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EXPORT BAROMETER SURVEY

Findings and Insights Report
September/October 2021

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This is the first report under the Export Barometer Survey series. The aim of this report is to understand Sri Lanka's export performance, challenges faced by exporters and facilitation measures to improve their competitiveness during the first six months of 2021. Based on a survey of over 120 exporters of goods and services, the report provides the outlook for the export sector within the next 6-month period while providing insights on how firms navigated key challenges related to supply chain, digital adoption and labor market dynamics. A majority of the respondents were SME firms while quarter of firms were women owned and/or led. There was a high representation of exporters based in the Western Province and more than three-fourths of the respondents were engaged in goods exports.*

7 KEY INSIGHTS



1. Strong Performance despite spare capacity

Most exporters claim that they performed well in the first half of 2021 in line with the overall export growth recorded during the period. However, it was noted that most firms were not operating at their optimal capacity and had spare capacity, which they expected to utilize in the next 6 months.



2. Exporters face challenges in sourcing input and cost escalations in transport and logistics

Both SMEs and Large exporters experienced similar challenges such as obtaining intermediate goods and rising cost of transport and logistics. Exporters highlighted that the difficulty in obtaining intermediate goods was due to price increases and shortage of production/service input from domestic and international sources. Exporters were affected by higher shipping and freight costs due to the rise in freight/air rates, shortage of vessels/flights and delays in vessel/airline schedules. Women owned and/or led firms cited managing operational cash flow and fall in workers production/productivity amongst their top 5 challenges. Other challenges were issues in the overall business environment, cost of transport and logistics and delays in obtaining intermediate goods due to shortage of Forex and/or supply disruptions.

7 KEY INSIGHTS Cont'd



3. Confidence in workforce retention, hiring and training

Exporters were more confident in managing their existing workforce with 33% of firms increasing their recruitment. Most exporters (85%) did not enforce any labour cost reductions while 30% of firms increased their spending on training in the first half of 2021. This positive sentiment on labour was more prevalent amongst large firms compared to SMEs.



4. High use of digital channels to generate revenue

Most exporters (67%) were leveraging online channels to generate sales/revenue. However, these online channels contributed less than 25% of their overall revenue. Firms also stated that they relied more on Business-to-Business (B2B) orders relative to Business-to-Consumers (B2C). Both SME and women owned and/or led firms relied more on digital channels (such as social media, online advertising, online marketplace) than large firms in generating sales/revenue.



5. Most exporters are finding new opportunities

Despite the challenges faced by exporters, 75% of the firms have found new export opportunities with more opportunities prevalent amongst SME exporters. Exporters are exploring new markets with their current and new products/services and promoting their new products to the same markets they are in. Firms are also generating new business opportunities mainly by utilizing their existing buyers based in their current markets.

7 KEY INSIGHTS Cont'd



6. Facilitation needed to drive competitiveness

Almost all exporters stated that they need support to be more export competitive. There were some common areas where exporters required facilitation by policymakers, trade chambers and donor agencies. These include, improving market access and establishing links with new customers. Exporters had specific asks from the Government in terms of improving efficiency in the regulatory process, tax relief/rebate/exemption, assistance in supply chain and export finance and a financial assistance package.



7. Exporters more confident on outlook for business than economy- Non-traditional markets to drive growth

Exporters were more confident about their export growth in the next 6 months compared to their outlook on the economy. Some of this growth is expected to come from higher unit prices of export orders. Most firms are looking to expand their market reach by increasing their presence/interest in at least 1-2 markets. Some of these markets (Australia, Canada and China) currently do not feature within the top 5 export countries of Sri Lanka. This indicate that firms were looking to diversify away from traditional markets.

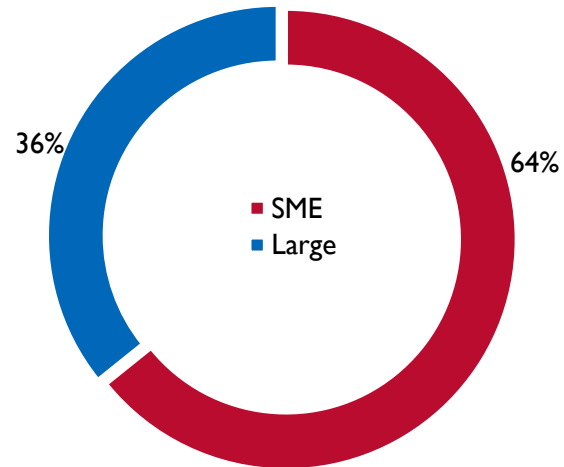
To drive this export growth in the next six months, firms are looking at measures to improve their market presence (online presence and spend on marketing), focus on the consumer (developing customized products, improve pricing and service) while improving supply chain capabilities.

Overview of Survey Respondents

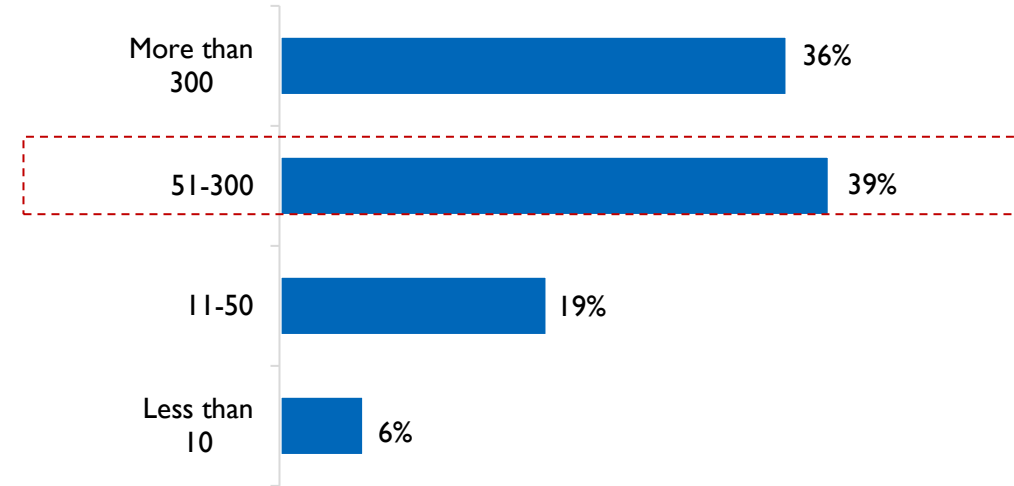
FIRM TYPE AND NUMBER OF EMPLOYEES

The survey included 123 firms of which 64% were SMEs (based on number of employees) and 24% were women owned and/or led. 75% of the firms employed over 50 employees indicating that these firms were medium to large scale exporters.

64% of firms were SMEs



39% of firms had 51-300 employees



24%

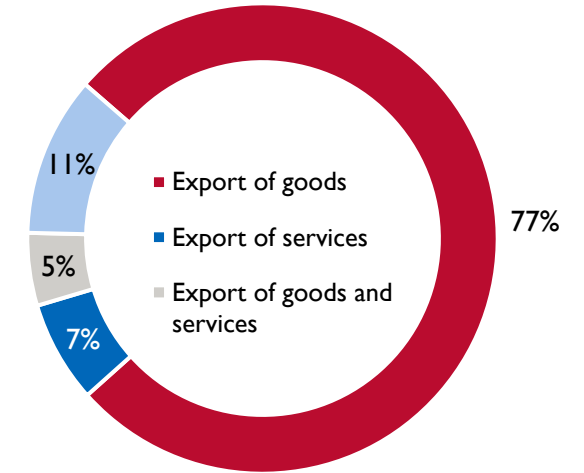
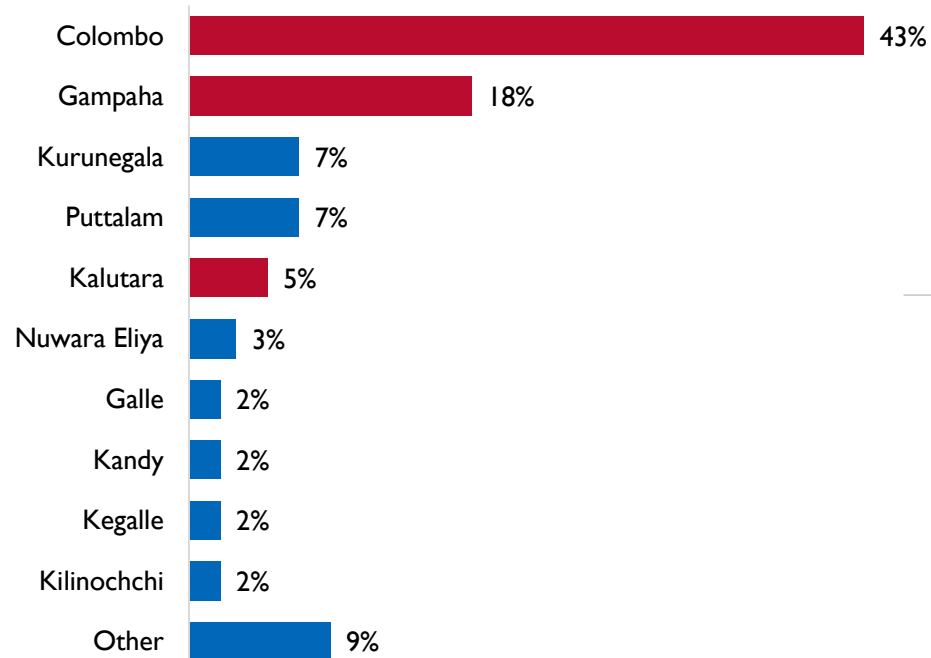
Women owned and/or led Businesses

FIRM LOCATION, EXPORT TYPE AND RESPONDENT PROFILE

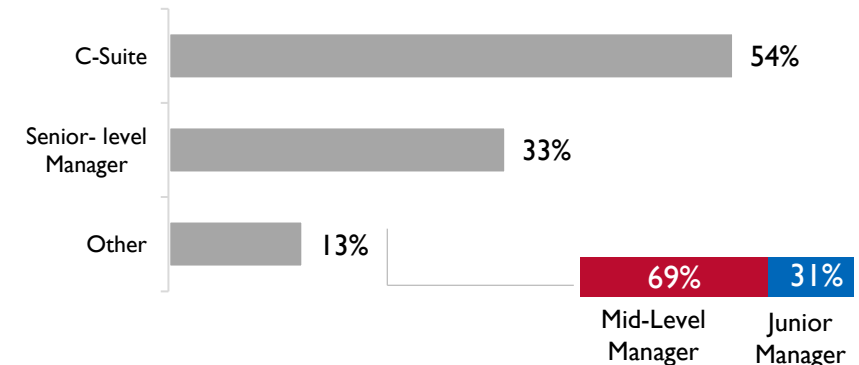
The majority of the firms were located in the **Western Province** and were exporters of goods. The survey received responses from **Senior Management** with 54% of respondents being **C-suite officers**.

77% of Firms are exporters of **goods**

66% of Firms are located in the **Western Province**



Majority of respondents hold **Senior Management** positions

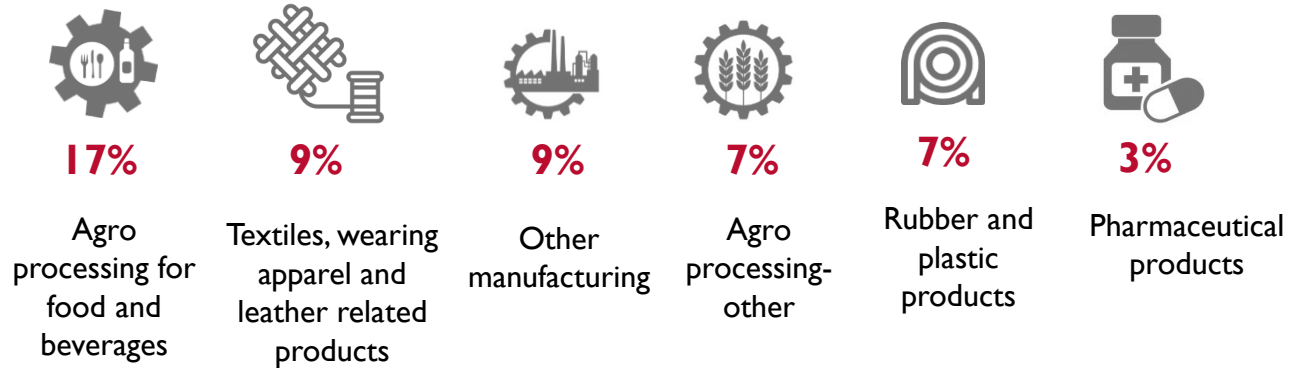


TOP 10 SECTORS AND EXPORT MARKETS

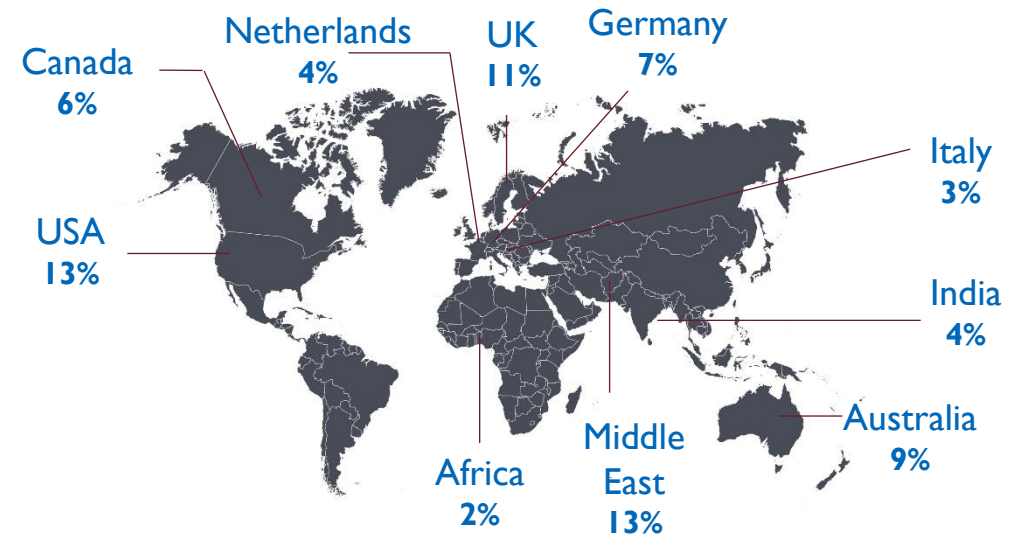
The survey represented exporters from Manufacturing, Agriculture and Services sectors. Export market representation was similar to Sri Lanka's overall direction of export markets with the USA and European markets dominating the top 10 list.

Top 10 Sectors

Manufacturing



Top 10 Export Markets



Other

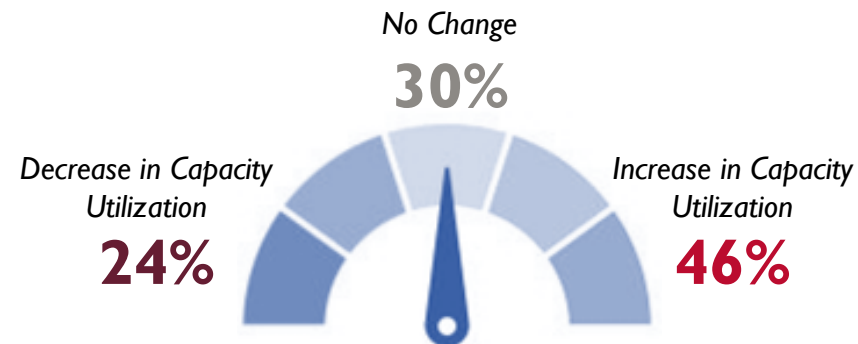
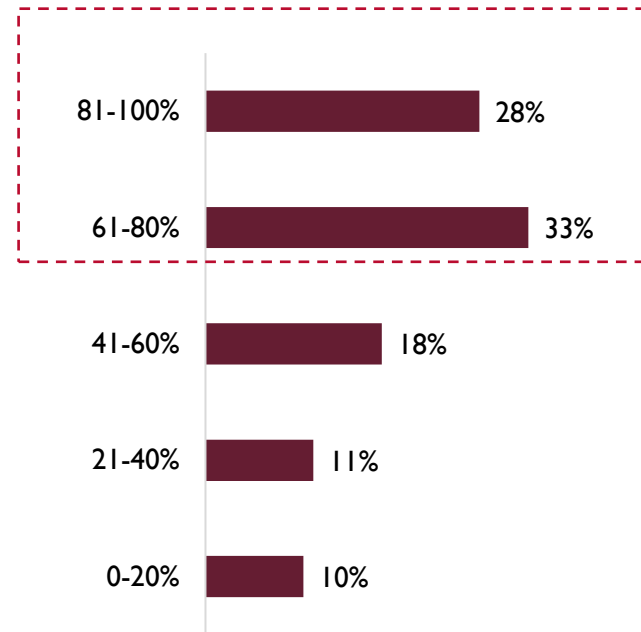


Business Performance in First Half of 2021 & Key Challenges

EXPORT BUSINESS PERFORMANCE

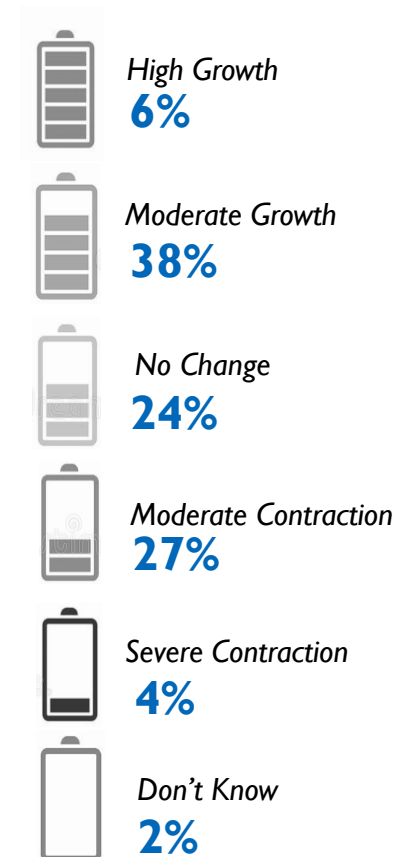
The export performance in the first half of 2021 was measured in terms of capacity utilization and revenue growth. 61% of firms had capacity utilization between 61-100% while the remaining 39% had significant spare capacity. This is also reflected by more than half of the firms either seeing a decrease or no change in their capacity utilization. The outlook for capacity utilization is positive with 44% of the firms expecting moderate or high growth in the next six months.

61% of firms had a capacity utilization between 61-100%



44%

of firms were expecting a growth in capacity utilization in the next six months

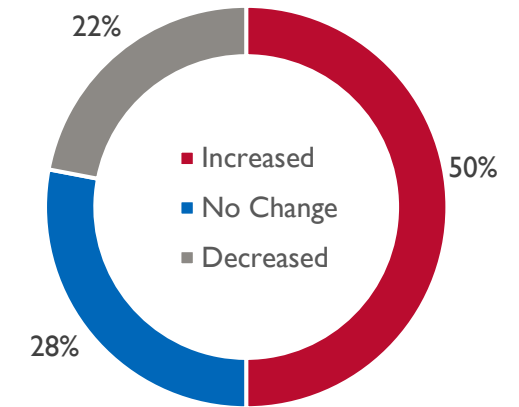


PERFORMANCE IN THE FIRST HALF OF 2021

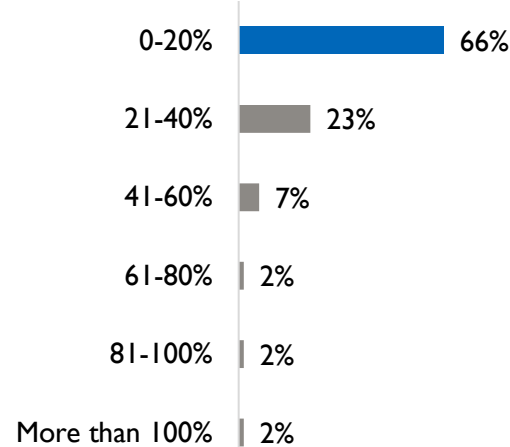
In terms of export revenue, half of the firms saw an increase during the first half of 2021. 66% of the firms indicated that they only saw a growth of between 0-20% while 23% of the firms saw an increase between 21-40%. To put these results in context, Sri Lanka's Goods exports in the first half of 2021 saw a growth of 29% compared to the same period in 2020.

Of the firms that saw a decline in export revenue during the first half of 2021, 41% saw a fall between 0-20% while there was a significant number of firms within the 21-40% and 41-60% category as well. SME firms constituted a majority of the firms that saw declines in revenue, particularly in the 41-60% category (100% SMEs).

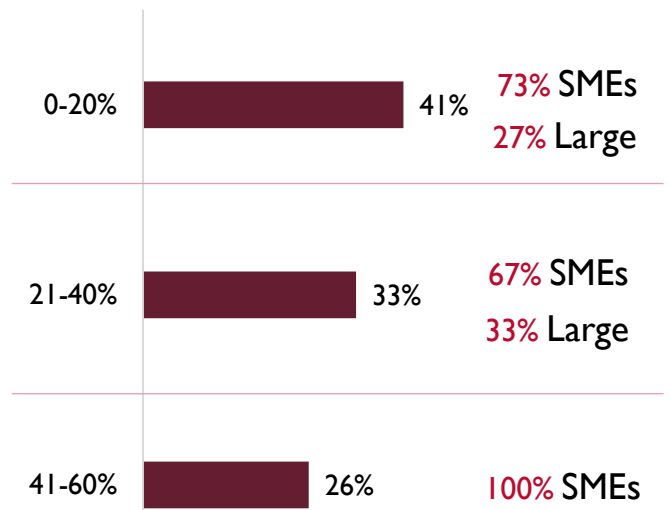
50% of firms
saw increase in
export revenue



66% of firms
saw increase of 0-20%
in revenue



Breakdown of firms that saw export revenue declines; Higher percentage from SMEs



KEY CHALLENGES

Both SMEs and Large firms faced similar challenges in carrying out their export businesses due to the impact of both the global and domestic economy. Women owned and/or led firms faced similar challenges but also were confronted by managing operational cash flow and fall in workers production/productivity.

Top 5 Challenges

Faced by both SMEs and Large Firms



Issues in the overall business environment in the country



Cost of transport and logistics



Difficulties in doing business due to international travel restrictions



Domestic regulatory barriers



Delays in obtaining intermediate goods due to shortage of Forex and/or supply disruptions



Women owned and/or led firms further cited **two other challenges** as part of their top 5 challenges



Insufficient operational cash flow



Decrease in workers production/productivity

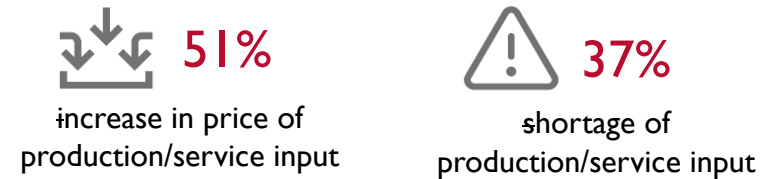
KEY CHALLENGES cont'd

Obtaining production/service input was highlighted as a key challenge due to price increases and the shortage of production/service input from domestic and international sources. In terms of transport and logistics challenges, both freight and container shipping costs have risen for exporters. The key drivers for this increase have been a rise in freight/air rates, shortage of vessels/flights and delays in vessel/airline schedules.

54% of firms saw 'no change' or 'worsening situation' in sourcing product or service input



Key Challenges in Sourcing input

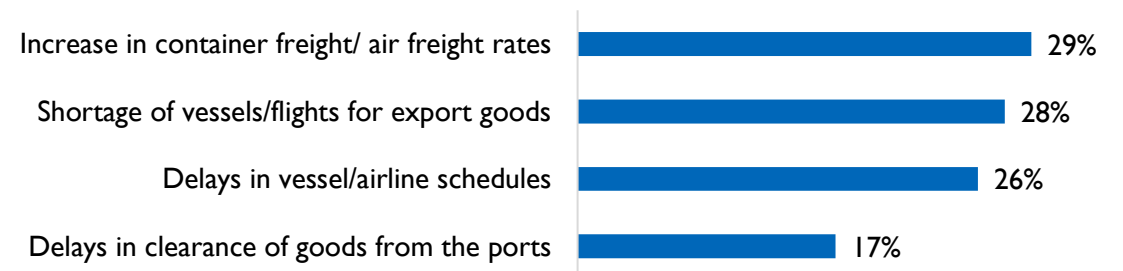


84% of firms experienced an increase in freight cost



87% of firms experienced an increase in container shipping costs

Main Reasons for increase in freight/shipping costs



**Employment
&
Digital Transformation Insights**

EMPLOYMENT STABILITY

There are positive developments related to employment in the first half of 2021 and the outlook for the next 6 months. Relative to the 2 previous surveys (Business Surveys on Trade and Labour Market Impacts of COVID-19 on Sri Lankan Exporters in [June](#) and [September](#) 2020), there is a significantly lower proportion of firms that are looking at cost reductions (only 15% compared to 34% in the September 2020 survey.) About one-third of the firms have also seen an increase in recruitment during the first half of 2021 compared to the second half of 2020.

Training budgets have also remained unchanged for a majority of firms while about one-third of firms recorded an increase in spending. The majority of firms are expecting to retain their existing staff while 29% are hoping to recruit further in the next 6 months.



Recruitment

31% of firms saw an increase in recruitment.

The increase was more prevalent in large firms.



Labour Cost

85% of firms did not undertake labour cost reduction measures

Firms that implemented labour cost reduction measures considered options such as a freeze on new hires



Training Budget

55% of firms indicated that training budget remained unchanged.

30% increased marginally or significantly – increase driven more from large firms



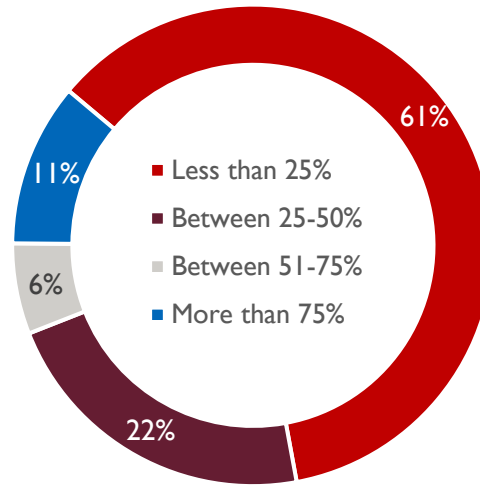
Outlook

Workforce size is expected to remain largely unchanged

62% of firms expecting no change and only **29%** expecting an increase in workforce size

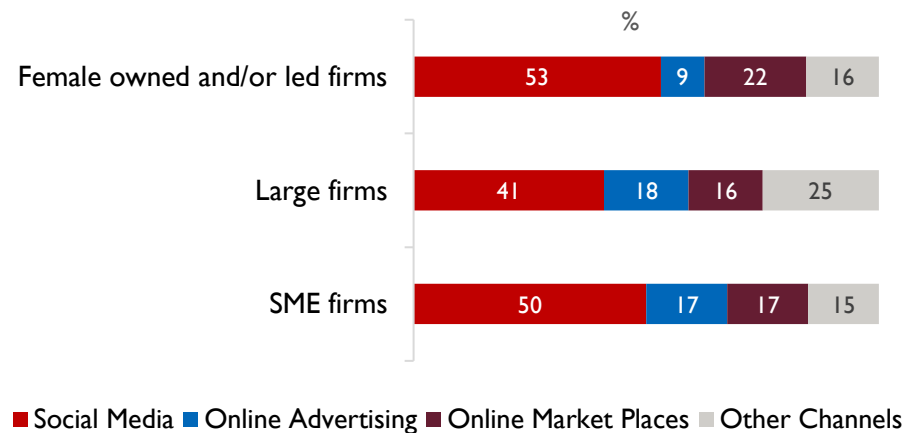
DIGITAL TRANSFORMATION

2/3 of firms use online channels for generating sales orders, sales and leads;



- **61%** of firms generate less than 25% of their total revenue from online channels.
- Only **22%** of firms generate between 25-50% from online channels.
- Majority of firms (59%) had not seen a shift from B2B to B2C in terms of their orders in the first half of 2021.

Social media was the most preferred online channel* used by firms.



- Large firms utilised other channels (blogs, influencers etc.) more compared to SMEs or women owned and/or led firms.
- Online market place utilisation was more prevalent amongst women owned and/or led firms.
- A higher percent of SMEs relied on online channels compared to large firms, while 70% of women owned and/or led firms utilised online channels to generate revenue.

* Note: Social Media (Facebook, LinkedIn, Instagram, YouTube, Twitter, Website, etc.); Online Advertising (e.g. Google Ads); Online Market places (e.g. Amazon, Etsy, eBay, Alibaba); Other Channels (Blogs, Influencers etc.)

**Export Opportunities
&
Facilitation to Improve Competitiveness**

NEW BUSINESS OPPORTUNITIES

These opportunities varied from exporting to new markets with existing and new products/services to exporting new products to existing markets. There was a push to develop new products and services to capture both new and existing markets during this period of global economic recovery.



75% of firms
Found New Opportunities

SMEs,
62%

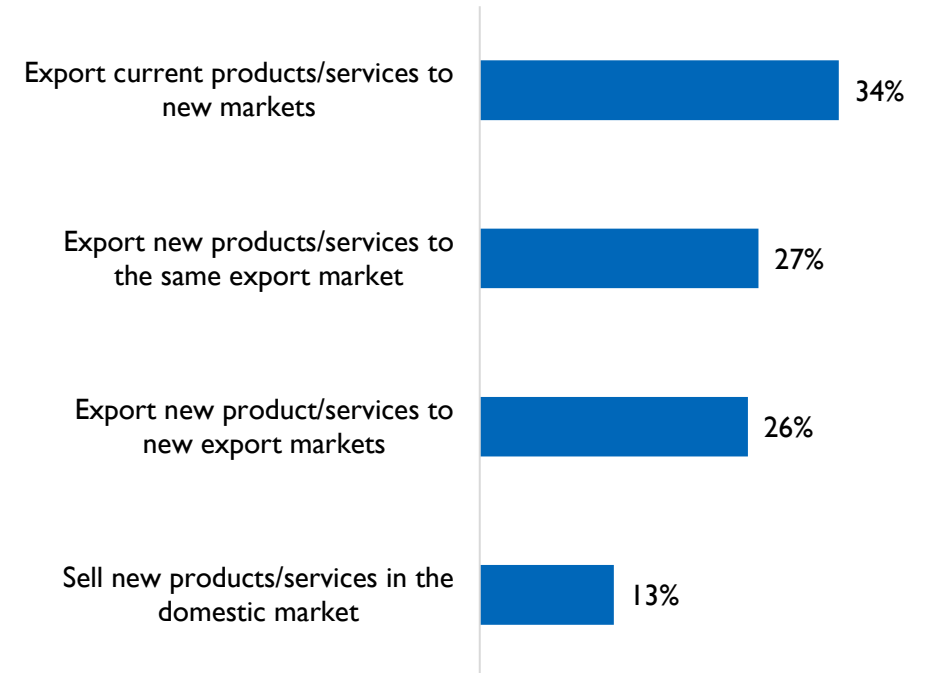
Large,
38%

Higher number of opportunities
were identified by SMEs



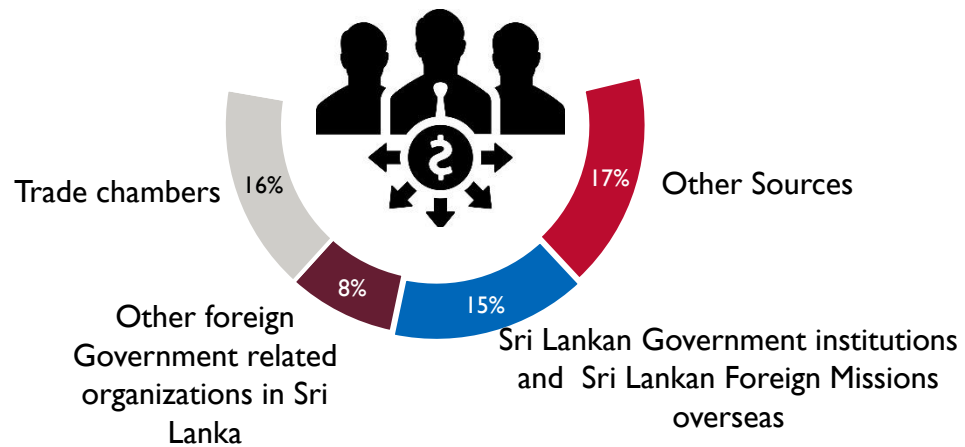
Only **17%** of women owned and/or led
firms have found new opportunities

Nature of the Identified New Opportunities



MECHANISMS AND TOOLS TO FIND NEW OPPORTUNITIES

44% of firms identified new business opportunities through existing buyers



Firms utilized Market Research and Virtual B2B meetings as key tools for identifying new opportunities.



38%

Market Research



34%

Virtual B2B Meetings



18%

Webinars

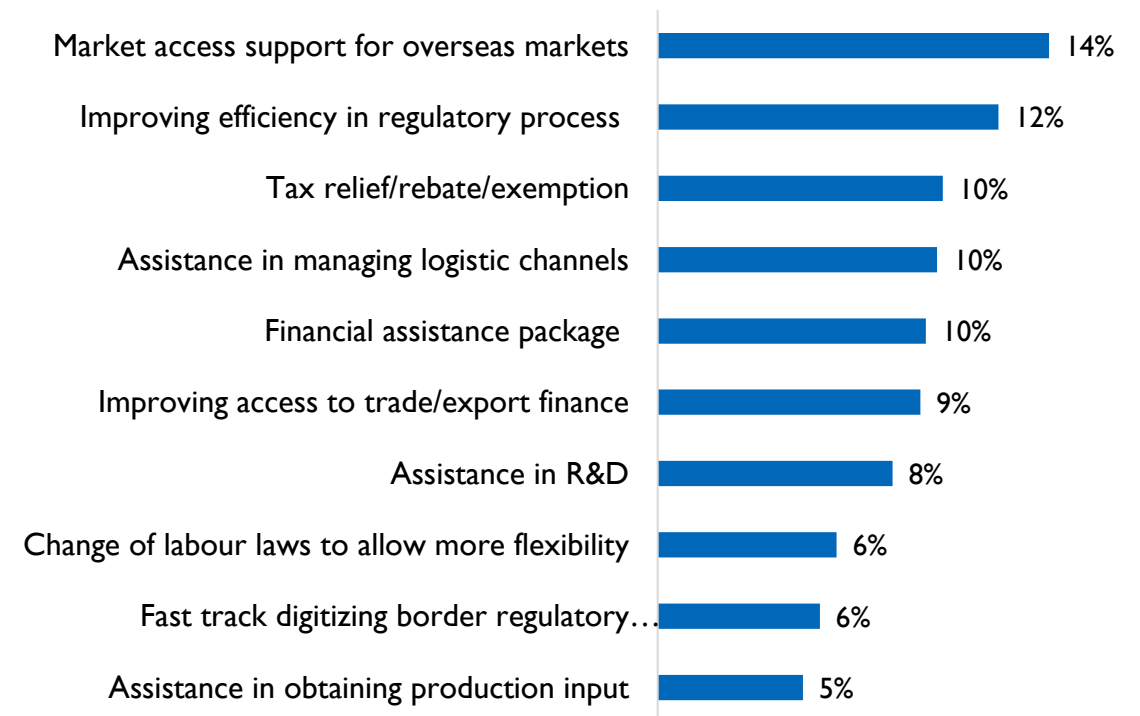
EXPORT FACILITATION REQUIRED FROM GOVERNMENT

A majority of firms require facilitation from Government to become more export competitive. There was no distinction between large, SME and women owned and/or led firms in terms of requested facilitation measures. These measures include, support in improving overseas market access, improving efficiency in the regulatory process, relief through taxation, assistance in managing logistics channels and financial assistance package.



89% of firms need facilitation from the Government to become more export competitive

Key Focus areas for Facilitation by Government



EXPORT FACILITATION REQUIRED FROM TRADE CHAMBERS AND DONOR AGENCIES



Access to new markets and new export customers



Finding new buyers



Arranging sufficient logistic support



Increase digitalization processes



Trade information, Training programs-and Online B2B Connections



Intervention for government approvals
(Customs was highlighted as the key agency)



Training programs, especially for SME exporters



R & D & International accreditations



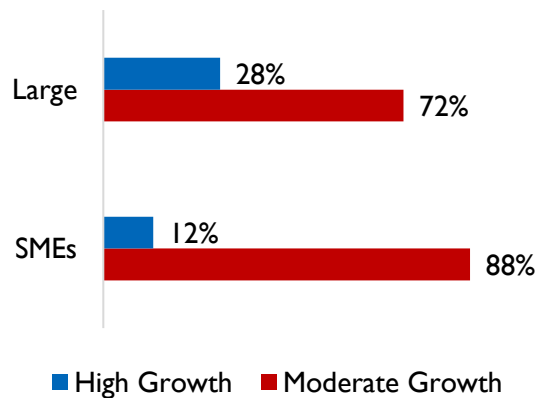
Assist to promote related and supporting industries such as machinery fabrication, testing etc.

Outlook for the Next 6 Months

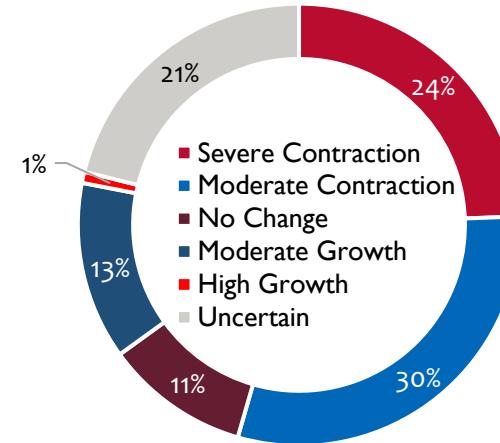
OUTLOOK FOR THE NEXT 6 MONTHS

The survey revealed that most firms were expecting the economy to contract in the next 6 months compared to the last 6 months but were more optimistic in their outlook for export growth. 21% of the respondents were uncertain of the outlook for the economy. More SMEs expect moderate export growth compared to large firms that are expecting high growth.

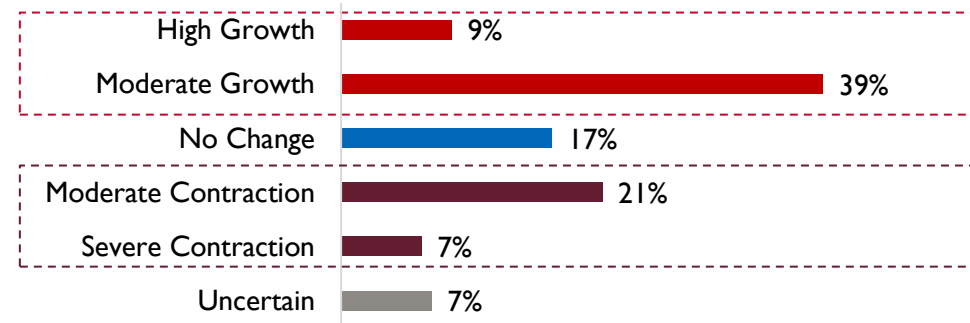
Export growth expectations for Large vs. SME firms



54% of firms expect a moderate to severe contraction of the economy



Exporters are more optimistic on outlook for export growth



48% expect moderate or high growth compared to only **28%** expect a moderate or severe contraction

OUTLOOK FOR THE NEXT 6 MONTHS cont'd

35% of firms expect to undertake strategic business measures in the next 6 months;

- 74% of such firms were SMEs
- 76% of these measures were for collaborations (Joint Ventures and Partnerships)



41% Joint Ventures



35% Partnerships



12% Acquisition



8% Mergers

Firms expect to utilize a mix of strategies to drive export orders with more emphasis on online presence, customer-centric interventions and competitive pricing.

17% of firms will use the following measures to drive export orders



Improving online presence



Offering customised products



Improving customer service



More competitive pricing

Other Measures

13%



Improving delivery/logistic capabilities

12%



Increase spending on marketing

NEW MARKETS IN THE NEXT 6 MONTHS

The business outlook in terms of exploring new markets is positive with more than half of firms willing to explore 1-2 new markets. There was similar expectations amongst SMEs and large firms compared to interest to explore new markets as indicated by women owned and/or led firms.

54%

of firms are looking at 1-2 new markets

22% of firms

are looking at 3-5 new markets

10% of firms

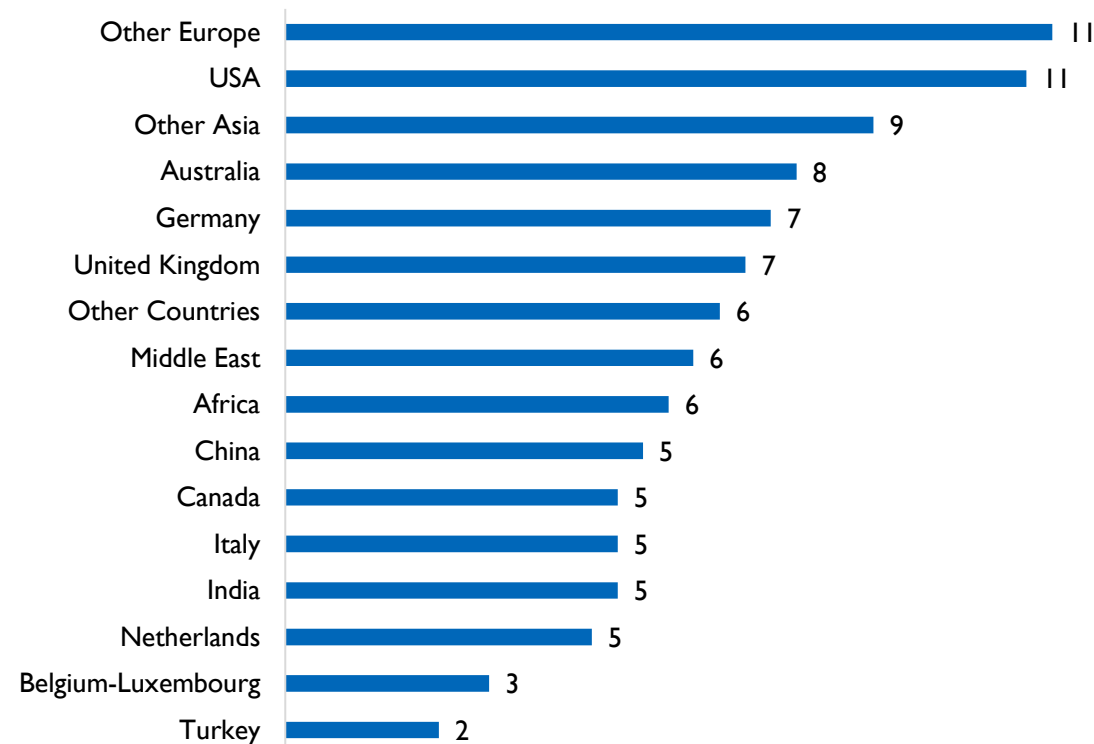
are looking at more than 5 markets

Similar expectation amongst SMEs and large firms

More women owned and/or led firms are looking at 1-2 new markets

The new markets include existing export markets such as Europe and USA. However, it is interesting to note that firms are also looking to export to markets like Australia, Canada and China which are not amongst the top 5 export countries.

% of Exporters looking at new markets



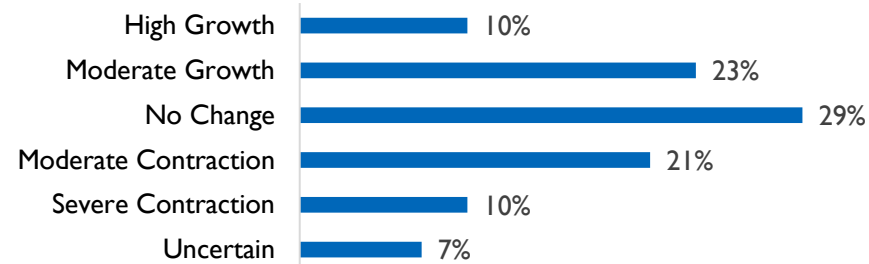
OUTLOOK FOR STOCKS, PRICE & SUPPLIERY DELIVERY TIME

The outlook in the next 6 months compared to the last 6 months:

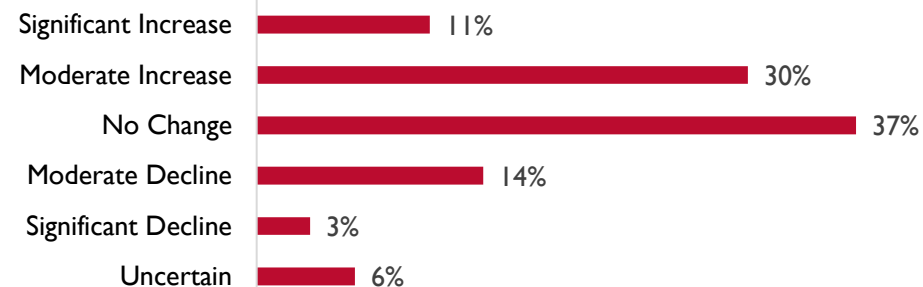
- **33%** of firms are expecting a moderate or high growth in their stock of purchases which is in line with their expectation for export growth. It could also mean that firms are looking to ensure sufficient stocks to meet future orders.
- **41%** of firms are expecting an increase in their unit price of export orders which will contribute towards improving the overall export earnings of the country.
- **43%** of firms are expecting a decline in Suppliers' Delivery Time indicating that supply chain pressures are expected to ease in the next 6 months.

Perceived Outlook for:

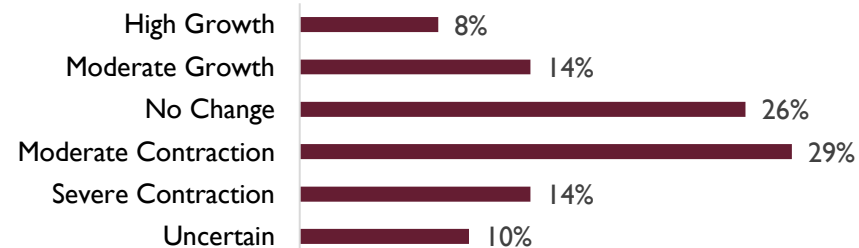
Stock of Purchases



Price Expectations



Suppliers' Delivery Time



SURVEY METHODOLOGY

- The Export Barometer Survey is a bi-annual survey implemented with the main purpose of providing exporter insights. This survey provides an understanding of the impact of COVID-19 and transition of the economy to a new normal, signals changes in export trade and thereby, acts as a forward-looking indicator. Also, it identifies needs and support requirements of exporters.
- A detailed survey [questionnaire](#) with 48 questions was formulated to conduct the assessment. The questionnaire had 4 main sections namely: 1) General Respondent Details, 2) Changes in Export Business Performance, 3) Business Opportunities and Facilitation Measures and 4) Export Business Outlook. Prior to administering the survey, a pilot test was conducted with 3 selected exporters (2 goods exporter and 1 service exporter) to ensure that the questionnaire was user-friendly and meet the objectives of the survey. Feedback received was used to improve the survey instrument.
- The survey utilized the exporter database of the Ceylon Chamber of Commerce which covers both exporters of products and services. The questionnaire was also circulated amongst key trade and service associations. The survey was implemented for a period of three weeks from 11th to 31st August 2021 using the online survey platform, *Typeform*. The survey received a total of 123 responses which was above the target of between 100-120 responses.
- The survey also aimed to obtain responses from at least 25% and 10% SMEs and women-owned/led firms, respectively. The survey received 64% of responses from SME firms and 24% of them were from women-owned and/or led firm. SME firms were classified based on number of employees as specified by the National Policy Framework for Small and Medium Enterprise Development. Collected data was analyzed using quantitative methods including calculating percentages, and cross-tabulating data.
- Certain challenges were faced in implementing the survey given that it was conducted when Sri Lanka entered into another lockdown due to the outbreak of the Delta variant. Also, duration of the survey was restricted as certain questions were time-bound due to changing economic and social conditions. Lack of willingness of exporters to engage in a lengthy survey conducted online was another limitation.
- The survey was conducted with the support of the United States Agency for International Development (UASID) Partnership for Accelerating Results in Trade, National Expenditure and Revenue (PARTNER) Activity.

Export Barometer Survey – September/October 2021

Conducted by

The Ceylon Chamber of Commerce

and

**United States Agency for International Development (UASID) Partnership
for Accelerating Results in Trade, National Expenditure and Revenue
(PARTNER) Activity**

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