EMPOWERING SRI LANKAN MSMEs: THE CRUCIAL ROLE OF SKILL DEVELOPMENT IN FOSTERING FUTURE TOURISM GROWTH

S Chandrasiri

Abstract

Tourism is a strategically important industry for Sri Lanka, making a significant contribution to the crises that hit the island economy in terms of income generation, foreign exchange earnings, job creation, attracting foreign direct investment and high value-added growth. It is the only sector which has bounced back very strongly and has a high potential for growth and expansion. The MSMEs account for 80 per cent of business enterprises and 75 per cent of employment in the tourism industry, and its growth prospects are seriously impacted by skill gaps and shortages. This is mainly a supply-side issue which has not been addressed for decades and is aggravated by COVID-19 (2020-21) and the economic crisis (2022 onwards) and requires immediate attention from policymakers, training providers and employers.

JEL: F66, F68, J08, J24, L83

Keywords: Business recovery, Skill gaps, Skill shortages, Training providers

Sunil Chandrasiri
Department of Banking and Finance,
SANASA Campus, Sri Lanka.
Email: sunilch@sltnet.lk Tel: +94 71 914 1379
https://orcid.org/0009-0008-9921-5509
INTRODUCTION

Tourism plays a vital role in the economic recovery of the crisis-hit negative growth of the island economy of Sri Lanka. It is a major foreign exchange earner to the national economy and income generator to a wide cross-section of low-income earners employed in micro, small and medium-scale enterprises (MSMEs). Tourism recorded a steady recovery in 2023 despite macroeconomic uncertainties and significant challenges at the global level. Its business recovery rate up to June 2023 is higher than its competitors in the Asia-Pacific region and is expected to reach pre-pandemic levels in the 1st quarter of 2024. The major challenges, however, are skill gaps and shortages experienced by the employers, including the MSMEs operating in tourism.

This perspective aims to elaborate on the crucial role of skills development in tourism sector business recovery with a special focus on MSMEs. It begins with an assessment of the impact of the crises on micro, small and medium enterprises (MSMEs) and the specific challenges they have encountered in responding to market demand. After the introduction, it presents a brief account of the status of the national economy and labour market as background information for the main study. This is followed by an assessment of tourism sector business recovery during the post-pandemic period and the issue of skill gaps and shortages in the tourism industry with special reference to MSMEs. The perspective concludes with some observations useful for policymakers and other stakeholders interested in promoting the business recovery of tourism in Sri Lanka.

Status of the National Economy and Labour Market

Sri Lanka is in a deep economic crisis due to years of economic mismanagement, weak governance, poor policy choices, and the impacts of external shocks such as the COVID-19 pandemic, the Russian-Ukraine conflict and the Israeli-Palestinian conflict. The island economy is confronted with major economic problems such as heavy foreign and domestic debts, high cost of debt services, the serious balance of payments problems, depleted foreign reserves, fiscal deficits, bloated and inefficient public sector, absence of law and order, high level of bribery and corruption, negative economic growth, and dominance of political factors in allocating public resources. Currently, the economy is operating on an IMF bailout programme, and Sri Lanka failed the first progress review. As viewed by the IMF, “despite early signs of stabilisation, full economic recovery is not yet assured. Growth momentum remains subdued, with real GDP in the second quarter contracting by 3.1 per cent on a year-on-year basis and high-frequency economic indicators continuing to provide mixed signals.” (IMF, 2023). Despite the IMF-led development partner assistance, the socio-economic status of the economy continues to

1 Shortfall in basic skills e.g., problem solving.
2 Shortfall in job related skills e.g., chefs, technicians, ICT workers etc.
3 The first $2.9 billion assistance package from the IMF was released in March 2023.
deteriorate with the doubling of poverty levels, increasing malnutrition, high cost of utility services and fuel, high tax rates, high cost of living, rising unemployment, increasing vulnerability of low-income earners, and loss of human capital due to rise in migration of skilled and semi-skilled workers and professionals seeking foreign employment. The poverty level doubled from 13.1 to 25 per cent between 2021 and 2022, and this figure is expected to increase further by another 2.4 per cent in 2023 (WB, 2023). About 3.9 million Sri Lankans are moderately food insecure, with over 10,000 households facing severe food insecurity (UNICEF, 2023). This dramatic increase in poverty and vulnerability has wiped out decades-long human capital gains in Sri Lanka. In fact, there is now a serious learning crisis in the country. Only 14 per cent of Grade 3 students have acquired minimum competency in literacy and only 15 per cent in numeracy (MoE, 2023).

Most recent evidence on the impact of multiple crises (2020-23) on Sri Lanka’s micro, small and medium-sized enterprises reveal COVID-19 and economic crisis severely or very severely impacted 80 per cent and 89 per cent of MSMEs respectively (Chandrasiri and Gunatilaka, 2023). By subsector, the impact of the multiple crises was severe on MSMEs in the tourism, manufacturing, construction, transport and storage, wholesale and retail trade and other services sub-sectors, which account for more than 55 per cent of GDP. The loss of employment was around one fifth of surviving forms and it was around 23 per cent among small scale enterprises. A substantial number of enterprises lost both skilled and unskilled workers due to in-migration and out-migration. The loss of human capital development was also remarkably high during the multi-crises period and in terms of mode of training, the drop was 73, 67, 41 and 6 per cent in e-learning, external training, in-house training, and on-the-job training, respectively.

The multiple crises have impacted on a labour market whose characteristics have long been cause for concern, including skills gaps, persistence of a large informal sector, low productivity of labour, low levels of women’s participation in the paid workforce and slow growth of decent jobs. The multi-crisis has intensified these features of the labour market, expanding unemployment, decreasing real wages, widening gender gaps in labour force participation, low worker morale and giving rise to job insecurity and uncertainty. In terms of unemployment, the total stock of unemployed persons surged from 411318-443683 between 2019 and 2023 Q2, with an increase of 8 per cent. Rising unemployment, particularly among the youth, is a significant social and economic issue. For example, the rate of unemployment among the youth (age 15 – 24 years) in the 2ed quarter 2023 was 25.8 percent and that is the highest reported unemployment rate among all age groups. By gender, the unemployment rates for males and females were 22.7 and 33.3 per cent respectively for age group 15-24 years.

---

Business Recovery of Tourism Industry During Post-Pandemic Period

The COVID-19 pandemic has had a devastating impact on tourism value chain enterprises, the livelihoods of its workers and the communities and countries that rely on tourism. The pandemic and the subsequent economic downturn at global level have exposed the fragility of the sector and its vulnerability to shocks. According to the UNWTO (2023), the pandemic generated a loss of 2.6 billion international arrivals in 2020, 2021 and 2022. The total loss in export revenues from tourism was around US$ 2.6 trillion during the same period. Export revenues from international tourism dropped by 62 and 59 per cent in 2020 and 2021 respectively relative to 2019. However, the industry rebounded in 2022 and the recovery rate at the end of July 2023 was 84 per cent of pre-pandemic levels. About 700 million tourists travelled internationally between January and July 2023, with a 43 per cent increase over the same months of 2022. At global level, all world regions enjoyed strong rates of tourism recovery over the first seven months of 2023, driven by increasing demand for international travel from key source markets: a) The Middle East reported the best results in January-July 2023, with arrivals 20 per cent above pre-pandemic levels; b) Europe and African region showed over 90 per cent recovery of pre-pandemic levels, and c) Asia and the Pacific region, recovery accelerated to 61 per cent of pre-pandemic arrival levels. This means, the tourism industry at global level continues to show remarkable resilience and sustained recovery, even in the face of economic and geopolitical challenges (UNWTO, 2023).

Tourism industry in Sri Lanka has also shown an impressive recovery rate of 73 per cent from January to October in 2023 relative to pre-pandemic levels. This is higher than the business recovery rate of tourism in Asia-pacific region and marginally lower than the world recovery rate of 84 per cent. As shown in Figure 1, tourism industry in Sri Lanka reveals a continuous improvement since the 4th quarter of 2021 both in terms of tourist arrivals and foreign exchange earnings. During first ten months of 2023, the cumulative tourist arrivals in Sri Lanka reached an impressive 1,016,000 surpassing the figures from the previous year, and earnings exceeded US$ 1.5 billion with and impressive increase over 2022. Sri Lanka’s top six source markets up to October 2023 account for 62 per cent of tourist arrivals and represented by (India (26%), Russian Federation (10%), UK (8%), Germany (7%), China (6%), and Australia (5%). These countries played a pivotal role in driving the surge in tourist arrivals, contributing substantially to the overall recovery of Sri Lanka’s tourism sector. In terms of value-added growth, tourism is the only sub-sector which has been maintaining high growth since the 4th Quarter 2021. In terms of employment, total employment in tourism reduced by 7.7 per cent from 232,344 in 2019 to 214,497 in 2021 and increased up to 235,544 with an impressive growth of 9.8 per cent

---

5 In the 1st and 2ed quarters of 2023, growth of value added in tourism sector was 5.2 and 34.2 per cent at constant price respectively.
increase in 2022. By gender, the increase in employment was 4 per cent and 10 per cent among male and female workers respectively.

**Figure 1: Impact of COVID-19 on Tourism**

![Graph showing tourism impact due to COVID-19](image)

Source: CBSL (2023) and SLTDA (2023)

**Skills Crisis in the Tourism Sector MSMEs**

However, the tourism industry in Sri Lanka faces a major problem of skill gaps and shortages. This was a major constraint on the growth and expansion of tourism long before the COVID-19 crisis. The existing body of evidence on skill gaps among tourism sector employees points to major skill gaps in terms of cognitive, non-cognitive, and technical skills. Earlier work by Dunder et al. (2014) presents a critical assessment of education, training and skill levels of the employed (e.g. cognitive, non-cognitive and technical skills), and the findings indicate failures of the Tertiary and Vocational Education Training (TVET) system to provide skills needed for work in key sectors such as tourism that are vital to economic diversification and competitiveness. Even though the analysis was carried out at the national level, Dunder et al. (2014) make special

---

6 For details see Dunder et al. 2014 and Chandrasiri & Gunatilaka (2015).

7 Covered a random sample of about 600 formal businesses of different sizes in key sectors. It collected information about skills and competencies needed by different enterprises, the relevance of skills currently available, the nature of skills gaps and mismatches etc. For more details see Dunder et al. (2014) p.23-37.

8 It's a national sample of 2989 households representing urban (40%) and rural sectors (60%). It also covered all nine provinces and the sample share for Eastern and North Central Provinces were 5 and 8 per cent respectively. For more details see Dunder et al. (2014) p.23-37.
reference to the tourism sector by highlighting skill mismatches, employing contract labour and limitations of training providers.

The ILO study by Chandrasiri & Gunatiilaka (2015) on ‘Skills gap in Four Industrial Sectors’ presents a review of the literature on training and development of four major economic sectors, including tourism. It broadly covers sector profiles, employment structure, quality of employment, training needs and supply of training. The study confirms the validity of the skills mismatch hypothesis in the context of Sri Lanka on the strength of three major causal factors: a) quality and relevance of training, b) demand for soft skills and job-specific technical skills, and c) high rates of labour turnover. Its findings also suggest that Sri Lanka’s traditional approach to skills formation, which focuses almost entirely on the imparting of technical skills, may be out of step with international requirements and trends. Sri Lanka needs to adopt a conceptual framework that rests on the three pillars of cognitive, technical, and soft skills and reorient its training provision, both in general and technical education.

Most recent evidence on skill gaps in the tourism industry with a special focus on the MSMEs was carried out by the S4IG project (2022) covering eight districts based on employer ratings on high, middle, and low-skilled occupation categories. The ratings are derived for several skills\(^9\) that are typically used in high, middle, and low-skilled occupations. The employers were also provided with a 1 to 5 rating scale\(^10\) for them to assess the competencies of workers employed in high, middle, and low-skilled occupations. The findings reveal the presence of serious skill gaps among middle and low-skilled employees as against their counterparts in high-skilled occupations. For example, employer ratings on competencies of high-skilled employees are satisfactory, with over 50 per cent of high-end ratings for customer service, business skills, and soft skills. In contrast, low-skilled employees appear least competent in the entire skill set, with less than 50 per cent of the sample rating them as having high or advanced skills. Employer ratings for middle-skilled workers are very similar except for customer service. In comparative terms, however, skills deficits among middle-skilled employees are somewhat better than the employees in low-skilled level occupations. The findings on skill gaps by sub-sector point to high skill gaps in the food services sub-sector relative to the accommodation sector in high, middle, and low-skilled occupations. The severity of skill gaps is high among low-skilled workers employed in the food services sector relative to the accommodation sector.

The findings of this survey also highlight gaps in digital skills. In terms of different occupations, gaps in digital skills were 81 per cent among low-skilled occupations, followed by 69 and 59 per cent among middle and high-skilled occupations. The

---

9 Business skills (Problem solving), Soft skills (communication), Technical skills (job specific), Digital (ICT) skills, and Customer service.

10 1 = basic, 2 = intermediate, 3 = high, 4 = advanced, and 5 = Don’t know.
digitalisation of tourism services is changing the structure of the industry by altering barriers to entry, facilitating price comparison, revolutionising distribution channels through the Internet, minimising costs and improving productive efficiency (Carlisle et al. 2023). Moreover, COVID-19 and the economic crisis have made it clear that digitisation is not as complex and lengthy a process as was often previously assumed. It is user-friendly, and the necessary IT tools can be adopted with some training in ICT applications in tourism operations. In the post-crisis business recovery period, it has emerged as a key strategic priority and a tool to improve business performance through product promotion, customer engagement, and improved productivity, especially amongst MSMEs.

An analysis of job advertisements in print media from 2019-2022 reveals a gradual recovery of tourism advertisements in 2021 and a marginal drop in 2022. However, more than 90 per cent of advertisements originating from the informal sector suggest the severity of skill shortages among MSMEs operating in tourism (Table 1). In terms of occupation groups, the highest demand seems to be concentrated in five main occupation categories viz: cook, waiter, kottu maker, kitchen helper, and cashier. As viewed by industry leaders, the tourism industry at present is faced with a serious skill shortage due to a significant exodus of workers seeking opportunities abroad for higher pay. At the same time, the existing workforce is making a good contribution to earning foreign exchange from the tourism industry. This is a delicate equilibrium in which industry stakeholders try to strike a balance.

**Table 1: Demand for Tourism Sector Jobs**

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of advertisements for vacancies in the tourism industry</td>
<td>31,674</td>
<td>9,793</td>
<td>23,981</td>
<td>20,792</td>
</tr>
<tr>
<td>Total number of advertisements</td>
<td>160,933</td>
<td>54,759</td>
<td>144,157</td>
<td>115,463</td>
</tr>
<tr>
<td>% of tourism-related advertisements</td>
<td>20</td>
<td>18</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>% of Informal sector advertisements for tourism sector vacancies</td>
<td>90</td>
<td>91</td>
<td>91</td>
<td>93</td>
</tr>
</tbody>
</table>

Source: TEVC (LMI Bulletins, 2019 to 2022)

On the supply side, an analysis of the performance of tourism sector skills development reveals the slow progress of tourism sector training providers relative to their counterparts.

---

11 Based on the newspaper job advertisements survey done by the Tertiary and Vocational Education Commission (TVEC). It covers two weekend newspapers, ‘Sunday Observer’ and ‘Lankadeepa’ in addition to job advertisements published in the Government Gazette.

who conduct training for other industry sectors during the multi-crisis period. The recovery rate of student enrolment in tourism-related course programmes was 42 per cent in 2022 against 69 per cent in other industry sectors (Figure 2). In terms of graduate output, the recovery rate in the tourism sector was 35 per cent against the pre-pandemic period, and it was 58 per cent in other industry sectors. Given the severity of skill gaps and shortages in the tourism sector, the performance of training providers seems to be far below the expectations of tourism sector employers. At present, the bulk of the training programmes in tourism sector skills development is offered by TVEC-regulated public sector training providers (69%), while the rest is conducted by the Sri Lanka Institute of Tourism and Hotel Management (11%), private sector (13%) and non-government sector (7%) training providers. Nearly 70 per cent of tourism-related training programs offered by public sector training institutes are targeted at occupations relating to Cookery and Room Attendant/Housekeeping jobs. The rest of the programme mix includes HND/Degree programmes, Guest Relation Officer, Multitasker, Front Office, Tourist Driver, Tour Guide, Restaurant and Bar Service, Pastry and Bakery, and Hotel Reception.

**Figure 2: Recovery of Skills Development Sector During Multi-crisis Period - % Against 2019**

<table>
<thead>
<tr>
<th></th>
<th>Rest of TVET programmes</th>
<th>Tourism sector</th>
<th>Rest of TVET programmes</th>
<th>Tourism sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Enrolment</strong></td>
<td>62</td>
<td>26</td>
<td>61</td>
<td>26</td>
</tr>
<tr>
<td><strong>Graduate Output</strong></td>
<td>26</td>
<td>26</td>
<td>45</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: TEVC (LMI Bulletins, 2020 to 2022)

**CONCLUSIONS**

Human capital development is critical for business recovery and increasing the competitiveness of tourism services during the post-pandemic period. It is an important strategic investment which generates long-term dividends to the national economy including employers and employees. In Sri Lanka, tourism has emerged as a vital sector of the economy in terms of generating much needed foreign exchange, poverty alleviation via employment generation, accelerating economic growth and uplifting living standards of individuals working with the MSMEs. The foreign demand for tourism continues to
take an upward trend while the supply side is faced with a major constraint of skill gaps and shortages in all occupation categories. This requires targeted interventions to upgrade the skill mix of the existing workforce and improve the quality and quantity of new entrants to the industry. It also requires special efforts to improve the digital skills of the workforce in addition to broad basing the programme mix.

REFERENCES


Chandrasiri, S. and Gunatilaka, R. 2023. Impact of Multiple Crises on Sri Lanka’s micro, small and medium-sized enterprises. ILO. Colombo


Ministry of Education (MOE). 2023. Assessment on Achievement levels of Foundational Skills in Literacy and Numeracy of Grade 3 Students in Sri Lanka, Colombo.


