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EXPORT BAROMETER SURVEY

Findings and Insights Report
February/March 2022

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This is the second report developed for the Export Barometer Survey series following the successful launch of the first [report](#) based on the survey carried out during August-September 2021. The report builds on the findings from the first report and tracks the trends related to Sri Lanka's export performance, challenges faced by exporters, and facilitation measures to improve their competitiveness during the first half of 2022. Based on a survey of 173 exporters of goods and services, the report provides the outlook for the export sector in the first half of 2022 while providing insights on how firms navigated key challenges related to the foreign exchange shortage. Majority of the respondents were SME firms while close to a quarter of the firms were women-owned and/or led.*

7 KEY INSIGHTS



1. Strong performance in exports continues despite the increase in underutilized capacity

Majority of exporters saw an increase in their revenue during the second half of 2021 in line with the strong export performance recorded by the country during the period. Firms that saw revenue declines were mostly SMEs. Compared to the first half of 2021, there was more underutilized capacity in the second half of 2021.



2. Exporters face significant challenges posed by the ongoing foreign exchange shortage

Large, SMEs and women-owned/ and or led firms experienced similar challenges related to the rising cost of transport and logistics, domestic regulatory barriers, and delays in obtaining raw materials. The survey also saw accessing trade and export finance as an emerging challenge. All these challenges are driven by a shortage of foreign exchange in the country in particular for sourcing raw materials and managing suppliers. Majority of firms, particularly SMEs were concerned about their ability to export in the future due to delays or losses in suppliers resulting from the forex shortages.

7 KEY INSIGHTS Cont'd



3. Firms consider cost-cutting measures related to future hiring

A significant proportion of exporters (38%) highlighted that they are considering cost-cutting measures such as reduction in hiring and freezing contract/part-time employment due to the ongoing economic climate.

Despite this sentiment on the outlook, most firms in the second half of 2021 have retained their employees while keeping the training budgets unchanged. One-third of firms are expecting to hire in the first half of 2022. However, this could be hampered if the economic climate worsens.



4. Most export orders are B2B and digital adoption stable

Most exporters are gaining revenue from Business-to-Business (B2B) orders relative to Business-to-Consumers (B2C). Similar to the previous survey findings, firms are leveraging online channels to drive sales, although they still continue to provide less than 25% of total revenue for the majority of firms. As such, there has not been a significant improvement in the digital landscape during the last 6 months of 2021. Social media was the most frequently used online channel amongst SMEs and women-owned and/or led firms.



5. New export opportunities fall

Only 60% of firms have found new export opportunities compared to 75% in the previous survey. However, both SMEs and women-owned/led businesses have found more new opportunities. 62% of SMEs and 50% of women-owned and/or led businesses found new opportunities in the current survey compared to 60% and 17% respectively in the previous survey. The approach of exporting current products/services to new markets remained the most popular choice in finding new opportunities.

7 KEY INSIGHTS Cont'd



6. Market-determined exchange rate required to facilitate competitiveness

While exporters stated that they require market access support and improvement in the regulatory process, they also recommended that a market-determined exchange rate be allowed to facilitate export competitiveness. This survey was conducted when LKR was fixed to the US dollar and since March 15th, 2022, LKR was allowed to float. As such, the request of exporters for having a market-determined exchange rate is now addressed though the rate of depreciation has been steep during the month of March 2022.



7. Confidence on export outlook dims as local and global economic risks increase

Exporters continued to be more confident about the growth of their export business in the first half of 2022 than in the economic outlook. This export growth is expected to be driven by significantly higher unit prices of export orders. Exporters are concerned about ongoing developments such as the impacts of Russia and Ukraine conflict as well as the ongoing local foreign exchange shortages.

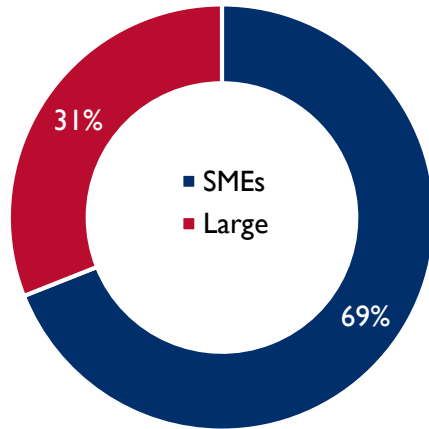
Similar to the last survey findings, most firms are looking to expand their market reach by increasing their presence/interest in at least 1 to 2 markets. Only 35% of firms are looking at strategic measures such as Joint Ventures and Partnership to grow their business, continuing the trend seen in the last survey.

Overview of Survey Respondents

FIRM TYPE, EMPLOYMENT AND TURNOVER

173 exporters took part in the survey which;
- 69% were SMEs based on the number of employees
- 22% were women-owned and/or led businesses

69% of firms were SMEs*

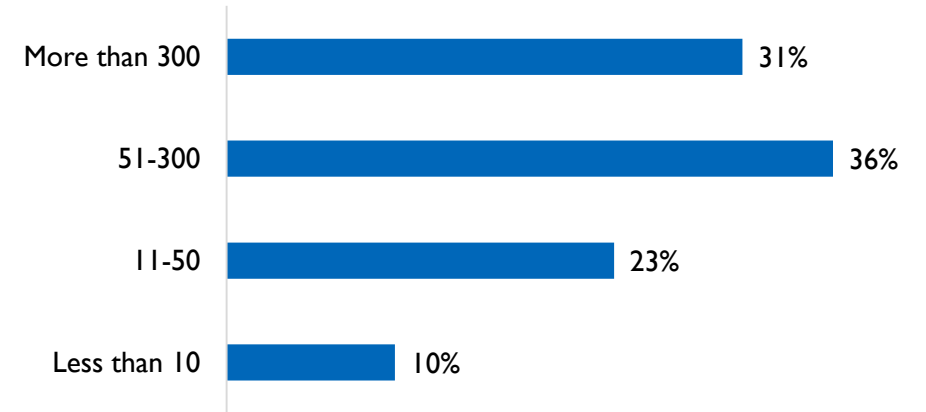


22% women owned and/or led businesses

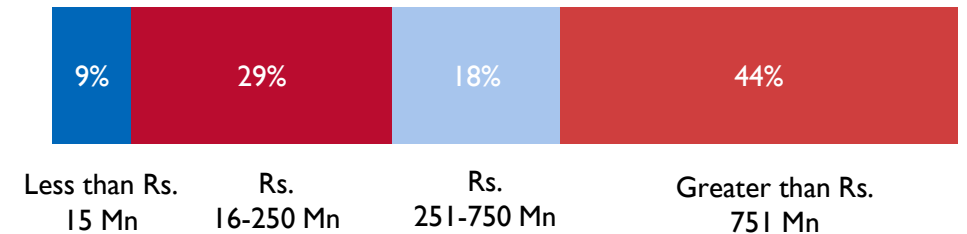


36% of firms had 51-300 employees

31% companies had more than 300



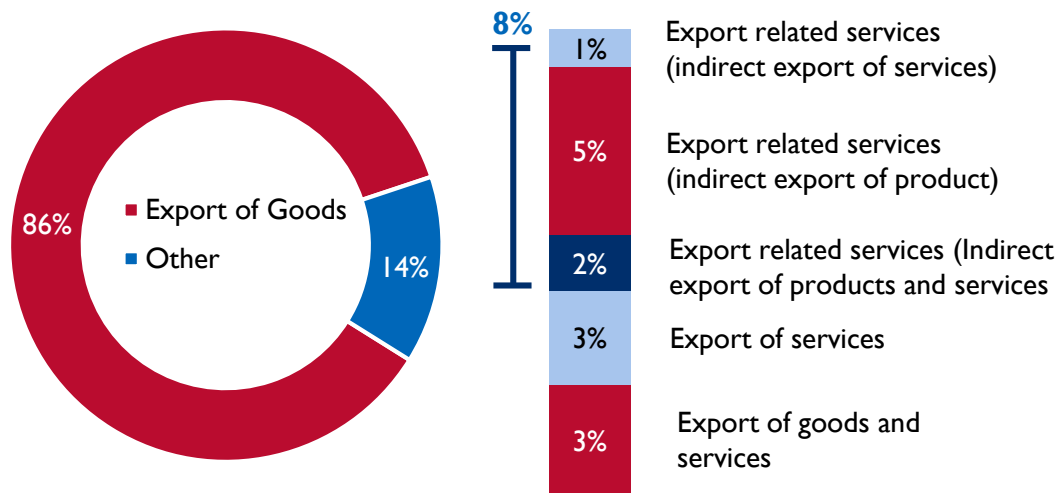
56% of firms had an annual turnover of Rs. 750 Mn and below



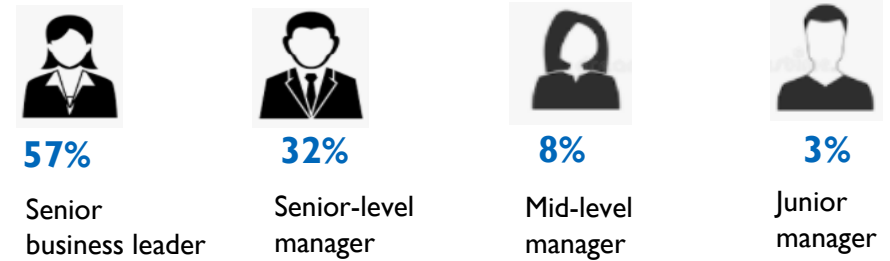
FIRM LOCATION, EXPORT TYPE AND RESPONDENT PROFILE

The majority of firms were goods exporters (86%) and mainly located in the Western Province (82%), followed by a notable level of responses from Kurunegala (9%), Puttalam (5%) and Kandy (4%).

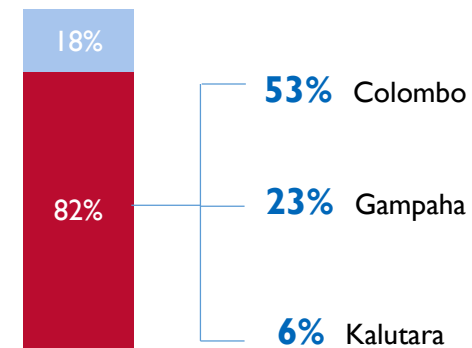
86% of firms were engaged in exporting goods while **8%** of participants were indirect exporters



Similar to the last survey, the majority of respondents held senior business leader positions.



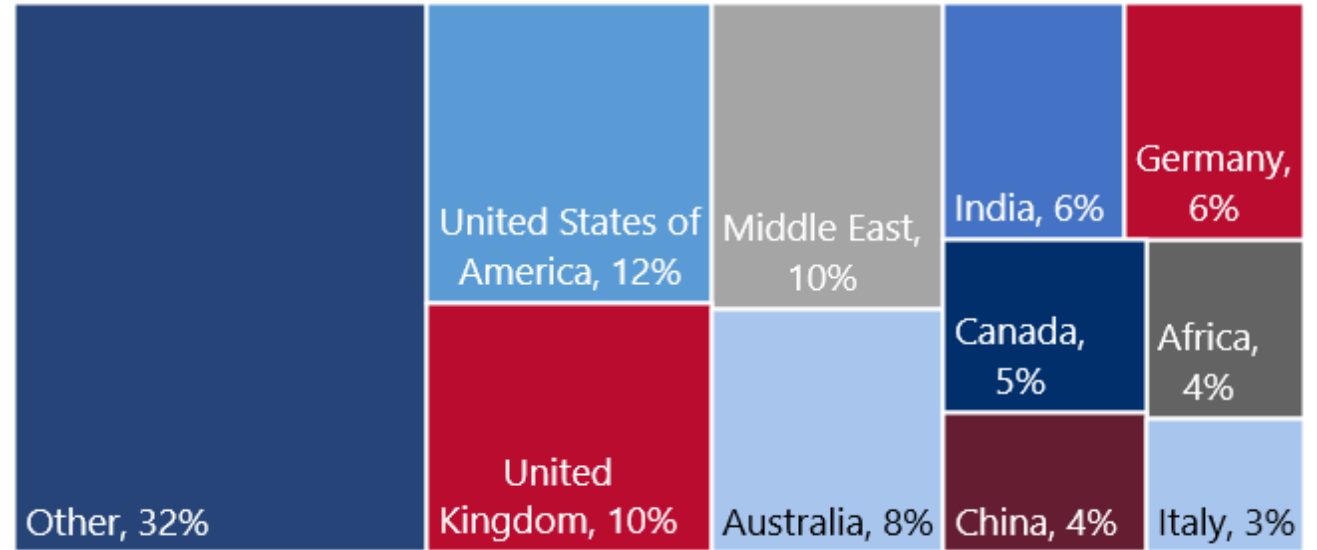
82% of the firms were located in the Western province



TOP 10 SECTORS AND EXPORT MARKETS

Export markets of respondent firms reflected the overall direction of Sri Lanka's top export markets. The top 10 export sectors consisted of a mix of agricultural-based and manufacturing firms. This was a notable change compared to the previous survey which comprised more manufacturing exporters.

Top Export Markets



Top Sectors

Agriculture based 39%



9%

Tea



9%

Spices



8%

Coconut



6%

Vegetables



3%

Seafood



3%

Minor agriculture products

Other 37%



16%

Food, beverages and tobacco



9%

Textile and garments



8%

Other industrial products



4%

Other services

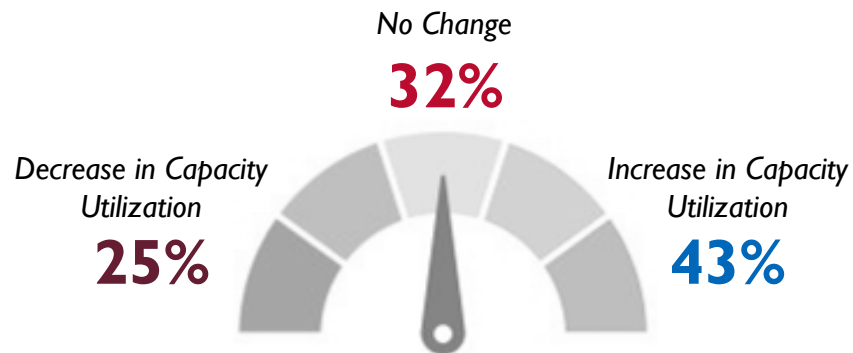
Business Performance and Key Challenges in Second Half of 2021

CAPACITY UTILIZATION

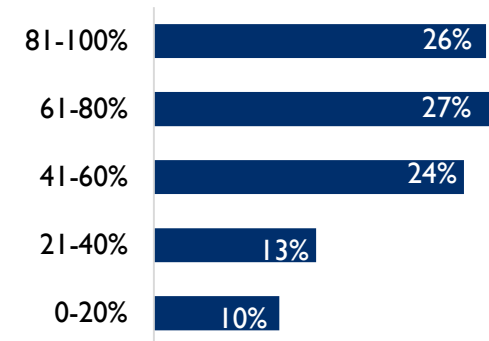
Export business performance in the second half of 2021 was measured in terms of capacity utilization (for both goods and service exporters) and revenue growth. Capacity utilization in the second half of 2021 varied with only 53% of firms reporting a capacity utilization between 61-100% while the remaining 47% had significant spare capacity (0-60%).

Based on the last survey findings only 39% of firms had significant spare capacity highlighting the increase in underutilized capacity during the second half of 2021.

43% saw an increase in capacity utilization

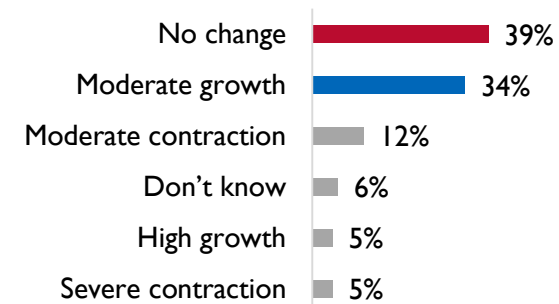


53% of firms have a capacity utilization between 61-100%



Most SMEs were operating at a capacity level of 41 – 60% compared to most of the large companies which operated at 81-100%. Women-owned and/or led firms operated evenly across each category with most between 81-100%

39% of firms are expecting no change in their outlook for capacity utilization in the first half of 2022

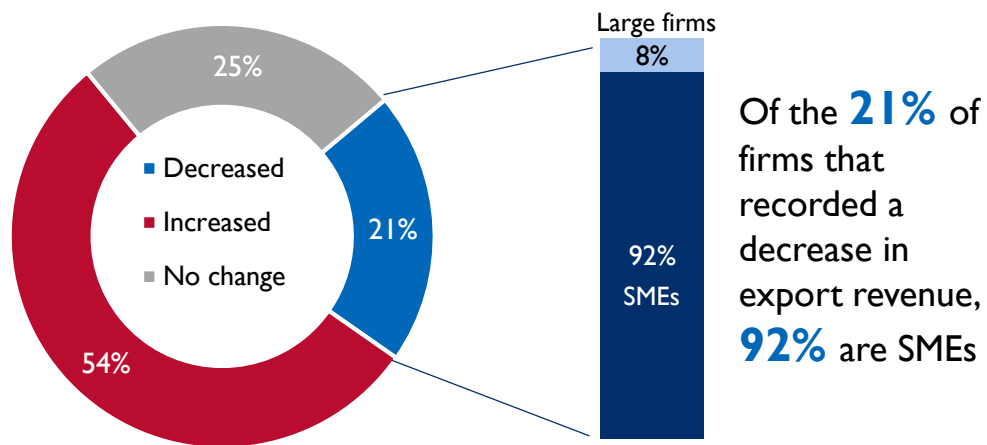


Majority of the firms that are expecting a moderate to severe contraction in capacity utilization are SMEs

PERFORMANCE IN THE SECOND HALF OF 2021

More than half of the firms (54%) saw an increase in export revenue during the second half of 2021, which is a slight improvement from the previous survey (50%). Firms that saw a fall in export revenue were mainly SMEs.

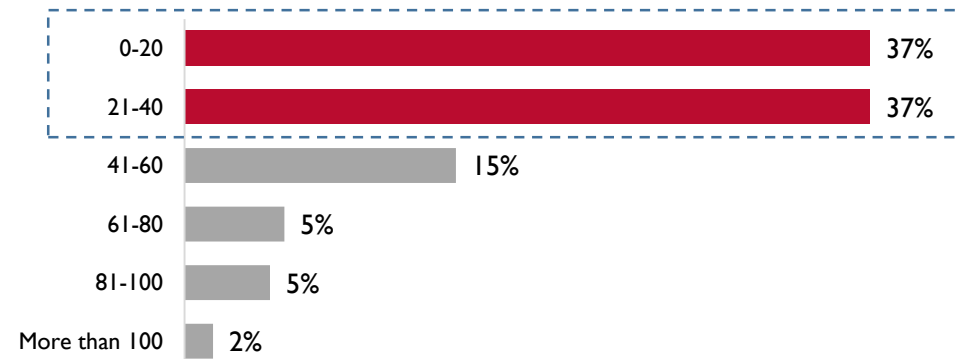
54% of firms have increased their export revenue in the 2H of 2021



66% of women-owned and/or led companies have either increased or maintained the export revenue during the second half of 2021



74% of the firms saw an increase in revenue between 0-40% in the second half of 2021. This is comparatively higher than the 66% recorded in the previous survey



KEY CHALLENGES

Exporters across different segments such as Large, SMEs or Women-owned and/or led firms were unanimous in terms of the top 3 challenges they faced. Difficulties in accessing trade and export finance also became an emerging challenge relative to the previous survey.

Top 3 Challenges



Cost of transport and logistics



Domestic regulatory barriers



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

Transport & Logistics Challenges



79% of exporters of Goods experienced an increase in air freight costs



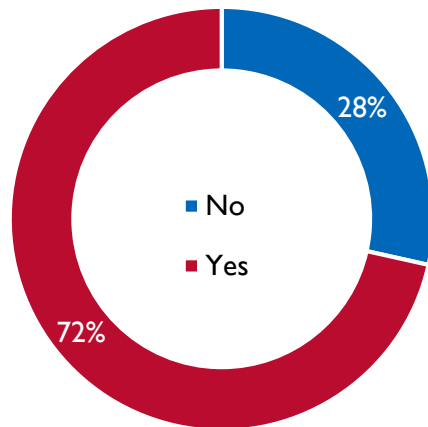
83% of exporters of Goods experienced an increase in international container shipping costs

The main reasons for the increase in freight/shipping costs were similar to the previous survey with increase in container freight/air freight rates being the dominant factor. The other reasons were shortage of vessels/flights for export goods and delays in vessel/airline schedules.

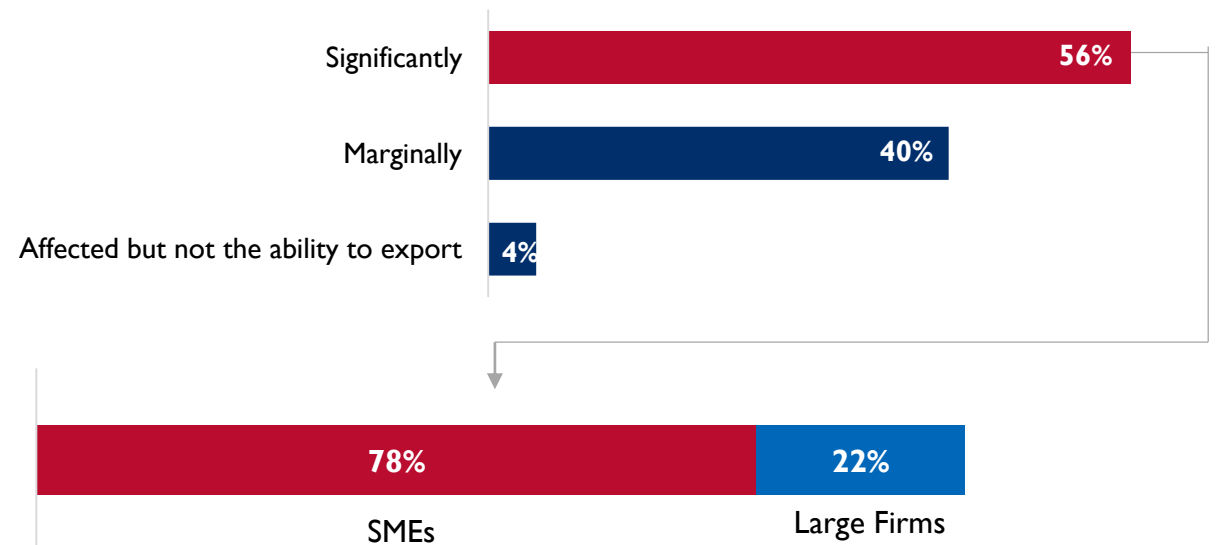
FOREX CHALLENGES

Firms in particular SMEs were significantly impacted by the ongoing forex shortage with a majority of firms indicating that they had lost suppliers and faced delays in exporting. Exporters also stated that they are experiencing delays in the opening of Letters of Credit.

72% of the firms have lost suppliers / faced delays by suppliers due to foreign exchange shortage



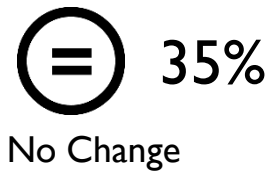
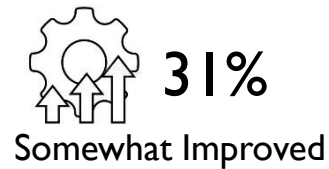
56% of firms are significantly affected by the forex crisis due to delayed exports. A majority of these firms were SMEs



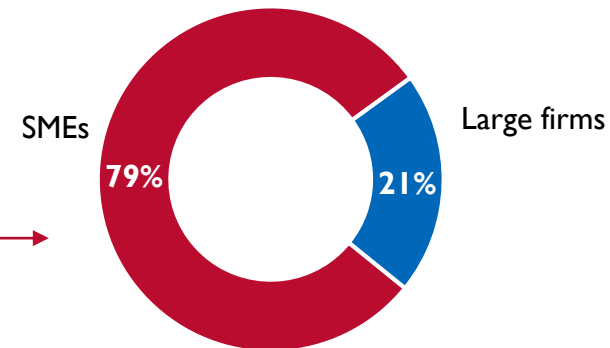
SOURCING CHALLENGES

Sourcing raw materials for exports during the second half of 2021 continued to be a challenge for most exporters, particularly SMEs. The challenge was caused by increases in the price of inputs sourced locally and internationally. Firms were also burdened with shortages of inputs sourced both locally and internationally. However, export firms were more concerned with local sourcing challenges.

63% of firms stated that their sourcing has not changed or worsened compared to **54%** in the previous survey



Of the firms that stated that sourcing has worsened, **79%** were SMEs compared to **21%** of large firms



OTHER CHALLENGES

Exporters provided qualitative feedback on some of the challenges they are currently facing. Highlighted below are some common challenges across the firms.



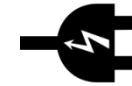
Logistics

Uncertainty in obtaining raw materials on time due to supply disruptions; entre-port/re-export inflexibilities and high cost of such services



Employment

Lack of skilled labor and high turnover



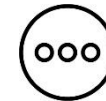
Energy Supply

Power supply shortage and high energy cost



Red Tape & Policy Constraints

Ad-hoc policy changes, lack of clear policies and import restrictions



Other

Shortages in machinery equipment for expansion, inflation/rising material costs and difficulties in finding export market/buyers

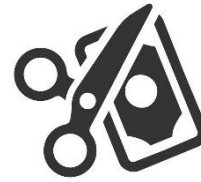
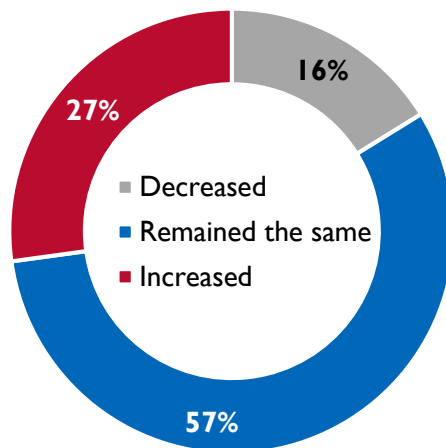
Employment Trends and Digital Transformation

EMPLOYMENT TRENDS

The survey revealed that employment trends were similar during the first and second half of 2021. Firms largely kept their labor force unchanged and maintained their training budgets as well during the second half of 2021.

While one-third of the firms are expecting to hire in the first half of 2022, it must be noted that 38% of firms are considering cost-cutting measures due to the current economic climate.

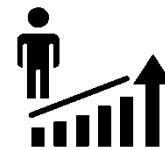
27% of firms reported an increase in employment



38% of firms are considering cost cutting measures due to the current economic climate



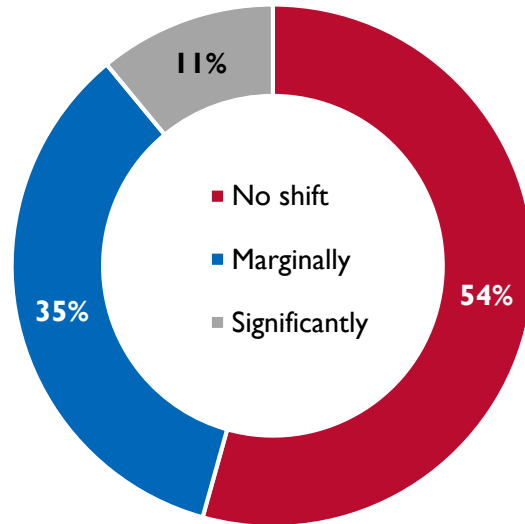
58% of firms kept their training budgets unchanged similar to the first half of 2021



33% of firms are expecting to increase hiring in the first half of 2022

DIGITAL TRANSFORMATION

Despite the changes in the business environment, most of the companies (54%) have not seen a shift in the orders from B2B to B2C.

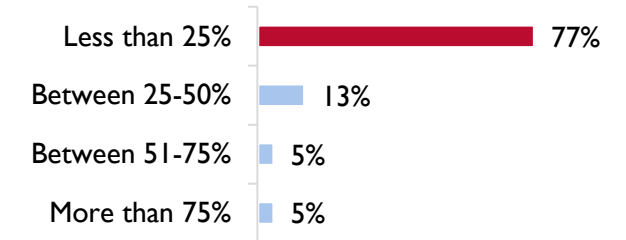


62% of firms use online channels for generating sales of which:

63% are women-owned and/or led

businesses **62%** are SMEs

77% of firms generate less than 25% of their total revenue from online channels



Social media* is the most preferred online channel

69% of SMEs

31% of Large firms

20% of women Owned/Led firms

* Note: Social Media (Facebook, LinkedIn, Instagram, YouTube, Twitter, Website, etc.)

Export Opportunities and Facilitation to Improve Export Competitiveness

EXPORT OPPORTUNITIES

New opportunities found by exporters have dropped in this survey (60%) compared to the previous survey (75%). However, more SMEs and Women-owned and/or led businesses have found new opportunities. Most new opportunities identified were related to exporting current products/services to new markets.

60% of firms
Found New Opportunities

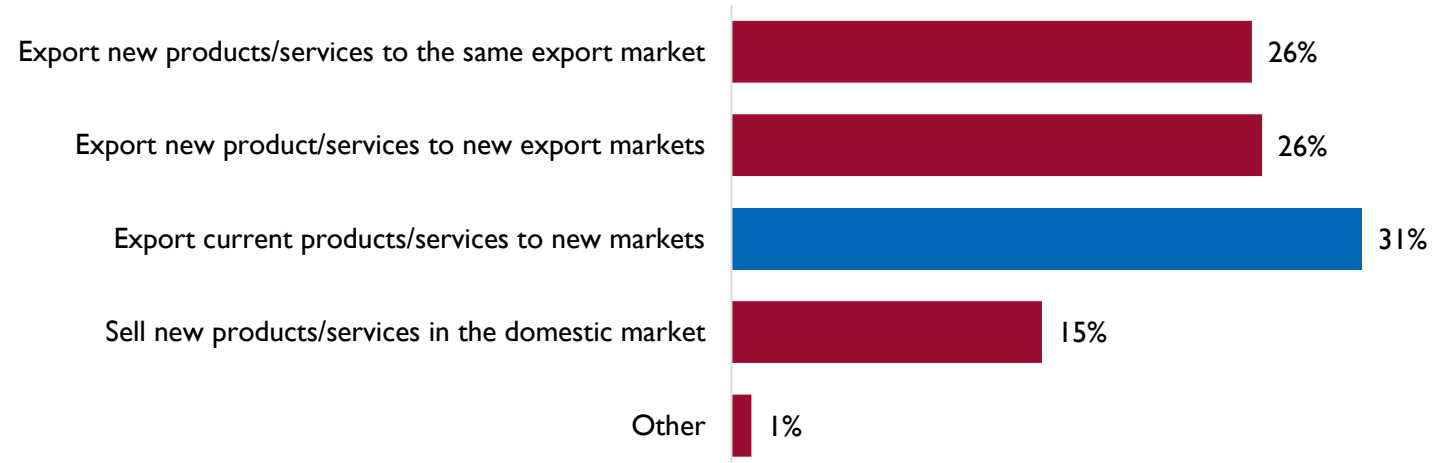


Higher number of opportunities were identified by SMEs



Over **50%** of women owned and/or led business have found new opportunities with majority of them being SMEs. This is an improvement from the last survey where only 17% of women owned and/or led businesses found new opportunities.

Nature of Identified New Business Opportunities



EXPORT FACILITATION REQUIRED

Most firms require Government facilitation to improve export competitiveness. The need for a market-determined exchange rate was highlighted.

Key Focus areas for facilitation by Government



87% of firms require assistance from the Government to make their exports more competitive

Leading facilitation measures required by:

SMEs

- Promoting export supporting industries (such as testing facilities, machinery production, etc.)
- Allowing a market-determined exchange rate

Women owned and/or led Firms

- Government support for a financial assistance package
- Promoting export supporting industries
- Improving access to trade/export finance

EXPORT FACILITATION REQUIRED FROM TRADE CHAMBERS AND DONOR AGENCIES



Access to new markets and export customers;
Facilitate partnerships for export production



Assist investments in solar power generation



Provide sufficient logistic support



Assist acquiring of new mechanization tools and
technology to be export competitive



Assist with participation in international trade/
Expo fairs and exhibitions



Support in policy advocacy related to export
regulations and improving awareness amongst
policymakers and key government institutions on the
importance of an export-oriented economy



Assist training and development that support
technical and technology transfer and improve
process efficiencies



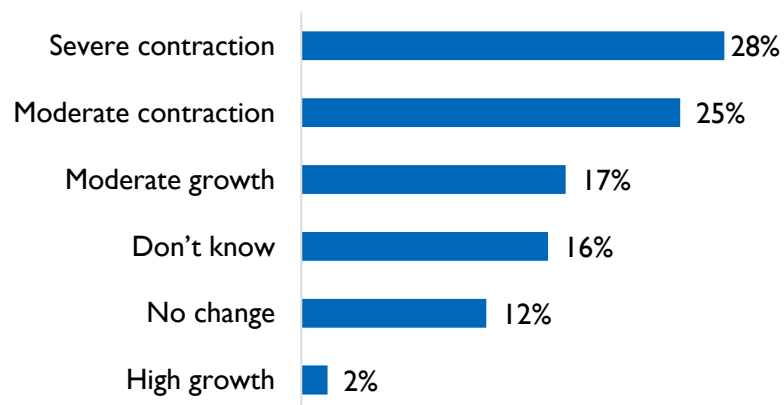
Assist with R & D and obtaining international
accreditations

Outlook for the Next 6 Months

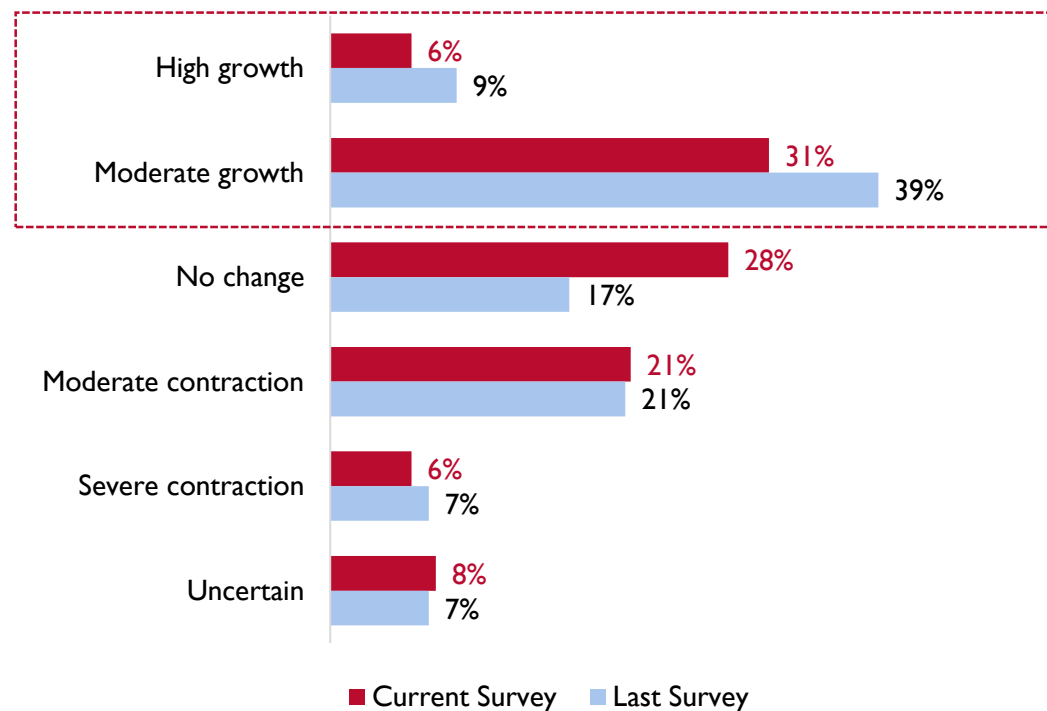
OUTLOOK FOR THE NEXT 6 MONTHS

Exporters are expecting an economic contraction in the next 6 months echoing the previous survey's sentiments on the economic outlook. However, firms continued to be optimistic about the outlook for export growth in their business with growth being driven by the higher unit price for their exports.

53% of firms expect a moderate to severe contraction in the economy similar to their expectations in the last survey



Outlook for export growth in the next 6 months is still optimistic, but expectations have dimmed








62% of firms are expecting a moderate to significant increase in the export unit price in the next 6 months. **70%** of these firms expecting an increase in unit price are SMEs.

OUTLOOK FOR THE NEXT 6 MONTHS cont'd



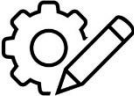




35% of firms expect to undertake strategic business measures in the next 6 months, expressing similar sentiments to the last survey. Of this;

68% are SMEs

35% are women-owned and/or led firms

	36%	Joint ventures
	35%	Partnerships
	14%	Mergers
	10%	Acquisitions
	5%	Divestitures

Firms expect to utilize the following measures to drive export orders

	18%	Competitive pricing
	17%	Improving online presence
	17%	Offering customized products
	16%	Improving customer service
	14%	Increase spending on marketing
	13%	Improving delivery/logistics capabilities
	6%	Improving payment terms

OUTLOOK FOR THE NEXT 6 MONTHS cont'd

More than half of the exporters are looking at exploring 1-2 new markets which is similar to the expectation during the last survey.

Exporters are concerned about the outlook for the first half of 2022 due to:

- On-going forex crisis and its impact on business continuity
- Russia-Ukraine conflict and its impacts on export markets
- Rising shipping and freight costs

55%

of firms are looking at 1-2 new markets

21% of firms

are looking at 3-5
new markets

10% of firms

are looking at more than
5 markets of which the
majority are SME firms



**Most women owned and/or led firm are
expecting to enter 1-2 new markets**

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 the transition of the economy to a new normal, signals changes in export trade, and thereby, acts as a forward-looking indicator. Also, it identifies the needs and support requirements of exporters.
- A detailed survey questionnaire with 55 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 2 selected exporters (1 goods exporter and 1 service exporter) to ensure that the questionnaire was user-friendly and met 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 8th to 28th February 2022 using the online survey platform, *Typeform*. The survey received a total of 173 responses which was above the target of 100-120 responses.
- The survey also aimed to obtain responses from at least 25% and 10% of SMEs and women-owned and/or led firms, respectively. The survey received 69% of responses from SME firms and 22% of them were from women-owned and/or led firms. SME firms were classified based on the number of employees as specified by the [National Policy Framework for Small and Medium Enterprise Development](#). Collected data were analyzed using quantitative methods including calculating percentages, and cross-tabulating data.
- Certain challenges were faced in implementing the survey given that it was conducted in a period where Sri Lanka is facing significant economic concerns stemming from the foreign exchange crisis. The duration of the survey was restricted as certain questions were time-bound due to changing economic and social conditions. The lack of willingness of exporters to engage in a lengthy survey conducted online was another limitation. Since the survey sample is different for the first survey to this latest survey, the accuracy of comparison between each is uncertain.
- The survey was conducted with the support of the United States Agency for International Development (USAID) Partnership for Accelerating Results in Trade, National Expenditure and Revenue (PARTNER) Activity.

Export Barometer Survey - February/March 2022

Conducted by

The Ceylon Chamber of Commerce

and

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

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