



INSIGHTS FROM EMERGING MARKETS

MSMEs and Digital Tool
Use Amidst the COVID-19
Pandemic

SRI LANKA COUNTRY BRIEF



Shaping a more livable world.

February 2022

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This Final Report has been prepared solely for the purposes of studying the utilization of digital technologies in the small and medium enterprise sector in developing markets. This includes the business implications of this usage of digital technologies for accelerating and facilitating economic development, inclusion, resilience, and growth post the COVID-19 pandemic, as set out in the Contract.

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CONTENTS

EXECUTIVE SUMMARY **4**

INTRODUCTION AND BACKGROUND **6**

MSMEs AND DIGITAL TOOL USE: SNAPSHOTS IN TIME **9**

HOW MSMEs MANAGE KEY BUSINESS ACTIVITIES **12**

MSMEs DURING THE COVID-19 PANDEMIC **17**

BARRIERS TO THE ADOPTION AND USE OF DIGITAL TOOLS AMONG MSMEs **22**

CLOSING REMARKS **26**

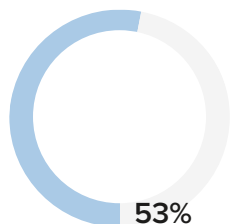
APPENDIX I: METHODOLOGY **27**

APPENDIX II: SUMMARY OF MSME AND RESPONDENT CHARACTERISTICS **32**

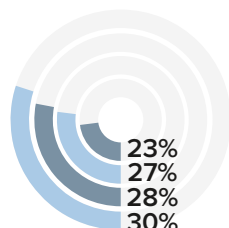
ENDNOTES **34**

EXECUTIVE SUMMARY

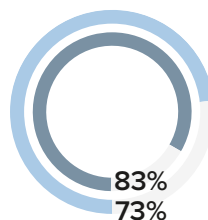
KEY FINDINGS



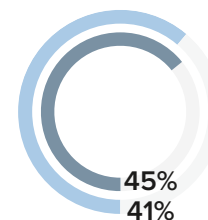
Slightly more than half (53 percent) of surveyed MSMEsⁱ were online, meaning that they had reported using digital toolsⁱⁱ for business purposes in the past year.



Surveyed MSMEs were using digital tools across business activities about which they were asked. Surveyed online MSMEsⁱⁱⁱ reported using WhatsApp to market to customers (30 percent), communicate with suppliers (28 percent), communicate with customers (27 percent), and conduct customer research (23 percent) in the past 30 days.



Surveyed online MSMEs recognized the importance of digital tools during COVID-19: 73 percent of surveyed online MSMEs reported that digital tools were important or essential to keeping their business running during COVID-19. In addition, a large majority (83 percent) of surveyed online MSMEs reported that Facebook apps^{iv} helped them adapt to the COVID-19 environment.



Both surveyed online and offline MSMEs reported facing similar difficulties when using digital tools, though their most frequently cited difficulties varied. Poor or no internet connectivity was the most frequently reported answer option by surveyed online MSMEs (41 percent). In comparison, the most frequently reported difficulty by surveyed offline MSMEs was a lack of knowledge in using digital tools (45 percent).

Sri Lanka's micro, small, and medium enterprise (MSME) sector has underpinned the last ten years of the country's economic growth until the COVID-19-induced economic slowdown in 2020.¹ By allowing some MSMEs to quickly pivot online and maintain their core business functions, digital tools (defined here as internet-based technologies) can play an important role in pandemic recovery.² A survey conducted by DAI and Ipsos between July and August 2021 shows that slightly more than half (53 percent) of surveyed MSMEs were online, meaning that they had reported using digital tools for business purposes in the past year during COVID-19.^v Of those surveyed MSMEs who had used digital tools in the past year, more than half (73 percent) reported that

digital tools were important or essential to keeping their business running during COVID-19.

Surveyed online MSMEs in Sri Lanka reported using various digital tools for business activities about which they were asked. For example, WhatsApp was used by surveyed online MSMEs to market to customers (30 percent), communicate with suppliers (28 percent), communicate with customers (27 percent), and conduct customer research (23 percent) in the past 30 days. Additionally, surveyed online MSMEs recognized the importance of embracing digital tools during the COVID-19 pandemic. A large majority (83 percent) of surveyed online MSMEs reported that Facebook apps

ⁱ This brief uses the term "micro, small, and medium enterprises" (MSMEs) to refer to the businesses surveyed for this research, in line with the terminology used by multilateral institutions such as the International Finance Corporation and the United Nations. Although many countries have different official definitions of MSMEs (including Sri Lanka, where the government of Sri Lanka officially classifies MSMEs by their number of employees), DAI applied a standardized definition for consistency across all survey countries, based on the number of full-time, part-time, or seasonal employees or workers (including the respondent): micro (one employee), small (two to nine employees), and medium (10 to 249 employees).

ⁱⁱ "Digital tools" refers to Internet-based technologies and social media. This is a broad term that includes the use of the internet in any of the following activities: social media platforms, such as Facebook, Facebook Messenger, Facebook Marketplace, WhatsApp, or Instagram; other social media platforms, such as Twitter, TikTok, LinkedIn, SnapChat, Pinterest, Tumblr, Reddit, or YouTube; other messaging applications, such as Viber, Line, WeChat, QQ, or Telegram; business software or cloud computing, such as Microsoft Office, Word or Excel, Google Drive, Docs or Sheets, or Amazon Web Services; e-commerce websites, such as Amazon, Alibaba, Etsy, or Mercado Libre; email, such as Gmail, Hotmail, or Yahoo; mobile banking and digital payments, such as PayPal, Venmo, Yape, or Plin; videoconferencing, such as Zoom, Skype, or Google Hangouts.

ⁱⁱⁱ Not all MSMEs who reported ever using digital tools for business purposes were considered "online" for the purposes of this survey. Surveyed MSMEs that did not report using digital tools in the past year were considered "offline," regardless of their use of digital tools over a year ago and/or prior to the COVID-19 pandemic. Because this subset of MSMEs no longer actively uses digital tools, they are not considered online MSMEs.

^{iv} The term "Facebook apps" refers to Facebook, WhatsApp, and Instagram.

^v This survey collected evidence directly from 1,026 MSME owners and top-level managers in Sri Lanka to understand how MSMEs have used digital tools to carry out business activities, how their digital tool use changed during the COVID-19 pandemic, and the challenges both offline and online MSMEs face in using digital tools.

helped them adapt to the COVID-19 environment. Furthermore, a higher percentage of surveyed online MSMEs reported that Facebook apps were very important for each business activity about which they were asked compared to other digital tools. For example, 29 percent of surveyed online MSMEs reported that Facebook apps were very important for marketing to customers, while only two percent of online MSMEs reported that other digital tools were very important for marketing to customers.

However, offline methods^{vi} remained a key part of how surveyed online MSMEs conducted business. For example, 88 percent of surveyed online MSMEs reported that they used offline methods to communicate with customers, and 85 percent reported that they used offline methods to market to customers in the past 30 days. As such, survey results showed that surveyed online MSMEs were not replacing offline methods with digital tools but rather augmenting their business functions through the adoption of digital tools. Moreover, survey results illuminated the difficulties that surveyed online and offline MSMEs reported facing in their use of digital tools. Both surveyed online and offline MSMEs reported facing similar difficulties when using digital tools, though their most frequently cited difficulties varied. Poor or no internet connectivity was

the most frequently cited barrier by online MSMEs (41 percent), while a lack of knowledge was the most cited difficulty by surveyed offline MSMEs (45 percent). This difference highlights the need for targeted interventions by stakeholders in the public, private and development sectors that address common roadblocks for both online and offline MSMEs, such as information sharing and capacity building activities to expand awareness and usage of digital tools, while also addressing key enabling environment barriers such as connectivity.

With concentrated efforts by policymakers and other stakeholders to address the key barriers faced by both online and offline MSME segments, Sri Lanka's MSME sector will be well positioned to increasingly integrate and harness the power of digital tools to improve business outcomes and build resilience to future economic shocks. These efforts have the potential to help entrepreneurs and business owners across the MSME sector to equitably access and use digital tools to support key business functions. This will, in turn, enable Sri Lanka to accelerate its inclusive economic growth outcomes aligned to the United Nations Sustainable Development Goals (SDGs), a collection of 17 interlinked global development goals agreed to by United Nations Member States in 2015.

METHODOLOGY OVERVIEW

This research was conducted as part of a broader cross-national study of MSME digital tool usage across emerging markets in North America, South America, South Asia, and Southeast Asia. This report provides an overview of findings from face-to-face surveys that Ipsos conducted with 1,026 micro, small, and medium enterprises (MSMEs) in Sri Lanka via computer-assisted personal interviewing (CAPI) from July 1 to August 15, 2021. Eligibility for the survey was restricted to owners or top-level managers of businesses with 249 or fewer employees operating from a storefront, booth, or with signage. As such, home-based businesses and other businesses without obvious storefronts, booths, and/or signage were not captured in the sample. Official statistics from the 2013-2014 Economic Census database and the Department of the Registrar of Companies were used to allocate the sample across three categories: micro (one employee), small (two to nine employees), and medium (10 to 249 employees) businesses.^{vii} For CAPI interviewing, a random walk method was implemented to conduct interviews in urban, suburban, and rural areas broken into nine national provinces, capturing businesses across key segments, including subnational geography, owner gender, and business sector. Due to the limited geographic scope of the survey, findings and results reported here are not nationally representative of Sri Lanka's MSME sector. The final survey results presented in this report were weighted based on geography and differential non-response rates by province, urbanicity, and gender. Due to the limitations of the sampling and availability of official statistics, the sample should not be considered to be representative of formal and informal businesses in Sri Lanka. A complete explanation of the sample design and research methodology is found in [Appendix I](#).

vi The term "offline methods" includes face-to-face interaction; paper-based methods such as letters, fliers or billboards; and through a telephone call, SMS, or text message (does not include WhatsApp).

vii Across all business size groupings, employees include the respondent (an owner or top-level manager of the MSME), any full-time employees or workers, and any part-time or seasonal employees or workers.

INTRODUCTION AND BACKGROUND

Sri Lanka's micro, small, and medium enterprise (MSME)^{viii} sector has underpinned the last 10 years of the country's economic growth until the COVID-19-induced economic slowdown in 2020.³ By allowing some MSMEs to quickly pivot online and maintain their core business functions, digital tools (defined here as internet-based technologies)^x can play an important role in pandemic recovery.⁴ A new survey conducted by DAI and Ipsos between July and August 2021 shows that there is potential to increase digital tool use among MSMEs in Sri Lanka.^x

The survey collected evidence directly from 1,026 MSME owners and top-level managers in Sri Lanka to understand how MSMEs have used digital tools to carry out business activities, how their digital tool use changed during the COVID-19 pandemic, and the challenges both offline and online MSMEs faced in using digital tools.^{xi} Research findings also delve into differences in digital tool use across key business segments within Sri Lanka, such as women-owned MSMEs, urban and rural MSMEs, and MSMEs in specific business sectors.^{xii}

When entrepreneurs across the MSME sector can equitably access and use digital tools in support of key business functions, Sri Lanka will accelerate its inclusive economic growth outcomes aligned to the United Nations Sustainable Development Goals (SDGs), a collection of 17 interlinked global development goals agreed to by United Nations Member States in 2015.



How this research aligns with the Sustainable Development Goals (SDGs)

In 2015, United Nations Member States adopted 17 Sustainable Development Goals (SDGs) as a cornerstone of their 2030 Agenda for Sustainable Development, articulating a shared vision of urgent global priorities for the planet and its people. Recognizing the importance of their urgent call to action, this survey framework and findings tie back to multiple SDGs to inform policy and programs targeting these global goals. After assessing how online and offline MSMEs conducted basic business functions, the survey identified challenges that such MSMEs faced regarding their digital tool usage, or lack thereof. These insights tie to SDG 9: Industry, Innovation, and Infrastructure, which calls for a significant increase in access to information and communications technology and for universal and affordable internet access. The survey also looked at how online MSMEs used digital tools for business purposes; specifically, it explored how their digital tool usage changed during the COVID-19 pandemic. By examining how MSMEs developed their economic resilience through the use of digital tools during the pandemic, this line of inquiry links to SDG 1: No Poverty and SDG 8: Decent Work and Economic Growth. Reporting on the women-owned MSME segment also sheds light on SDG 5: Gender Equality, with women-led enterprises using digital tools to enter the marketplace and contribute to the global economy. Similarly, reporting on the manufacturing and industry sector provides insights on SDG 9: Industry, Innovation, and Infrastructure, and reporting on the agriculture and food production sector aligns to SDG 2: Zero Hunger and SDG 12: Sustainable Production and Consumption. By concluding with suggested interventions for public, private, and development sector actors to address MSME challenges in using digital tools, the spirit of the survey embodies SDG 17: Partnerships for the Goals.

- viii This brief uses the term "micro, small, and medium enterprises" (MSMEs) to refer to the businesses surveyed for this research, in line with the terminology used by multilateral institutions such as the International Finance Corporation and the United Nations. Although many countries have different official definitions of MSMEs (including Sri Lanka, where the government of Sri Lanka officially classifies MSMEs by their number of employees), DAI applied a standardized definition for consistency across all survey countries, based on the number of full-time, part-time, or seasonal employees or workers (including the respondent): micro (one employee), small (two to nine employees), and medium (10 to 249 employees).
- ix "Digital tools" refers to Internet-based technologies and social media. This is a broad term that includes the use of the internet in any of the following activities: social media platforms, such as Facebook, Facebook Messenger, Facebook Marketplace, WhatsApp, or Instagram; other social media platforms, such as Twitter, TikTok, LinkedIn, SnapChat, Pinterest, Tumblr, Reddit, or YouTube; other messaging applications, such as Viber, Line, WeChat, QQ, or Telegram; business software or cloud computing, such as Microsoft Office, Word or Excel, Google Drive, Docs or Sheets, or Amazon Web Services); e-commerce websites, such as Amazon, Alibaba, Etsy, or Mercado Libre; email, such as Gmail, Hotmail, or Yahoo; mobile banking and digital payments, such as PayPal, Venmo, Yape, or Pliin; videoconferencing, such as Zoom, Skype, or Google Hangouts.
- x This survey collected evidence directly from 1,026 MSME owners and top-level managers in Sri Lanka. Research findings reported in this series should not be considered representative of country MSMEs due to the limitations of the surveys. See methodology appendices for more information.
- xi Not all MSMEs who reported ever using digital tools for business purposes were considered "online" for the purposes of this survey. Surveyed MSMEs that did not report using digital tools in the past year were considered "offline," regardless of their use of digital tools over a year ago and/or prior to the COVID-19 pandemic. Because this subset of MSMEs no longer actively uses digital tools, they are not considered online MSMEs.
- xii Research findings reported in this series should not be considered representative of country MSMEs due to the limitations of the surveys. See methodology appendices for more information.

COVID-19 AND MSMEs IN SRI LANKA

The COVID-19 crisis has presented significant challenges for Sri Lanka's economy and its robust MSME sector.⁵ Following the conclusion of the Sri Lankan Civil War in 2009, the nation experienced an average economic growth rate of between four and five percent.⁶ Small and medium-sized enterprises (SMEs) played a critical role in this growth and development, accounting for approximately 75 percent of all businesses and contributing 45 percent of total employment.⁷ COVID-19 caused serious challenges for many businesses in Sri Lanka's MSME sector. According to the International Finance Corporation (IFC), two-thirds of SMEs reported a decrease in demand for their products or services, difficulty meeting operating expenses, and increased employee turnover since the pandemic began.⁸

In response to the unprecedented economic changes brought on by the COVID-19 pandemic, some MSMEs began to adopt digital technologies into their business. According to a 2020 IFC report, one-third of SMEs surveyed have tried at least one new digital business channel since the pandemic began, with digital tools used for marketing and sales being the most common.⁹ This finding is reinforced by Deloitte's "Digital Tools in Crisis and Recovery – How SMBs in Sri Lanka Have Adapted To COVID-19" report published in August 2020, which found that 42 percent of SMBs^{xiii} surveyed reported they started using or increased their usage of social media platforms when interacting with customers since the COVID-19 pandemic began.¹⁰ Similarly, Deloitte's "Digital Tools in Crisis and Recover – How Consumers in Sri Lanka Have Adapted To COVID-19" found that 56 percent of consumers surveyed reported that social media helped them discover a new business.¹¹ These findings indicate that both businesses and consumers turned to digital technologies during the pandemic when normal economic conditions were disrupted, and that Sri Lanka is in the early stages of a digital transformation.

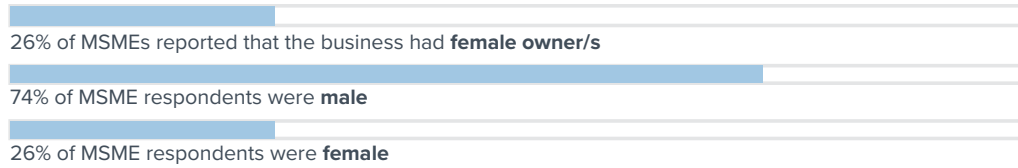
xiii If citing other literature that uses another term to refer to MSMEs, such as small and medium enterprise (SME) or small and medium-sized business (SMB), we use the term cited in the source document. This is why the term "small and medium-sized business" appears here.

SAMPLE OVERVIEW

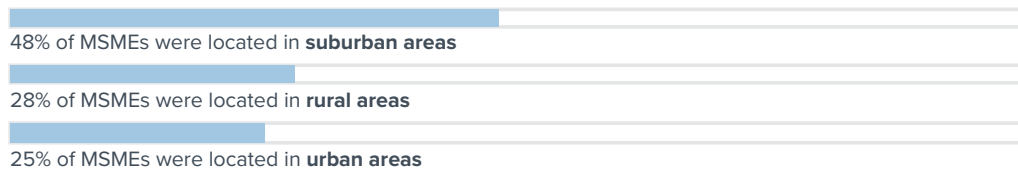
This survey had 1,026 MSME respondents comprised of business owners and top-level managers; the below percentages provide detail on the sample.



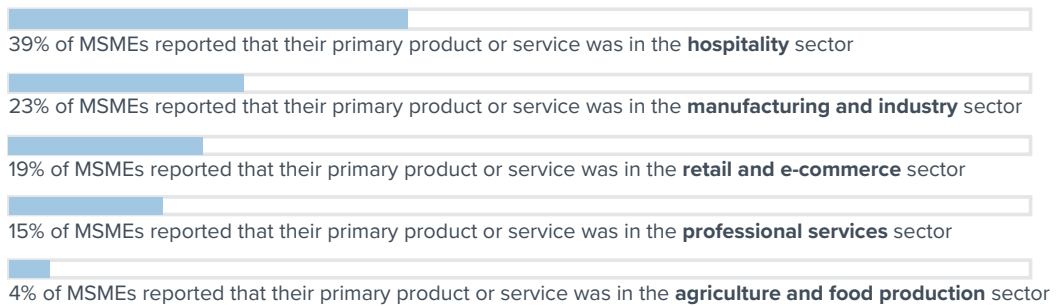
Gender



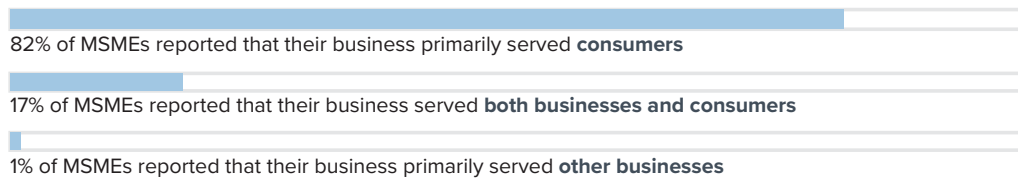
Urbanicity



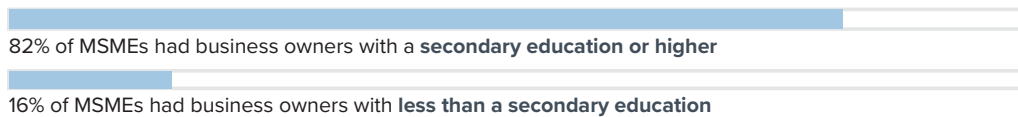
Sector



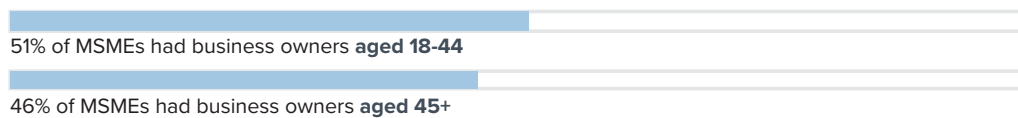
Customer base



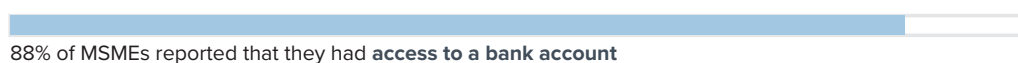
Business owner education



Age of business owner



Bank account access



MSMEs AND DIGITAL TOOL USE: SNAPSHOTS IN TIME

Less than half of surveyed MSMEs in Sri Lanka used digital tools for business purposes prior to the COVID-19 pandemic. Usage did somewhat increase during the pandemic, when slightly more than half of surveyed MSMEs reported using digital tools. Email was frequently cited as a commonly used digital tool, and more than half of surveyed online MSMEs accessed the internet through a mobile phone.



Fewer than half of surveyed MSMEs reported using digital tools for business purposes before the COVID-19 pandemic and in the past 30 days, but there was a slight increase in digital tool use in the past year during the COVID-19 pandemic:^{xiv}

49% of MSMEs reported that they had **ever used digital tools** for business purposes prior to the COVID-19 pandemic

53% of MSMEs reported that they had used digital tools for business purposes **in the past year** during

49% of MSMEs reported that they had used digital tools for business purposes **in the past 30 days**



Surveyed MSMEs cited email as a frequently used digital tool during all time periods:

27% of MSMEs reported that they had ever used email for business purposes **prior to** the COVID-19 pandemic

28% of MSMEs reported that they had used email for business purposes **in the past year** since COVID-19

25% of MSMEs reported that they had used email for business purposes **in the past 30 days**

^{xiv} Difference in use of digital tools for business purposes in the past year and use of digital tools for business purposes prior to COVID-19 is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$. Difference in use of digital tools for business purposes in the past year and use of digital tools for business purposes in the past 30 days is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.



More than half of surveyed online MSMEs used a mobile phone and a minority used a laptop or desktop PC to connect to the internet:

64% of online MSMEs reported that they primarily used a **mobile phone** to connect to the internet

33% of online MSMEs reported that they primarily used a **laptop or PC** to connect to the internet

3% of online MSMEs reported that they primarily used a **tablet** to connect to the internet



More surveyed women-owned MSMEs were observed using Facebook apps for business purposes in the past year than surveyed men-owned MSMEs

Differences in use of specific digital tools between surveyed men-owned and surveyed women-owned MSMEs were notable in the use of Facebook apps for business purposes, which saw higher rates of use among surveyed women-owned MSMEs. For example, 52 percent of surveyed women-owned MSMEs compared to 43 percent of surveyed men-owned MSMEs reported using Facebook apps for business purposes in the past 30 days.^{xv} Similarly, the use of Facebook apps in the past year since COVID-19 stood at 56 percent of surveyed women-owned MSMEs and 47 percent of surveyed men-owned MSMEs.^{xvi} As such, the results of this survey support the finding that more surveyed women-owned MSMEs used Facebook apps in the past year during the pandemic than men.

Survey results also observed more than half of surveyed men-owned and women-owned MSMEs used digital tools for business purposes during the COVID-19 pandemic; this finding was not statistically significant.^{xvii} For example, 57 percent of surveyed women-owned MSMEs reported that they had used digital tools for business purposes in the past year since COVID-19, compared to 51 percent of surveyed men-owned MSMEs during the same time period.^{xviii} Furthermore, although survey results showed more surveyed women-owned MSMEs used digital tools in the past year since COVID-19, a 2020 report by the IFC found that women-owned MSMEs were less likely to use digital tools for business purposes than men-owned MSMEs.¹² These findings suggest that, amongst surveyed MSMEs in Sri Lanka, surveyed women-owned MSMEs embraced the use of digital tools during the pandemic, and especially Facebook apps, at more robust levels than surveyed men-owned MSMEs in the past year.

xv Use of Facebook apps for business purposes in the past 30 days by gender owner is statistically significant per Chi-squared test of independence, adjusted $p < 0.05$.

xvi Use of Facebook apps for business purposes in the past year by gender owner is statistically significant per Chi-squared test of independence, adjusted $p < 0.05$.

xvii Use of digital tools for business purposes in each time frame by gender owner is not statistically significant for any time frame per Chi-squared test of independence, adjusted $p > 0.05$.

xviii Difference in use of digital tools for business purposes in the past year and use of digital tools for business purposes prior to COVID-19 among women-owned MSMEs is not statistically significant per Chi-squared goodness of fit test, adjusted $p > 0.05$.



KEY INSIGHTS FOR POLICYMAKERS

Less than half of surveyed MSMEs in Sri Lanka used digital tools for business purposes prior to the COVID-19 pandemic, but surveyed MSMEs' use of digital tools increased slightly during the pandemic. For example, 49 percent of surveyed MSMEs reported using digital tools for business purposes prior to COVID-19, which then rose slightly to 53 percent in the past year during COVID-19. However, surveyed MSMEs' increased use of digital tools could have been temporary, as digital tool usage fell back to pre-COVID-19 figures in the past 30 days. More specifically, 49 percent of surveyed MSMEs reported using digital tools in the past 30 days. Digital tools, such as email, were popular with surveyed MSMEs during the pandemic and saw modest increases in usage as well. For example, 27 percent of surveyed MSMEs used email prior to COVID-19, increasing to 28 percent in the past year during COVID-19 but falling below pre-COVID-19 figures in the past 30 days to 25 percent. This evidence suggests that surveyed MSMEs were still in the early phase of their digital transformation and the digital gains made during COVID-19 were short-lived.

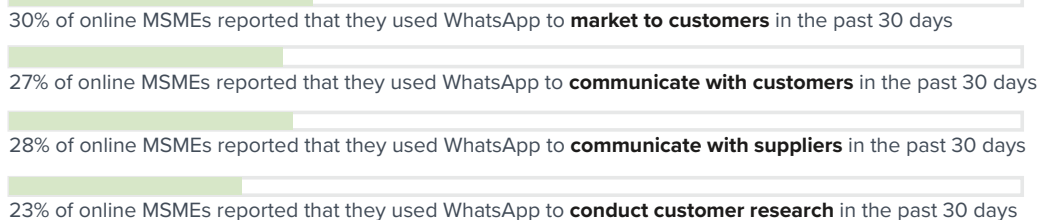
Throughout emerging markets, mobile phones are a key way for individuals to access the internet.¹³ According to the survey results, surveyed online MSMEs in Sri Lanka were no exception. More than half of surveyed online MSMEs (64 percent) reported that they primarily used a mobile phone to connect to the internet. However, despite survey evidence suggesting that surveyed MSMEs in Sri Lanka were still in the early phase of their digital transformation, a minority of surveyed surveyed online MSMEs (33 percent) used a laptop or PC to connect online. This finding suggests that, while more than half of online MSMEs did rely on a mobile phone for internet access, there was a small segment of surveyed online MSMEs who have the capabilities and resources to use more advanced hardware, like laptops or PCs. However, given the large penetration of mobile phones in Sri Lanka¹⁴, public, private, and development sector stakeholders could look for opportunities to enhance MSMEs use of mobile internet as an accessible “on ramp” for expanding digital tool use amongst offline MSMEs or those who do not use a laptop or PC.

HOW MSMEs MANAGE KEY BUSINESS ACTIVITIES

Surveyed MSMEs used a variety of both online and offline tools to manage business activities, with WhatsApp cited by a high percentage of surveyed online MSMEs for conducting various business activities about which they were asked. However, offline methods^{xix} had a strong foothold in surveyed MSMEs' operations, suggesting that digital tools augmented and amplified, rather than replaced, more traditional offline methods.



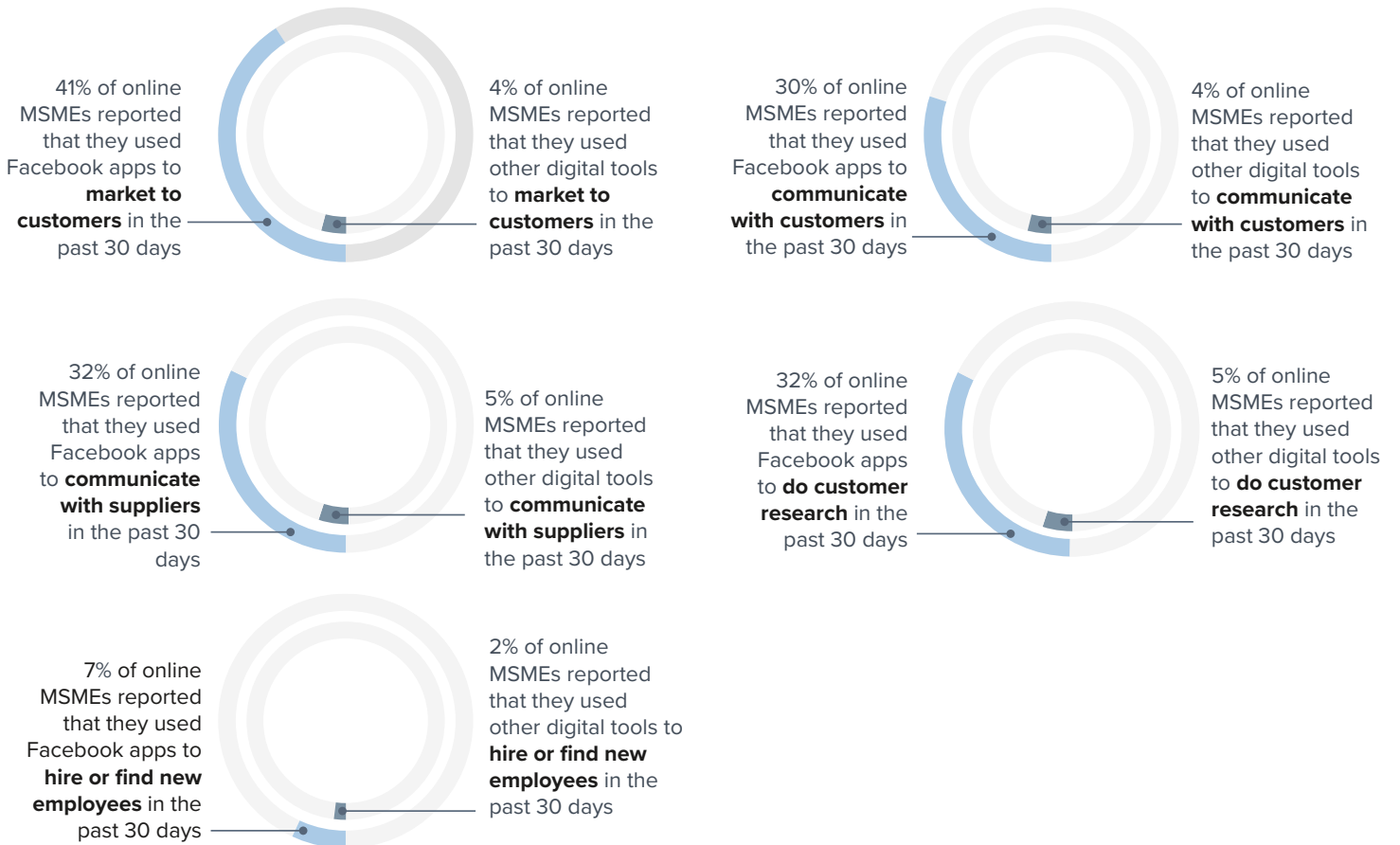
WhatsApp was used by surveyed online MSMEs across multiple business activities about which they were asked, such as for business communications and marketing:^{xx}



xix The term "offline methods" includes face-to-face interaction; paper-based methods such as letters, fliers or billboards; and through a telephone call, SMS, or text message (does not include WhatsApp).

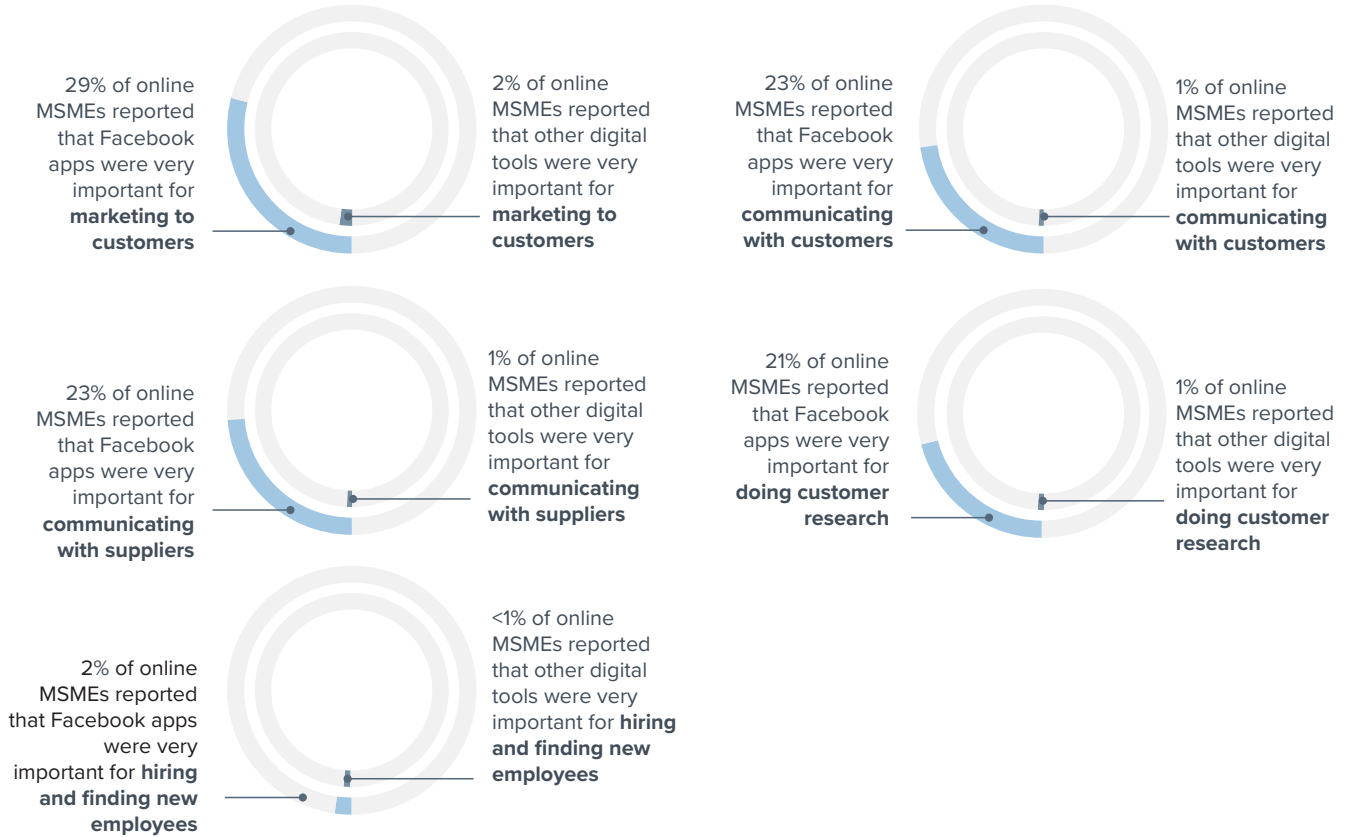
xx Difference between use of WhatsApp to conduct customer research in the past 30 days and use of WhatsApp for employing or finding new employees in the past 30 days is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.

A higher percentage of surveyed online MSMEs reported using Facebook apps than other digital tools to conduct each business activity about which they were asked, especially in marketing to customers^{xxi}...



^{xxi} Difference between use of Facebook apps and use of other digital tools for each business activity in question is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.

...And a higher percentage of surveyed online MSMEs stated that Facebook apps were very important for each business activity about which they were asked compared to other digital tools^{xxii} ...



...but offline methods^{xxiii} were the most popular method for surveyed online MSMEs to conduct each business activity:



xxii Difference between percent reporting Facebook apps as very important and percent reporting other digital tools as very important for each business activity in question is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.

xxiii The term "offline methods" includes face-to-face interaction; paper-based methods such as letters, fliers or billboards; and through a telephone call, SMS, or text message (does not include WhatsApp).



Surveyed MSME digital tool use to sell goods and services increased during COVID-19 when in-person methods fell dramatically

Selling goods and services is a key business activity for all MSMEs. In the survey, 38 percent of surveyed MSMEs reported that they had ever used digital tools to sell goods and services. However, survey results showed a substantial increase in the use of digital tools to sell goods and services during the COVID-19 pandemic and a massive decrease in the use of in-person methods to sell goods and services. More specifically, 25 percent of surveyed MSMEs reported that they used digital tools to sell goods and services prior to COVID-19, which then increased to 31 percent during COVID-19.^{xxiv} In comparison, 93 percent of surveyed MSMEs reported that they had ever used in-person methods to sell goods and services prior to COVID-19, which then decreased 43 percentage points to 50 percent during COVID-19.^{xxv} The survey results also found a substantial increase in the use of social media to sell goods and services. For example, 24 percent of surveyed MSMEs reported that they used social media to sell goods and services prior to COVID-19, which then increased six percentage points to 30 percent during COVID-19.^{xxvi} This finding illustrates that digital tools, such as social media played a distinct role in selling goods and services during the pandemic when in-person transactions fell sharply.



Surveyed offline MSMEs reported using face-to-face interactions to conduct key business activities about which they were asked at a higher rate than other offline interaction methods, like telephone calls/SMS.^{xxvii}

85% of offline MSMEs reported that they used face-to-face to **communicate with customers** in the past 30 days

34% of offline MSMEs reported that they used telephone calls, SMS or text message to **communicate with customers** in the past 30 days

84% of offline MSMEs reported that they used face-to-face to **conduct customer research** in the past 30 days

22% of offline MSMEs reported that they used telephone calls, SMS or text message to **conduct customer research** in the past 30 days

- xxiv Difference between use of digital tools to sell goods and services in the past year and prior to COVID-19 is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.
- xxv Difference between the use of in-person methods to sell goods and services in the past year and prior to COVID-19 is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.
Difference between the use of in-person methods to sell goods and services in the past year and in the past 30 days is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.
- xxvi Difference between use of social media to sell goods and services in the past year and prior to COVID-19 is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.
- xxvii Difference between use of face-to-face interaction and use of telephone calls, SMS, or text message for each business activity in question among offline firms is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.



Surveyed MSMEs reported having difficulty with customer and supplier-facing business activities and other external communications at a similar rate as other back-end business functions:

35% of MSMEs reported ever having **difficulty marketing to customers**

36% of MSMEs reported ever having **difficulty communicating with customers**

37% of MSMEs reported ever having **difficulty communicating with suppliers**

32% of MSMEs reported ever having **difficulty doing customer research**

31% of MSMEs reported ever having **difficulty hiring or finding new employees**

KEY INSIGHTS FOR POLICYMAKERS

Facebook apps were the most frequently reported digital tools that surveyed online MSMEs reported using to conduct each business activity about which they were asked. For instance, 41 percent of surveyed online MSMEs reported that they used Facebook apps to market to customers in the past 30 days, compared to four percent who used other digital tools during the same time period. Accordingly, surveyed online MSMEs also reported that Facebook apps were very important for each business activity at a much higher rate than for other digital tools. For example, 29 percent of surveyed online MSMEs reported that Facebook apps were very important for marketing to customers, compared to two percent of surveyed online MSMEs who said this about other digital tools. Therefore, for digital tools to have widespread uptake by MSMEs, they should be simple and intuitively designed, with a focus on the needs of end-users.

Nevertheless, survey findings indicated that surveyed online MSMEs in Sri Lanka were supplementing, rather than wholly replacing, their use of offline techniques with digital tools. More specifically, a higher percentage of surveyed online MSMEs in Sri Lanka reported using offline methods, especially face-to-face techniques, in the past 30 days than digital tools for each business activity. This finding also echoed the high reported usage of face-to-face interactions among surveyed offline MSMEs across all business activities, with 85 percent of surveyed offline MSMEs reporting that they used face-to-face to communicate with customers in the past 30 days. In this context, public, private, and development stakeholders have an opportunity to develop digital tools that can support — rather than replace — the ways that MSMEs currently operate.

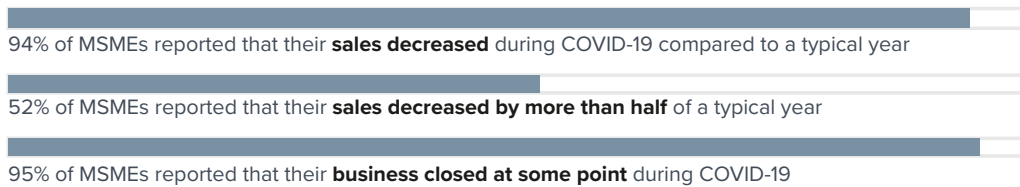


MSMEs DURING THE COVID-19 PANDEMIC

The COVID-19 pandemic was a challenge for surveyed MSMEs in Sri Lanka. A vast majority of surveyed businesses closed at some point during the pandemic and experienced decreases in their sales. To adapt to this new environment, more than half of surveyed online MSMEs used digital tools and reported that digital tools were important or essential in keeping their business running during COVID-19. An interview with the owner of ELU showed how Facebook apps played a valuable role in helping his business navigate reductions in in-person shopping during the pandemic. By using Facebook apps he was able to directly connect with customers and make deliveries. Citing the benefits digital tools had on his business, he would like to learn more about online marketing to grow his brand. See full case study [page 21](#).



Surveyed MSMEs sales decreased during the COVID-19 pandemic:





Well-known digital tools – such as Facebook apps and mobile banking^{xxviii} – helped surveyed online MSMEs adapt to the COVID-19 economic environment:

73% of online MSMEs reported that **digital tools were important or essential to keeping their business running** during COVID-19

83% of online MSMEs reported that **Facebook apps** helped them adapt to the COVID-19 environment

31% of online MSMEs reported that **digital payment tools** helped them adapt to the COVID-19 environment

30% of online MSMEs reported that **email** helped them adapt to the COVID-19 environment



Surveyed MSMEs in the retail and e-commerce sector increased their use of digital tools during the COVID-19 pandemic, with Facebook apps and email being the most popular.

Across business sectors,^{xxx} surveyed MSMEs increased their usage of digital tools for business purposes during the pandemic. For example, 46 percent of surveyed MSMEs in the retail and e-commerce sector reported that they had ever used digital tools for business purposes prior to COVID-19, increasing to 53 percent in the past year during COVID-19.^{xxx}

Facebook apps and email were listed as the two most frequently used digital tools by surveyed MSMEs in all business sectors, demonstrating surveyed online MSMEs used a combination of older and newer digital tools in their business. For example, 49 percent of surveyed MSMEs in hospitality, 25 percent in retail and e-commerce, 21 percent in manufacturing, and 20 percent of surveyed MSMEs in professional services used email in the past 30 days.^{xxxi} In addition, 88 percent of surveyed online MSMEs in hospitality, 87 percent in professional services, 82 percent in manufacturing, and 72 percent in retail and e-commerce reported that Facebook apps helped them adapt to the COVID-19 environment.^{xxxii} These findings illustrated that across all surveyed business sectors, surveyed MSMEs recognized that digital tools like Facebook apps helped them adapt to the COVID-19 environment.

xxviii Mobile banking as used in this brief refers to both mobile banking and digital payments.

xxix Results from businesses in the agriculture and food sector are not discussed due to sampling size limitations.

xxx Among MSMEs in the retail and e-commerce sector, the difference in use of digital tools for business purposes in the past year and use of digital tools for business purposes prior to COVID-19 is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.

xxxi Use of email for business purposes in the past year by sector is statistically significant per Chi-squared test of independence, adjusted $p < 0.05$.

xxxii Reported Facebook apps as helpful to adapting to the COVID-19 environment by sector among online MSMEs is statistically significant per Chi-squared test of independence, adjusted $p < 0.05$.



Surveyed MSMEs in suburban areas increased their use of digital tools for business purposes during the COVID-19 pandemic

According to survey results, more than half of surveyed MSMEs in rural and suburban areas used digital tools for business purposes in the past year during the pandemic. For example, 57 percent of surveyed rural MSMEs and 55 percent of surveyed suburban MSMEs reported that they had used digital tools for business purposes in the past year since COVID-19.^{xxxiii} However, this survey result was not statistically significant and outside research suggests there is an urban-rural gap in digital tools use within Sri Lanka. For instance, a 2019 report by LIRNEasia – a South Asian think tank – found a 23 percent urban-rural gap in internet use in Sri Lanka.¹⁵

However, survey results did show that digital tool use in suburban areas increased by five percentage points when comparing digital tool use from before the pandemic to the past year.^{xxxiv} More specifically, 50 percent of surveyed suburban MSMEs reported that they had used digital tools for business purposes prior to COVID-19, and 55 percent of surveyed suburban MSMEs reported that they had used digital tools in the past year since COVID-19.

xxxiii Use of digital tools for business purposes in the past year by urbanicity (rural and suburban only) is not statistically significant per Chi-squared test of independence, adjusted $p > 0.05$.

xxxiv Among suburban MSMEs, the difference in the use of digital tools for business purposes in the past year and use of digital tools for business purposes prior to COVID-19 is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.



KEY INSIGHTS FOR POLICYMAKERS

Survey results showed the economic slowdown stemming from the COVID-19 pandemic negatively affected the vast majority of surveyed MSMEs' sales throughout Sri Lanka. More than nine out of ten surveyed MSMEs (94 percent) reported that their sales decreased during the pandemic compared to a typical year. These findings are aligned with a survey conducted by IFC in June and July 2020, which reported that nearly three-quarters of surveyed SMEs^{xxxv} that continued to operate during the pandemic reported that their revenue decreased.¹⁶

Despite reported decreases in sales among surveyed MSMEs, many surveyed online MSMEs reported that digital tools helped them adapt to the COVID-19 environment. For example, more than half (73 percent) of surveyed online MSMEs reported that digital tools were important or essential to keeping their business running during COVID-19. From a list of various digital tools, a large majority of surveyed online MSMEs reported that Facebook apps (83 percent) helped them adapt to the COVID-19 environment. Furthermore, 31 percent of surveyed online MSMEs reported that digital payment

tools helped them adapt to the COVID-19 environment and 30 percent of surveyed online MSMEs reported that email helped them adapt to the COVID-19 environment.^{xxxvi} Aligned with the well-documented phenomenon of technological leapfrogging, by which entrepreneurs in emerging markets bypass the use of established technologies in favor of newer ones,¹⁷ surveyed online MSMEs in Sri Lanka appeared to favor newer digital tools such as social media compared to older digital tools such as email. With the growing importance of digital payment tools alongside the robust usage of intuitive, cost-effective tools such as Facebook and messaging apps, there may be an opening for public, private, and development sector stakeholders to increase digital tool use among Sri Lanka's MSMEs by using these tools as an "on-ramp" for increased adoption of other digital tools. By providing MSMEs with a positive user experience in early adoption and usage, the increase in digital tool use during the COVID-19 pandemic has the potential to convert into long-term behavior change and a sustained process of digitalization by MSMEs.

xxxv These SMEs were clients of four financial institutions and part of the distribution network of one fast-moving consumer goods company. The authors of this report recognized that this might skew that sample towards larger, more formalized SMEs.

xxxvi Difference between reported use of email and digital payment tools to adapt to COVID-19 was not found to be statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.

Difference between reported use of email and Facebook apps to adapt to COVID-19 was found to be statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.

Difference between reported use of digital payments and Facebook apps to adapt to COVID-19 was found to be statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.

CASE STUDY

ELU GOAT MILK



www.facebook.com/elukiri/



www.instagram.com/elu.lk



AGRICULTURE
& FOOD
PRODUCTION



SMALL
ENTERPRISE



RURAL



SDG 2:
ZERO HUNGER

Established in 2016, ELU is a premium goat milk brand that specializes in fresh goat milk and handmade goat milk soap. ELU maintains their own goats and partners with farmers that share the same commitment to animal welfare and environmental stewardship. Prior to the COVID-19 pandemic, the owner and his partners relied on supermarket sales, which included agents picking up ELU products from supermarkets and delivering them to customers.

Early in the COVID-19 pandemic, ELU's sales fell because its customers could no longer visit retail outlets. In their shift to a new business model, ELU and its owners quickly turned to social media platforms – such as Facebook, WhatsApp, and Instagram – to directly connect to customers and make deliveries. To support customers in placing orders, they turned to WhatsApp for Business. Key features included Auto Replies, which allowed ELU staff to respond immediately to inquiries with template messages, and Catalog, to showcase all their available products. ELU and its owners also use the Labelling feature to keep track of customers who have or have not purchased from them. To date, 50 percent of ELU's business revenue is derived from Facebook; it also has an 80 percent sales conversion rate on inquiries through WhatsApp.

In the midst of the pandemic, ELU successfully expanded into the online commerce space, selling their products via Facebook and Instagram. Moving forward, ELU's owners plan to expand their online business operations by focusing more on digital marketing. In the offline space, they continue to make sales in supermarkets and plan to open a physical store within the next two years to allow customers to purchase ELU goods directly from the business. By working directly with goat farmers, thereby increasing their resilience and improving their livelihoods, ELU embodies SDG 2: Zero Hunger. Supporting smallholder businesses in commercializing agriculture advances Sri Lanka's inclusive economic growth agenda.



“For any type of business, depending on direct customers is the best. Facebook and Instagram are great platforms for businesses to do that.”

BARRIERS TO THE ADOPTION AND USE OF DIGITAL TOOLS AMONG MSMEs

Surveyed online MSMEs reported that digital tools' high cost was the most challenging difficulty their business faced, and surveyed offline MSMEs cited a lack of knowledge as the most challenging difficulty. Despite these difficulties, surveyed online and offline MSMEs reported an interest in learning more about using digital tools, especially for customer-facing activities.



Poor or no internet connectivity was the most frequently cited difficulty by surveyed online MSMEs, while a lack of knowledge was the most cited difficulty by surveyed offline MSMEs:

41% of online MSMEs reported that **poor or no internet connectivity** was a difficulty their business faced in using digital tools

45% of offline MSMEs reported that **lack of knowledge** was a difficulty their business faced in using digital tools



Surveyed online MSMEs also cited that a lack of customer interest and knowledge as well as digital tools' high cost were frequent difficulties, while surveyed offline MSMEs cited similar barriers in addition to a reported lack of relevance to their business:

32% of online MSMEs reported that **high cost** was a difficulty their business faced in using digital tools

29% of online MSMEs reported that **lack of customer interest** was a difficulty their business faced in using digital tools

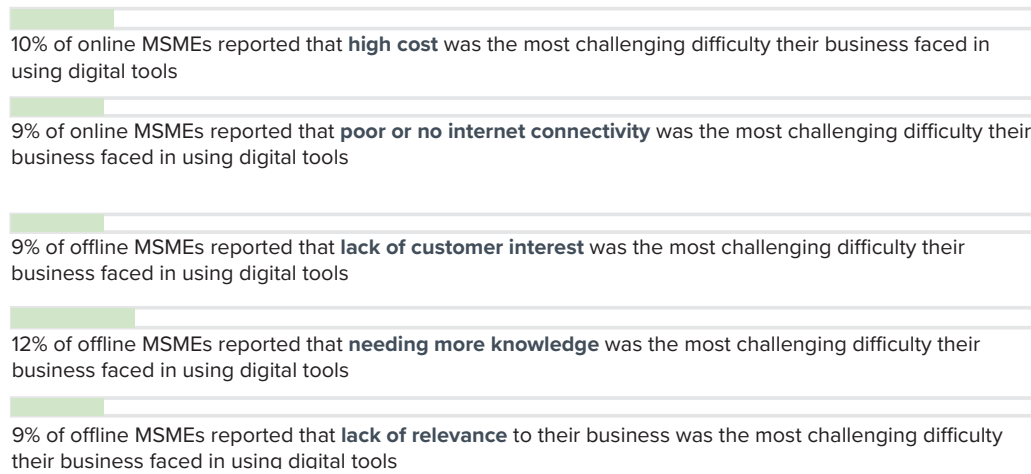
28% of online MSMEs reported that **lack of knowledge** was a difficulty their business faced in using digital tools

35% of offline MSMEs reported that **lack of relevance** to their business was a difficulty their business faced in using digital tools

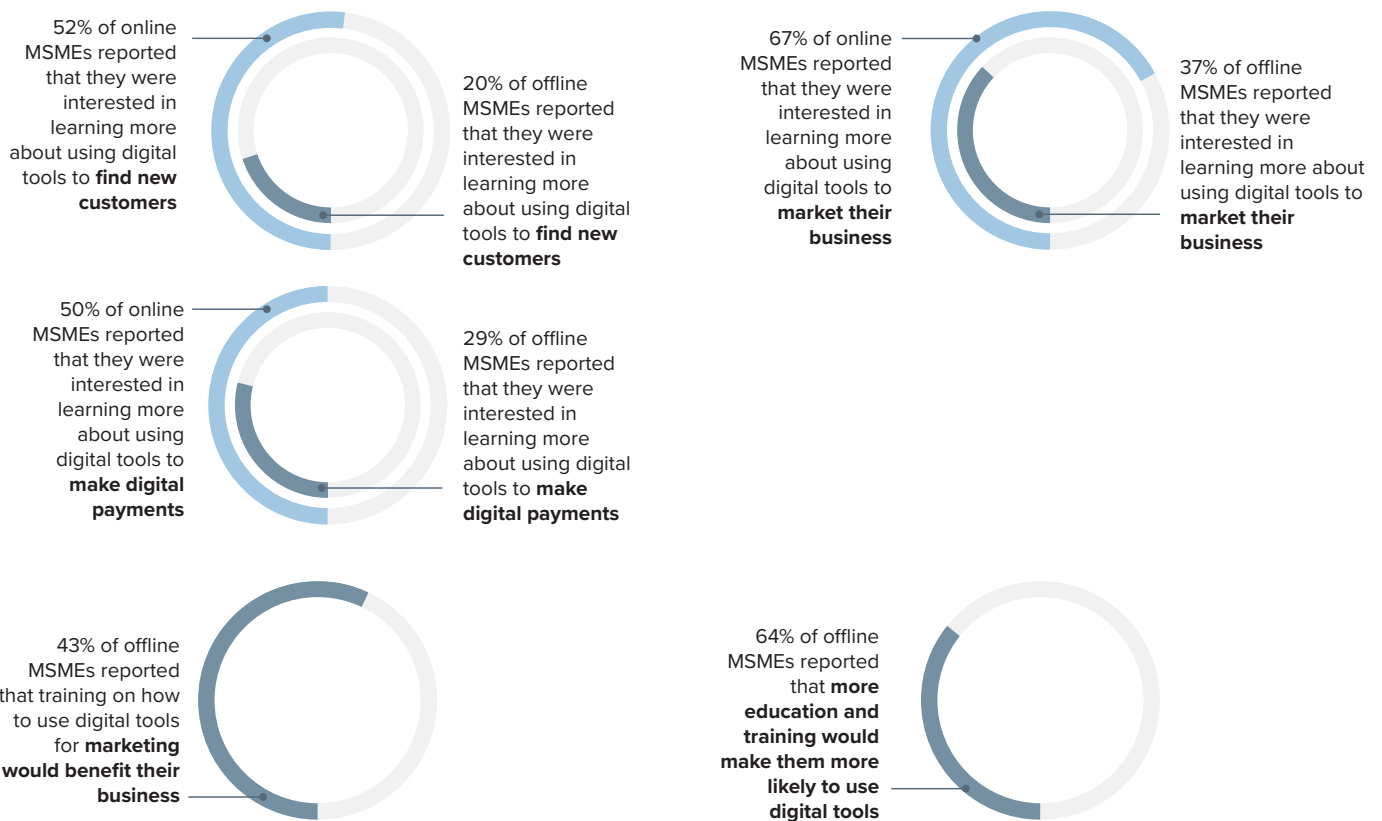
19% of offline MSMEs reported that **high cost** was a difficulty their business faced in using digital tools

15% of offline MSMEs reported that **poor or no internet connectivity** was a difficulty their business faced in using digital tools

Digital tools' high cost was the most challenging difficulty cited by surveyed online MSMEs and needing more knowledge was the most challenging difficulty cited by surveyed offline MSMEs.^{xxxvii}



More than half of surveyed online MSMEs and a minority of surveyed offline MSMEs reported an interest in learning more about using digital tools to market their business:



^{xxxvii} When asked what was their most challenging difficulty using digital, responses were coded to fit 18 options. The options displayed in this figure correspond to those displayed in the prior graph, where the most common difficulties are displayed. Options: need more knowledge or know-how; poor or no internet connectivity; it is too expensive or the costs are too high; difficult to access a mobile phone, tablet, or computer; do not have consistent access to electricity; customers do not use them; suppliers do not use them; they are not relevant to this business or do not see a need for them; do not trust digital transactions, fear of information being stolen; hard to comply with legal requirements such as digital security and consumer protection standards; not enough relevant posts, articles, pictures or videos in my local language; fear of accessing inappropriate or offensive posts, articles, pictures or videos; digital tools were not effective or did not work; nothing prevents this business from using the internet, social media, or digital tools; other; don't know; refused.



More than half of surveyed online MSMEs reported feeling confident adjusting settings on digital tools, while a minority of surveyed offline MSMEs reported the same:

52% of online MSMEs reported that they **felt confident** adjusting settings on a phone, computer, or tablet

21% of offline MSMEs reported that they **felt confident** adjusting settings on a phone, computer, or tablet



More surveyed online MSMEs reported that they were self-taught or learned how to use digital tools from friends or family than offline MSMEs

A significantly higher percentage of surveyed online MSMEs reported that they were self-taught on how to use digital tools than surveyed offline MSMEs.^{xxxviii} For example, 78 percent of surveyed online MSMEs reported that they were self-taught on how to use digital tools, compared to 44 percent of surveyed offline MSMEs. In addition, the second most frequently selected answer option by surveyed online and offline MSMEs about how they learned to use digital tools was from their friends or family. More specifically, 47 percent of surveyed online MSMEs reported that they learned how to use digital tools from their friends or family, compared to 36 percent of surveyed offline MSMEs.^{xxxix} Furthermore, these results showed that the large percentage-point difference between how surveyed online and offline MSMEs learned how to use digital tools suggests that surveyed online MSMEs had higher levels of digital tool knowledge and familiarity than surveyed offline MSMEs. Policymakers and other development sector stakeholders could therefore build on this base of knowledge and leverage surveyed online MSMEs digital capabilities to enhance the skills of other independent learners interested in digital tools.

xxxviii Difference between online and offline users who reported being self-taught on how to use digital tools is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.

xxxix Difference between online and offline users who reported learning from friends or family on how to use digital tools is statistically significant per Chi-squared goodness of fit test, adjusted $p < 0.05$.



KEY INSIGHTS FOR POLICYMAKERS

Both surveyed online and offline MSMEs reported facing similar difficulties when using digital tools, though their most frequently cited difficulties varied. Poor or no internet connectivity was the most frequently reported answer option by surveyed online MSMEs (41 percent). In comparison, the most frequently reported difficulty by surveyed offline MSMEs was a lack of knowledge in using digital tools (45 percent). Furthermore, surveyed online MSMEs cited a (perceived) lack of customer interest (32 percent), lack of knowledge (29 percent), and digital tools' high cost (28 percent) as the second, third, and fourth most frequently reported difficulties. While surveyed offline MSMEs cited a (perceived) lack of relevance (35 percent), digital tools' high cost (19 percent), and poor or no internet connectivity (15 percent) as the second, third, and fourth most frequently reported difficulties. While all these difficulties were difficulties that surveyed online and offline MSMEs faced, high cost was the most challenging one faced by surveyed online MSMEs (10 percent) and needing more knowledge was the most challenging one faced by surveyed surveyed offline MSMEs (12 percent). These survey results indicated that while online and offline MSMEs cited difficulties differently, they faced a

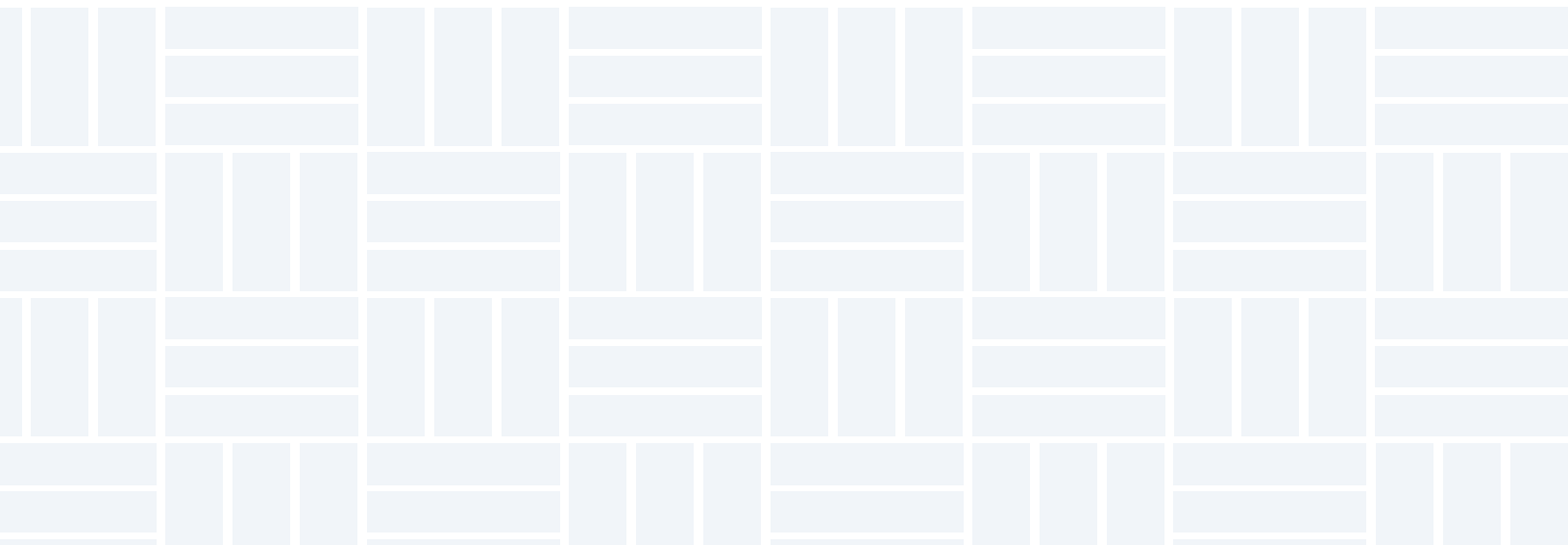
similar set of barriers to using digital tools for business purposes. These findings suggest that investments by public, private, and development sector stakeholders in tackling areas of common difficulty for both online and offline MSMEs can have compounding positive effects. For example, investments in developing MSMEs digital literacy skills could potentially address knowledge gaps that could bring more offline MSMEs online, while also expanding digital tool usage by online MSMEs.

Survey results also showed that surveyed online and offline MSMEs were interested in learning more about how to use digital tools to improve their customer-facing activities. For example, both surveyed online and offline MSMEs expressed a desire to learn more about how to use digital tools to market their business (67 and 37 percent, respectively). Furthermore, 43 percent of surveyed offline MSMEs reported that training on how to use digital tools to market their business would benefit their business. This finding reinforces the importance of working directly with MSMEs to build their digital skills on existing capabilities and to focus on topics of specific interest, such as marketing their business.

CLOSING REMARKS

With continued improvements in internet connectivity and digital literacy, and targeted interventions to improve the understanding of digital tools' relevance to common business activities, Sri Lanka's MSME sector will be well-positioned to harness the power of digital tools to improve business outcomes and become more resilient to future economic shocks. While slightly more than half of MSMEs surveyed in this study were online, those that were, largely recognized the importance of digital tools in keeping their business running during COVID-19. These findings present a rich opportunity for policymakers and other stakeholders to make a case for greater uptake of digital tools among MSMEs, and to identify targeted solutions addressing poor connectivity and low digital skills. With Facebook apps far outpacing other digital tool usage amongst surveyed online respondents, stakeholders could take advantage of the network effect to draw offline businesses into the online world.

Both surveyed online and offline MSMEs reported an interest in learning more about how to use digital tools for specific business functions. More than half of surveyed online businesses reported an interest in learning more about digital tools for marketing their business, while a minority of surveyed offline businesses reported the same. Looking ahead, it will be important to provide targeted, appropriate interventions to address connectivity and digital literacy barriers while continuing to enhance the skills of online MSMEs to further increase their use of digital tools. Promoting equitable digital tool usage within Sri Lanka's MSME sector will help build a Sri Lankan economy that is resilient to the COVID-19 pandemic and future shocks. MSMEs that are poised to grow and scale as the pandemic recedes will accelerate economic growth outcomes and support Sri Lanka in achieving its SDG commitments.



APPENDIX I: METHODOLOGY

OVERVIEW OF THE SURVEY DESIGN

From July 1 to August 15, 2021, Ipsos conducted 1,026 in-person interviews of enterprises via computer-assisted personal interviewing (CAPI) to better understand their use of digital tools as well as their challenges and barriers to digitization^{xi}

The sample for the study was defined to include and be limited to Sri Lanka's micro (1 employee), small (2 to 9 employees) and medium (10 to 249 employees) business populations^{xli} (summarized as "business size" in the text). Official statistics from the Department of Census 2013-2014 Database and 2021 data from the Department of the Registrar of Companies¹⁸ were used as a basis to estimate the proportion^{xlii} of businesses for each business size. These statistics were also used to establish target interview counts by business size, province, and Divisional Secretariat (DS) divisions^{xliii}

The targets for business size were set to approximate the distribution of the MSME population by business size across all of Sri Lanka. However, these estimates

are imperfect as the official statistics on which they are based do not include informal businesses and are not sufficiently recent to account for the impact of COVID-19 on business operations. Due to the lack of reliable official statistics, the data is not considered to be representative of the entire MSME formal and informal business population in Sri Lanka.

In addition, a 150 minimum-interview count for women-owned businesses was set. This means that if 150 interviews were not reached when the final sample size was achieved, then additional interviews would be conducted to oversample women-owned businesses to achieve 150 interviews. In Sri Lanka, this minimum was achieved naturally and no oversample was required.

Based on these estimates, the target interview counts were allocated as shown below, which also shows the actual interview counts achieved from fieldwork:

Target and Actual Interview Counts by Business Size, Urbanicity and Business-Owner Gender in Sri Lanka

	BUSINESS SIZE		URBANICITY			BUSINESS-OWNER GENDER		
	TARGET	ACTUAL		TARGET	ACTUAL		MINIMUM REQUIRED	ACTUAL
Micro	300	298	Urban	400	379	Women	150	265
Small	400	461	Rural	600	647			
Medium	300	267						

xi This is one in a series of 13 country reports about micro, small and medium-sized enterprises' (MSMEs) use of digital tools in North America, South America, South Asia, and Southeast Asia. These are accompanied by a global report, containing a complete description of the research and survey methodology.

xli Across all business size groupings, employees include the respondent (an owner or top-level manager of the MSME), any full-time employees or workers, and any part-time employees or workers.

xlii These were considered estimates, as the official statistics do not include informal businesses and are not sufficiently recent to account for the impact of COVID-19 on business operations.

xliii The Divisional Secretariat (DS) divisions which are governed by Urban Councils or Municipal Councils are classified as "Urban DS divisions/Regions". The DS divisions governed by Local Authorities/"Pradeshiya Sabha" are classified as "Rural DS divisions/Regions." There are some DS divisions that are part of the DS division governed by Urban Councils or Municipal Councils and governed by Local Authorities/"Pradeshiya Sabha" which are then classified as "Suburban DS divisions/Regions".

Sample Design

The sample design was a multistage stratified cluster sample. This means that the population was divided into geographic blocs and then through stages, each time selecting a more limited geographic unit until the final sampling unit for interviewing was selected. The geographic and sampling units defined at each stage were the following:

- **PSUs:** The primary sampling units (PSUs) were defined as provinces. All nine provinces in Sri Lanka were included.
- **SSU1s:** The secondary sampling units (SSU1s) were defined as Divisional Secretariat (DS) divisions.¹⁹ The SSU1s were then stratified within their PSUs by their urbanicity (urban, suburban, and rural).^{xliv} A total of 53 DS divisions were selected out of a nationwide total of 331. Each SSU1 was selected with random probability proportional to the number of businesses within their PSU-Urbanicity stratum.
- **SSU2s:** These were defined as commercial business areas within each SSU1. There were no available statistics for the total universe of SSU2s so they were selected using the combined knowledge of the research team and Ipsos' on-the-ground experience. This analysis took into account meeting target interview counts by urbanicity and business size. Where an SSU1 contained only one commercial business area, that served as the default SSU2. In densely populated business districts, a discretionary SSU2 would be selected to begin the random walk selection of individual businesses.
- **Individual businesses:** Within each SSU2, enumerators identified businesses to contact by using the random walk method. That is, after beginning at a random spot within a demarcated geographic area selected by the project management team based on their knowledge of

local business districts, enumerators counted off and approached every "Xth" business, where "X" was a randomly selected number provided on their interview sheets. First, they walked on the right-hand side of the street and turned right until they had walked around the entire perimeter, then they repeated the same process on the left side of the street. For the purposes of this survey, Ipsos enumerators only made contact with businesses with a storefront, booth or signage.

Once a business was identified, enumerators proceeded to gain consent for the interview. If the respondent agreed, the enumerator administered the screening questions and, if qualified, conducted the survey. If a business was not available, or the respondent requested that the interview be rescheduled, enumerators made three attempts to reach the business. If the enumerator was unable to reach the business after these three attempts, then that business was marked as a refusal. Survey participation was completely optional, dependent on explicit respondent consent, and non-compensated. Enumerators administered the screening and survey using pre-programmed tablets for data entry, ensuring consistency in the questionnaire administration.

Interview Response and Refusal Rates in Sri Lanka^{xlv}

	CAPI
Contacts	1,557
Completes	1,026
Refusals	462
Response rate ^{xlvi}	66%
Refusal rate ^{xlvii}	30%

xliv Some DS divisions are governed by both Councils and Local Authorities and thereby classified as "Suburban DS divisions/Regions". These were combined with rural DS divisions in both the target allocation and SSU stratification stages.

xlv By showing only the response rate and refusal rates, the table shows a limited set of the outcomes possible. The full set of dispositions includes outcomes such as ineligible respondent (i.e. not owner or top-manager), ineligible company, or suspended interview. The response rate and refusal rate calculations are not inclusive of the complete set of outcomes and therefore do not add to 100 percent.

xlvi Calculated using AAPOR Response Rate 3 methodology.

xlvii Calculated by dividing the number of refusals by the number of contacts.

Locations for Research in Sri Lanka

The target interview count and actual interview count by province are detailed below:

Target and Actual Interview Counts by Province

PROVINCE	TARGET	ACTUAL
Central Province	110	102
Eastern Province	63	80
North Central Province	37	34
North Western Province	141	178
Northern Province	53	52
Sabaragamuwa	75	78
Southern Province	112	82
Uva Province	43	43
Western Province	366	377
Total	1,000	1,026

Sample Weighting

Based on the fieldwork dispositions, Ipsos applied two weights to the raw survey data to account for provincial distribution as well as the variation in non-response by urban and rural designations and by gender.

- **Design weight:** A weight by all nine provinces was employed in Sri Lanka to adjust the sample to be proportionate to the number of businesses within each province as determined by the 2013 Economic Census²⁰. The 2013 Economic Census was used as a proxy for the proportion of businesses in each province, as opposed to the other source – 2021 data from the Department of the Registrar of Companies – used to create target interview counts by business size (as the latter sources do not include informal businesses). Therefore, general population counts were more likely to mirror the total (formal and informal) business population.

- **Non-response weight:** Weights were applied by urbanicity (urban/rural) and gender of respondent within strata based on response rates. For example, if an enumerator approached a business in province X with a female respondent, and they were ultimately marked as a refusal, the enumerator would still keep track of the fact that a female respondent was approached. During weighting, province X would be weighted to reflect the number of female and male respondents who were approached. Without these weights, the survey results would be biased by propensity to respond based on respondent gender and urbanicity.

These two weights were combined to create one overall final weight applied to all data points. The design effect for Sri Lanka is 1.40.^{xlviii}

Ipsos carefully considered a broad spectrum of weights to be applied. Two in particular – business-size and cross-national – were not applied. A business-size weight was not applied as the actual counts achieved through natural fallout closely matched the business-size targets set using the Economic Census data referenced above. A cross-national weight was not applied both because there were no reliable data sources that could account for sampling differences across all countries in fieldwork timing and survey modes, as well as the fact that the purpose of a cross-national weight would be to make the data in this report comparable to data for other country reports in this series.

Due to the limitations of the weighting strategy discussed here, the sample should not be considered to be wholly representative of formal and informal businesses in Sri Lanka.

xlviii The design effect is the ratio of an actual variance of an estimator that is based on a sample from some sampling design, to the variance of an alternative estimator that would be calculated (hypothetically) using a sample from a simple random sample (SRS) of the same number of elements. A design effect less than one indicates that the sample design has a smaller variance (is more efficient) than the hypothetical SRS design, whereas a design effect greater than one indicates that the sample design has a greater variance (is less efficient). Kish, Leslie (1965). "Survey Sampling". New York: John Wiley & Sons, Inc. ISBN 0-471-10949-5.

COVID-19 Protocols

Extensive COVID-19 protocols were observed during CAPI interviews: only two to three people were allowed at each interview location, two meters apart. Enumerators wore masks and gloves during all interviews – which they removed, cleaned, and stored or disposed of after every six hours of wear – and sanitized their hands before and after every interview.

Limitations to the Survey Design

While every effort was made to ensure representativeness of the data, there are several limitations to the survey design. In terms of coverage limitations, the use of random walk sampling methods in urban and rural areas could mean that MSMEs associated with certain characteristics could have a higher likelihood of agreeing to participate in the survey. For example, a grocery store owner would be more apt to agree to participate in a survey during slow business hours than an MSME owner engaged in physical labor. This may lead to overcoverage or undercoverage of certain business sector types.

Another key coverage limitation relates to the exclusion of any household-based businesses without signage or storefronts. The random walk methodology may also limit the inclusion of multiple businesses at the same location. For multi-storey buildings, enumerators were instructed to treat the building as part of the random walk and choose one MSME from the location for screening and consent (or multiple MSMEs, depending on the interval and building size). However, if multiple businesses were operating from one space or location in the building, only one would be eligible. This limitation would also apply to

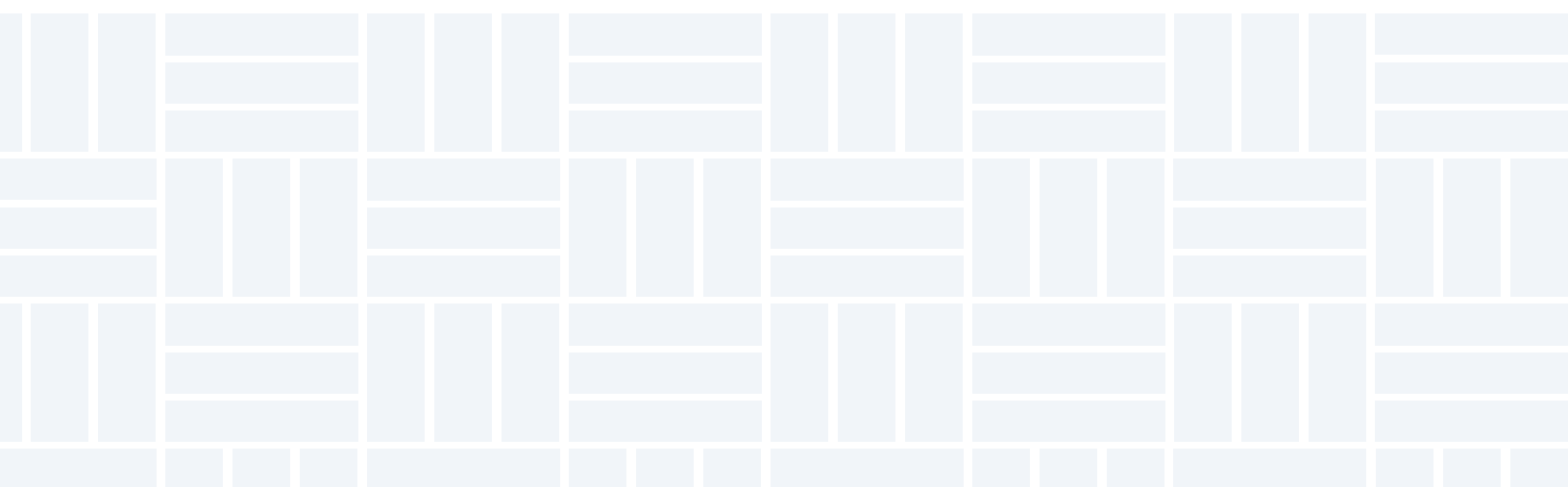
multiple businesses sharing a stand or booth as only one of the business owners or top-level managers would be screened for qualification and consent.

In terms of geographic coverage limitations, enterprises selected for interviews were from targeted DS divisions within the provinces. All enterprises outside of these areas were not included in the sampling frame.

There were also limitations resulting from COVID-19 specific challenges. These included the impact of social distancing-related restrictions on response and completion rates and the impact of COVID-19 on respondent business outcomes and behavior. Although this study accounts for unit non-response weighting on certain characteristics, there is no way to weigh on unobservables such as individual propensity to participate in a survey during a pandemic.

An additional key limitation related to weighting was the lack of post-stratification weights, particularly for national-level calculations and estimates. Without complete data on formal and informal MSMEs for benchmarking, it was not possible to implement post-survey adjustments to reflect the true composition of Peru's MSME structure. Although the sampling process captured variation in Peru's MSME structure regarding size, industry, and individual characteristics of business owners, any national-level figures were not adjusted or corrected to reflect business population characteristics.

Finally, the use of multistage stratified cluster sampling represents a limitation on the precision of estimates. This may have led to larger standard errors for estimation at a detriment to the overall precision of results.



NOTES ON ANALYSIS

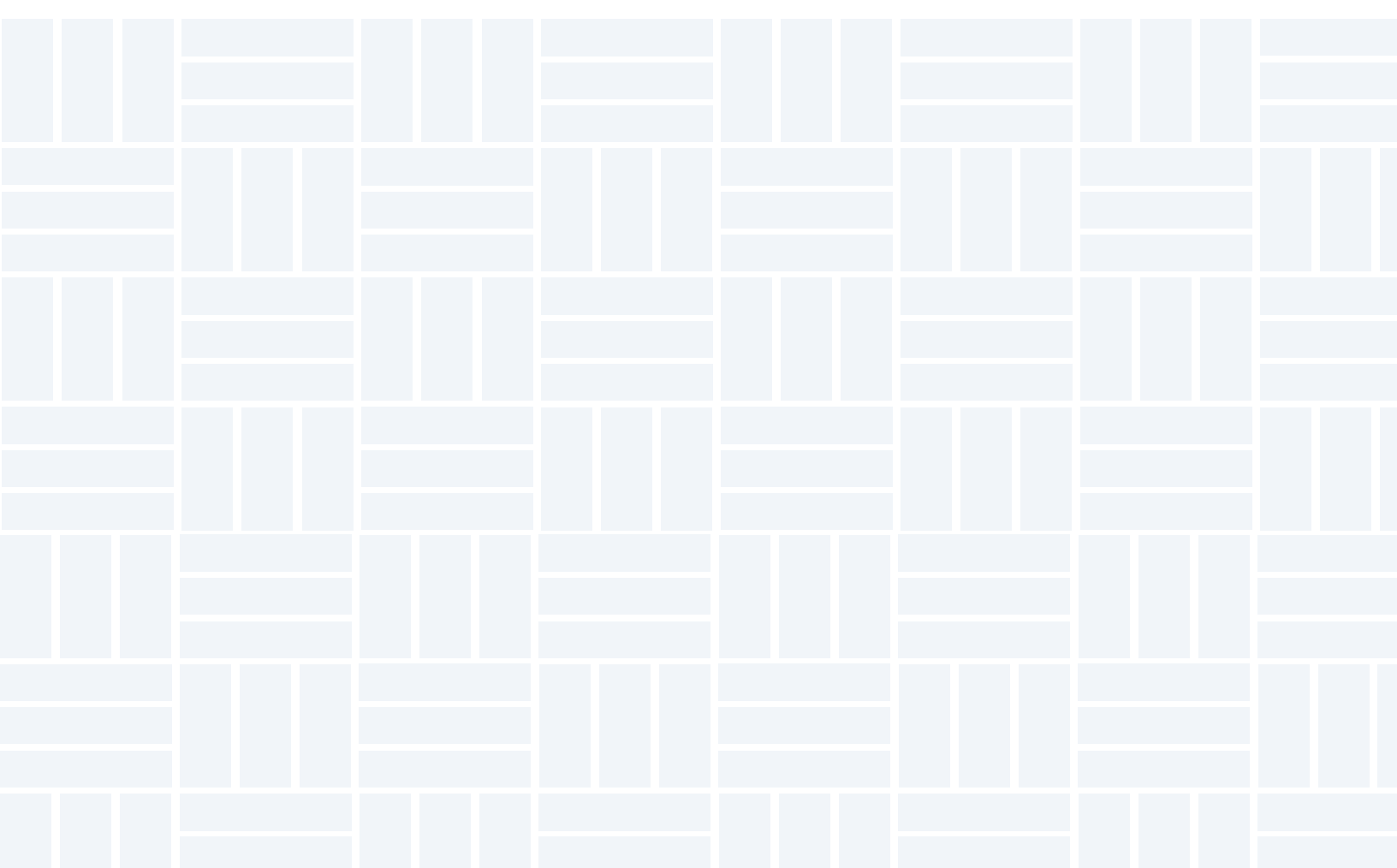
The primary methods of analysis used in this report are ratio estimations and Rao & Scott's Chi-squared test of Independence to determine statistical significance. All questions required a response to be entered, enabling the interviewer to continue to the next question. All questions included a "don't know" option code and a "refused" option code. These were considered valid responses and were included in the base for a question. The percentage of respondents that refused to answer a question they were eligible for ranged from zero to 29 percent, depending on the question.

Reported survey results were calculated with a base of all respondents (the total sample), or on all surveyed online MSMEs or surveyed offline MSMEs. The base is specified for each data point; sample sizes for both online and offline MSMEs are smaller than the base of all surveyed MSMEs. Certain data points may also reflect

results for a subgroup of respondents, such as women-owned businesses or those within a region.

Footnotes are included throughout the report to make note of the analyses conducted, including the corresponding statistical tests and associated outputs. For all tests of statistical significance, the results should be interpreted as levels of association and not causality. Our main criterion for determining statistical significance is the 95 percent confidence level. For each disaggregate percentage estimation highlighted in the report, the p-value in relation to alpha (less than or equal to .05 or greater than .05) is reported as a footnote.

Additionally, findings and results reported here should not be considered representative of Sri Lanka's MSME sector due to the limited geographic scope of the survey and the limitations to the survey design mentioned above.



APPENDIX II: SUMMARY OF MSME AND RESPONDENT CHARACTERISTICS

CATEGORICAL VARIABLES		UNWEIGHTED N	UNWEIGHTED %	WEIGHTED %	UNWEIGHTED STDERROR	WEIGHTED STDERROR
Online Status	Offline	483	47.1	47	1.56	1.67
	Online	543	52.9	53	1.56	1.67
Gender Ownership	Men-owned	761	74.2	74.5	1.37	1.65
	Women-owned	265	25.8	25.5	1.37	1.65
Urbanicity	Rural	218	21.2	27.6	1.28	1.68
	Suburban	429	41.8	47.8	1.54	1.72
	Urban	379	36.9	24.6	1.51	1.34
Business Size	Micro	298	29	29.3	1.42	1.64
	Medium	267	26	25.8	1.37	1.52
	Small	461	44.9	45	1.55	1.79
Business Vertical	Agriculture and food production	33	3.2	3.9	0.55	0.73
	Hospitality	405	39.5	38.6	1.53	1.76
	Manufacturing and industry	209	20.4	23	1.26	1.59
	Professional services	186	18.1	14.8	1.2	1.17
	Retail and e-commerce	190	18.5	19.4	1.21	1.4
	Other	3	0.3	0.3	0.17	0.15
Region	Central Province	102	9.9	11	0.93	0.4
	Eastern Province	80	7.8	7.5	0.84	0.19
	North Central Province	34	3.3	6.4	0.56	1
	North Western Province	178	17.3	12.9	1.18	0.41
	Northern Province	52	5.1	5.5	0.69	0.33
	Sabaragamuwa	78	7.6	7.9	0.83	0.6
	Southern Province	82	8	12.1	0.85	0.52
	Uva Province	43	4.2	4.8	0.63	0.64
	Western Province	377	36.7	31.8	1.51	0.53
Owner Education	No formal education or less than Primary education	2	0.2	0.2	0.14	0.11
	Primary education	162	15.8	16.2	1.14	1.35
	Secondary education	619	60.4	61.4	1.53	1.77
	University education or higher (degree)	75	7.3	7.4	0.81	0.99
	Vocational or technical education or training	144	14.1	12.2	1.09	1.07
	Don't know	16	1.6	1.5	0.39	0.38
	Refused	6	0.6	1.2	0.24	0.6

Owner Age	18-24	30	2.9	3	0.53	0.61
	25-34	189	18.5	17.7	1.21	1.38
	35-44	295	28.8	30.8	1.42	1.73
	45-54	301	29.4	27.1	1.42	1.49
	55-64	161	15.7	16	1.14	1.27
	65 or older	34	3.3	3.2	0.56	0.61
	Don't know	11	1.1	1.2	0.32	0.35
	Refused	3	0.3	1	0.17	0.58
Respondent Education	No formal education or less than Primary education	2	0.2	0.2	0.14	0.11
	Primary education	167	16.3	16.6	1.15	1.38
	Secondary education	680	66.3	66.7	1.48	1.71
	University education or higher (degree)	64	6.2	6.7	0.76	0.99
	Vocational or technical education or training	113	11	9.8	0.98	1
Banking Status	Banked	889	86.6	87.9	1.06	1.11
	Unbanked	116	11.3	9.9	0.99	0.99
	Don't know	21	2	2.2	0.44	0.56
Respondent Role	Owner	695	67.7	68.5	1.46	1.56
	Top-level manager, not an owner	331	32.3	31.5	1.46	1.56
Client Type	Both businesses and individuals	182	17.7	16.5	1.19	1.32
	Primarily individuals such as consumers or customers	827	80.6	82.2	1.24	1.35
	Primarily businesses	17	1.7	1.3	0.4	0.36

NUMERICAL VARIABLES	UNWEIGHTED N	UNWEIGHTED MEAN	WEIGHTED MEAN	UNWEIGHTED STANDARD DEVIATION	WEIGHTED STANDARD DEVIATION
Respondent Age ¹	1,026	40.4	40.1	12.1	11.9
Business Age ²	1,022	10.2	10	10.2	9.6
Number of Owners ³	1,026	1.2	1.2	1.7	1.7

¹ Other possible response options: Don't know (0), Refused (0).

² Businesses in operation less than one year (16) coded as 0. Other possible response options: Don't know (4), Refused (0).

³ Other possible response options: Don't know (0), Refused (0).

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