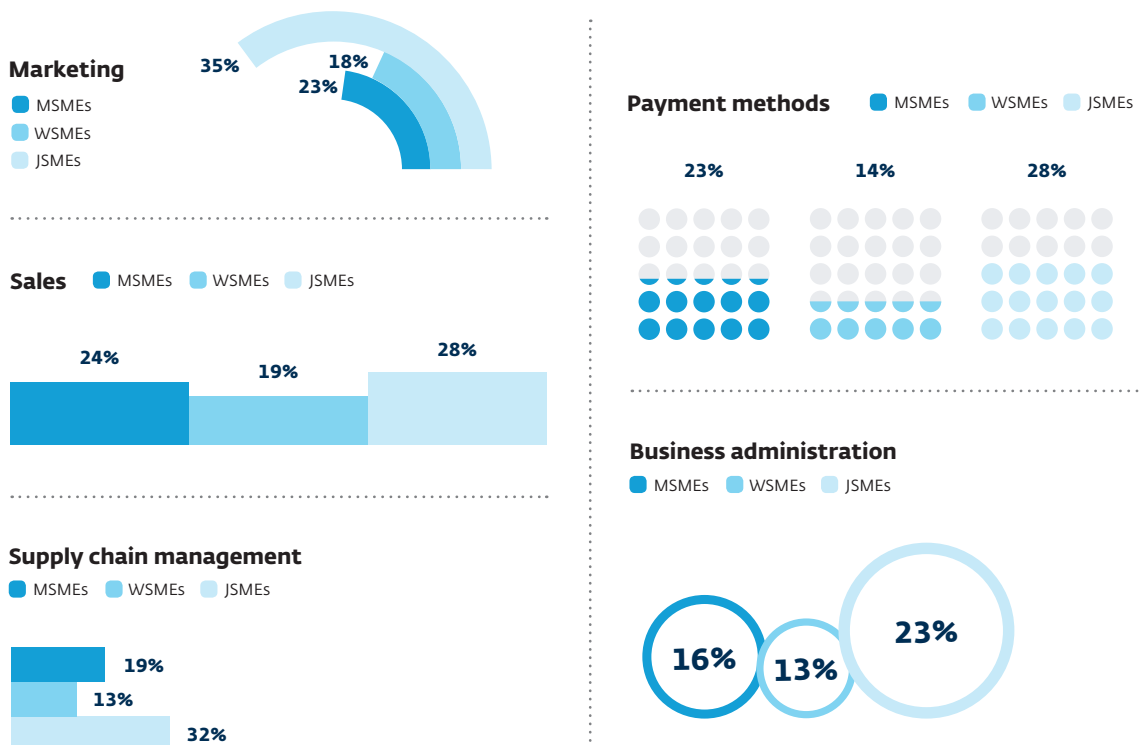
*"I believe that to handle digital devices a high level of knowledge is needed. I don't have that knowledge. I have a small mobile phone not a smartphone."*  
—Female owner of a small spice company.

*"We did not have any facilities and awareness about the online methods."* —Jointly owned retail shop.

“ WSME were significantly less likely to try new digital payments methods ”

Figure 12

### Types of Digital Channels Used by SMEs that Used New Digital Channels



WSMEs were significantly less likely to try new digital payments methods, with 14 percent of WSMEs trying new digital payment methods, compared to 23 percent of MSME and 28 percent of JSME.

When asked about why firms were not using digital payments methods more often, common responses related to the small size of the business, the lack of training on how to use online methods, and not having the right equipment:

*"My business is very small. I pay my workers daily salaries. So giving them cash in hand is more convenient than using online methods to pay salaries."* —Female owner of small garment manufacturer.

*"Digital systems are not used as this is a small company. But maybe beneficial as it will enable us to do large transactions, however, we do not have the right devices."* —Male owner of a retail business.

*"Our shop had many difficulties to use online methods. We had no knowledge and experience on that, and no facilities or guidance were given to us."* —Jointly owned small garage.

Over 40 percent of SMEs that used new digital methods for sales or payments experienced constraints, with some differences by ownership type (Figure 13). Surprisingly WSMEs were significantly less likely to report any constraints (21 percent of WSME reported constraints). MSMEs reported the most challenges, with over 15 percent of MSMEs reporting challenges in access to finance, logistics, and access to online accounts and payment systems. Over one-third of JSMEs reported challenges accessing bank accounts or online payment systems, and almost one in five reported payment restrictions.

When asked about the types of challenges they faced, survey respondents identified technical problems, a sense that online is riskier and takes time to build up trust.

*"I used online payments to do one or two orders, but it was full of troubles. So we didn't continue."* —Male restaurant owner

*"I used an online method to pay for one of the orders I made for my business. I lost my money even. I feel it is riskier to use online methods."* —Female owner of a small retail shop.

*"Yes. I used online payments even before COVID. It was useful as transportation cost is minimized. However, it was difficult to build up trust and confidence sometimes."* —Female owner of small clothing shop

There were also striking differences among SMEs in terms of the impact that using new digital channels had on monthly sales (Figure 14). WSMEs that utilized new digital channels were much more likely to experience increased sales through digital channels, while JSME were more likely to experience a decrease.

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"I used online payments to do one or two orders, but it was full of troubles. So we didn't continue."  
—Male restaurant owner

”

Figure 13

## Constraints Faced When Making Sales via Digital Means

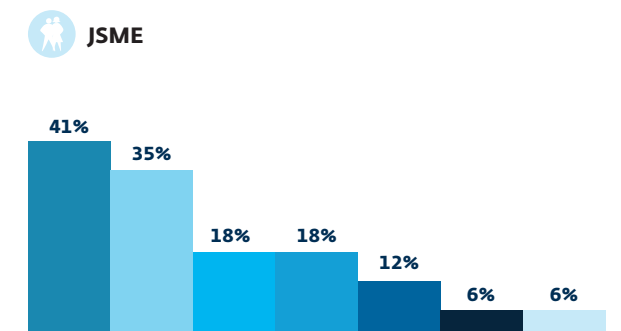
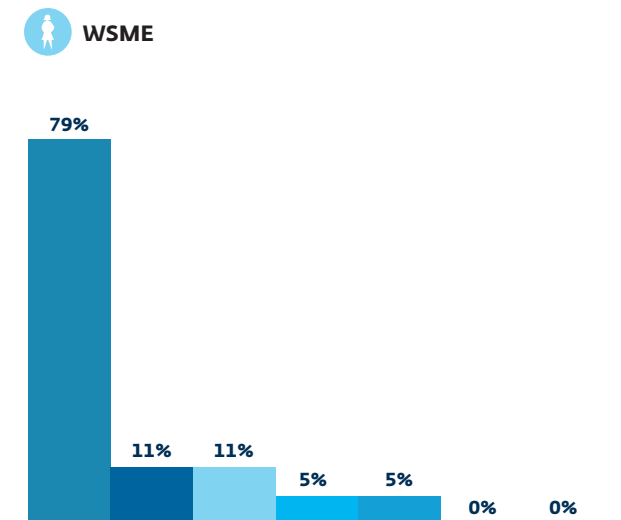
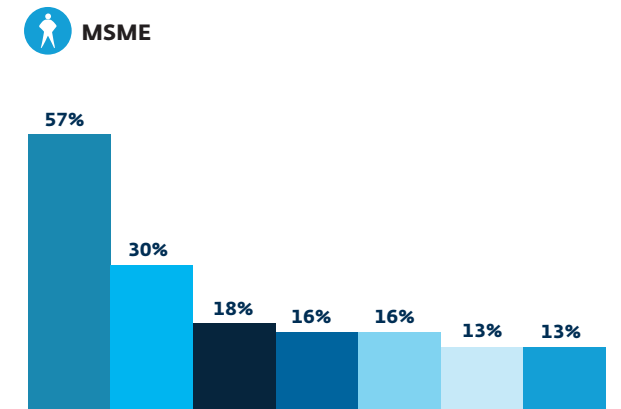
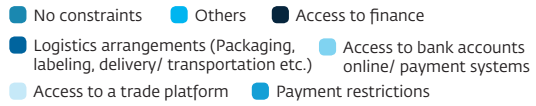
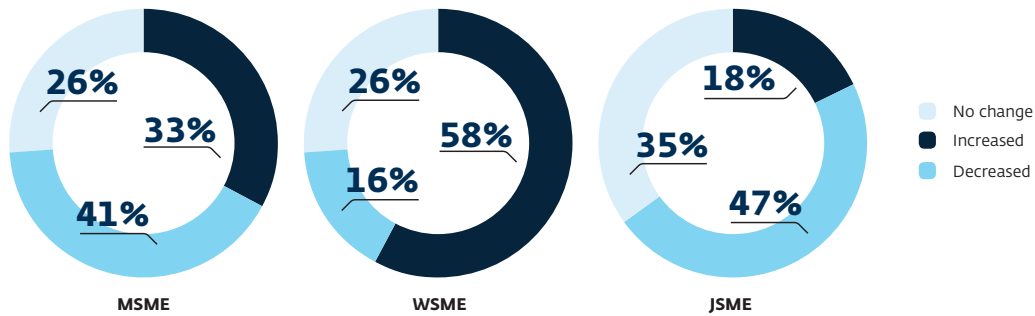


Figure 14

## Share of SMEs that Experienced Change in Monthly Sales Through Digital Channels During COVID-19



Note: N= MSME 61; WSME 19; JSME 17

These findings are not surprising, given findings from the 2018/2019 Financial Inclusion Survey which found that mobile money usage was low overall, with just 1.2 percent of women using mobile money (compared to 4.9 percent of men). Low uptake of smartphones contributes to limited uptake of mobile wallets with greater functionality. That survey also found that while 62 percent of women said they were aware financial transactions could be carried out through a mobile phone, only 32 percent claimed to be comfortable doing so.

The findings suggest that while fewer WSMEs overall are utilizing digital channels, when they do so they have fewer challenges and reap greater benefits from doing so. Digital financial services provide a significant opportunity for women to access and manage their finances in a safe, efficient, and secure manner, emphasizing the importance of targeted interventions to encourage the uptake of digital solutions, especially by WSMEs.



## Impact of Household and Care Commitments on Business

Half of SMEs surveyed reported challenges in allocating time to their business due to increased personal or household commitments due to COVID-19, with limited differences by ownership. Over half also reported increased absenteeism or turnover (Figure 15) due to increased care responsibilities, with JSMEs the most likely to report this (60 percent compared to 54 percent overall).

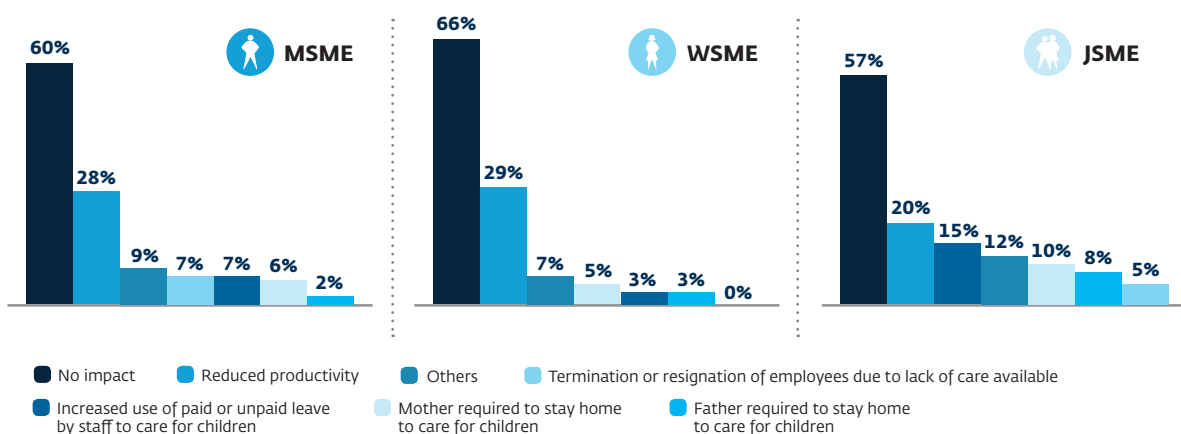
Forty percent of SMEs reported business impacts associated with the closure of schools and childcare centers due to COVID-19, however, WSMEs were least likely to report this (34 percent) and JSMEs the most likely (43 percent). These results are likely a reflection of the size of the businesses, with JSMEs tending to be larger and, therefore, having a greater number of employees that could be potentially impacted, and the availability and reliance on existing family care support systems among WSMEs. When asked about the underlying reasons for this, business owners reflected a variety of reasons “workers did not come to office due to child care difficulties, even when they were called to come to office,” according to a jointly owned IT Services Provider, and that “female workers requested leave for childcare purposes,” according to the owner of a retail shop. In contrast, WSMEs tended to be smaller, and have fewer employees, and the female owners themselves reported having other

care arrangements available. A female owner of a textile shop noted “there was no impact on my business as my mother and husband helped me with childcare.” Similarly, another female owner of a retail store reported that because “my business is located in my own village, where I live,” there was no impact on business regarding the unavailability of childcare and closure of schools.”

When asked about the impact school closures had on SMEs, reduced productivity was the most reported impact. JSMEs were more likely to report employees using paid or unpaid leave to care for children, which is also reflected in their higher reporting of granting such leave. In all cases, mothers were slightly more likely to stay home to care for children than fathers, even among WSMEs, however with relatively small differences overall.

Figure 15

### Impact of Closure of Schools and Childcare on the Business or Employees



“ A female owner of a textile shop noted “there was no impact on my business as my mother and husband helped me with childcare.” ”



## Building Resilient Businesses

This survey provides insights into a range of areas where Sri Lanka's financial services sector could provide services to support SMEs to effectively manage their businesses through the COVID pandemic and beyond.

When asked what type of support SMEs wanted from their financial institution to help manage their business during COVID-19, over 80 percent reported they would like at least one form of financial support (Figure 16), and over half requested some form of non-financial support (Figure 17). JSMEs were most likely to request further loan payment moratoriums or working capital loans, while WSME and MSME were most likely to request working capital or other types of loans (over two-thirds respectively).

The most requested non-financial areas of support was business restructuring advice (30 percent) and advice on how to adjust a business plan in response to COVID-19 (20 percent). Over 10 percent SMEs also requested

support for managing employees and HR matters during COVID-19, and a similar number requested support for transitioning to digital payment systems and digital business platforms.

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Eight out of ten SMEs request financial support to manage their business due to COVID-19  
”

Figure 16

### Type of Financial Support Most Requested by SMEs to Manage Impact of COVID-19

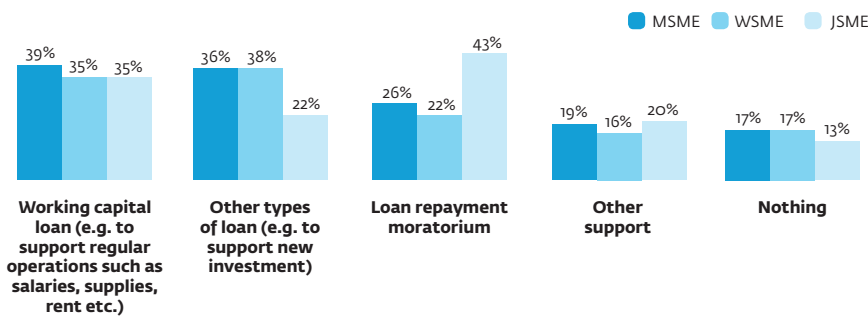


Figure 17

### Type of Non-Financial Support Requested by SMEs to Manage Impact of COVID-19



The rapid assessment has helped to identify priority areas where financial institutions and others could focus their support for SMEs over the coming period. Potential areas of support include the following.

**A. Increase access to Working Capital and other loans for WSMEs**

The survey has identified a gap in terms of WSMEs access to funding to meet operating expenses and other financial commitments during COVID-19. Eighty-one percent of WSMEs expressed challenges in meeting operating expenses during COVID-19, 78 percent had to make up some shortfall in debt repayment or other financial obligations. At the same time, 35 percent of WSMEs said a working capital loan, and 38 percent said some other type of loan, would be most helpful to support their business going forward. Yet only nine percent applied for new funding to meet operating expenses from their financial institution. Instead, one-third of WSMEs borrowed from friends or family, one-quarter were unable able to make up any shortfall in financial obligations, and a small share (two percent) borrowed from an informal financial institution.

By better understanding this gap, and the particular challenges WSMEs face when identifying and accessing sources of financing, financial institutions can help to close that gap and ensure WSMEs are able to access the finance they need to meet day-to-day expenses while also growing and developing their business.

**B. Improve access to capacity building and other business services.**

A significant portion of all SMEs surveyed indicated they would benefit from business restructuring

advice or advice on how to adjust their business plan in response to COVID-19. The need for this is also demonstrated by the finding that while two-thirds of companies saw a decrease in demand for their products and services, only one-third of businesses changed or were in the process of changing their products or services in response to COVID-19. By providing SMEs with access to business-related training and support, the financial services sector can help ensure their SME customers, and the SME sector more broadly, are more resilient and better equipped to manage the business uncertainty that is likely to continue for some time due to COVID-19 and to come out the other side of this pandemic with stronger and more robust businesses.

**C. Support transition to digital business channels, especially for sales and payments.**

There is a clear need for greater support to encourage more SMEs to take up digital business channels and to transition to digital payment methods. This is particularly true of WSMEs, who were much less likely to utilize digital channels, but were much more likely to see increased sales when doing so. Digital finance has the added benefit of helping address time, poverty and safety issues particularly for women, as well as the ability to translate from "informal" to "formal" channels. Given the persistent trends we see in the low familiarity and use of digital finance by women, the financial service providers should focus more on tapping into this market. The approach should include digital literacy, coupled with tailored products. The current cash waste campaign spearheaded by CBSL with support from IFC provides a good entry point for this.





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October 2020



*Creating Markets, Creating Opportunities*

The IFC-DFAT Women in Work program in Sri Lanka, partnering with leading private sector companies, aims to demonstrate that corporate performance can improve from closing gaps between women and men in the private sector.