

The impact of COVID-19 on Tourism sector MSEs and its Resilience: A Case Study of Arugam Bay- Sri Lanka.¹⁰

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Introduction

Micro and Small-scale enterprises (MSEs) play a significant role in promoting growth and development of tourism in Sri Lanka. As per the Department of Census and Statistics (DCS) Economic Census 2013/14, the MSEs¹¹ account for over 95 percent of the total enterprises in accommodation and food services sub-sector. Its contribution to employment and value added in the same sector is around 70 and 50 percent respectively. Moreover, tourism sector is the 3rd highest foreign exchange earner and accounts for about 4-5 percent of GDP. Undoubtedly, the MSEs operating in tourism value chain is a major in terms of value added, foreign exchange earnings and job creation. There is a good body of knowledge on the impact of COVID-19 on Sri Lanka at national and sub-sector level based on secondary data.¹² However, there is hardly any work at sub-sector level based on firm level data on MSEs and this study is an attempt to fill this literature gap in tourism sector MSEs.

Arugam Bay (AB) is well-known as one of world's best ten surf points in 2010 (Lonely Planet, 2009) located in the east coast of the Sri Lanka and is made up of several right-hand points for surfing that only work from May to November. It attracts guests from various parts of the world and provides livelihood for fishing communities characterized by high unemployment, underemployment, poverty and inequity. The impact of COVID-19 on

¹⁰ The advice and guidance provided by Prof. Sunil Chandrasiri throughout the study is gratefully acknowledged. Helpful comments and suggestions by two anonymous referees are also thankfully acknowledged.

¹¹ Micro enterprises with less than 10 employees and Small-scale enterprises with 10-50 employees. Source: The Ministry of Industry and Commerce (MIC), National Policy Framework for Small Medium Enterprise (SME) Development (undated)

¹² For a review of existing body of work on COVID-19 see Chandrasiri et al. (2020) and references cited therein.

tourism and hospitality is unprecedented. It has led to devastating implications on tourism sector MSEs operating in economically backward areas such as AB. There is a debate on MSE's ability to face the challenges of COVID-19. Can they survive through the crisis or will they go out of business? What is the role of the government in helping MSEs during the post-COVID-19 economic recovery? The present study is designed to engage in this debate concentrating on two main research issues: (a) what is the immediate economic impact of COVID-19 on tourism sector MSEs? (b) what is the recovery capacity of MSEs in tourism during the post-lockdown period?

Objectives

In view of the above two research problems, the main objectives of the study are two-fold: a) to assess the economic impact of COVID-19 on MSEs operating in the tourism sector and b) to examine MSEs' response to business recovery during the post-lockdown period.

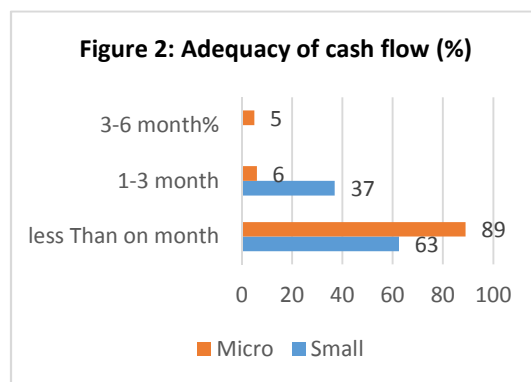
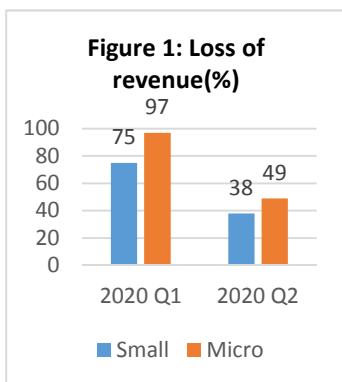
Methodology

The MSEs in AB are represented by 278 enterprises with a heavy concentration of micro-level firms (83%). In terms of business sectors, it covers four main business segments: 1. Accommodation, 2. Food and beverages, 3. Entertainment and 4. Surfing. The analysis is based on a data set generated through a field survey carried out from 10th to 15th August 2020, using a sample of business establishments (n=45) representing MSEs in the tourism value chain. It is a stratified purposive sample with full coverage of the surf tourism sector (n=10) and partial coverage of the other three segments of the tourism value chain. This sampling procedure rendered in the selection of the most representative and suitable respondents for the survey during adversities. A Structured questionnaire was administered among sample firms using face to face interview technique with a special focus on employment, links with the value chain, and impact of the pandemic, coping strategies, and business owners' perceptions on institutional efficiency in the delivery of relief measures. The data were analyzed through descriptive statistics using SPSS. In addition, a review of secondary data was also carried out with a view to elicit information on COVID-19 impact on the national economy.

Results and Discussion

The period May to November is the peak season for MSEs in Arugam Bay. Over 80 percent of tourism market in AB is dominated by foreign guests and in March and April, with the lockdown restrictions, 96% of foreign and 36% of local bookings were cancelled.¹³ Booking cancellations by foreign guests among micro and small-scale enterprises were 71 and 86 percent respectively during the 1st quarter of 2020.

Similarly, in the 1st quarter the loss of business operations was 100% for about 95 and 75 percent of micro and small-scale enterprises respectively. In the 2nd quarter however, 100 percent business losses were reduced to 11 and 25 percent of micro and small-scale enterprises respectively in AB demonstrating MSEs' ability to bounce back with the relaxation of lockdown restrictions. The evidence on status of business operations¹⁴ also revealed high economic vulnerability of MSEs in AB during the 1st quarter of 2020 and their ability to recommence business operations with necessary adjustments during post-lockdown period. For example, in the 1st quarter of 2020, 89 and 63 percent of micro and small business in AB were fully closed and in the 2nd quarter, 62 and 75 percent of micro and small business units were fully open.



Similarly, loss of revenue was 97 and 75 for micro and small-scale enterprises respectively in the 1st quarter of 2020 and 49 and 38 in the 2nd quarter of 2020 (Figure1). The net result of booking cancellations and loss of revenue is reflected in the cash flows of the MSEs in AB. In fact, majority of

¹³ 100% cancellations

¹⁴ This was measured in terms of 3 options: a) fully closed, b) open in limited way and c) fully open.

micro (89%) and small scale (63%) units reported that their cash balance was adequate for a period of less than one month (Figure 2). Another 6% of micro and 37% of small-scale units stated that cash flow was adequate for less than 3 months. Only 5% of micro enterprises estimated adequacy of cash flow for 3-6 months.

The total employment of the sample units before COVID 19 crisis was 494 representing both direct (61%) and indirect (39%) employment. The evidence on job losses was very high during the 1st quarter of 2020 and estimated values are in the region of 84 and 74 percent among micro and small business units respectively. However, in the 2^{ed} quarter the situation has improved and estimated job losses were 63 and 46 percent among micro and small business units. The disruptions in business operations have also led to a significant loss in target investments of micro (57%) and small scale (63%) firms respectively.

MSEs are more likely to adopt an agile approach than medium and large-scale companies, which typically follow a resilience strategy. In this context, institutional and policy support system becomes an essential element in helping MSEs to recommence and reinvent business operations during the post-lockdown period. Survey evidence clearly point out the vital role expected from the institutional support system¹⁵ during the recovery phase. (Table1).

Table 1: Key Interventions that Firms want Government to Implement (in %)

Area of intervention	ACC	F&B	EN	Surf	All
Institutional support	13	10	7	10	40
Monetary & Fiscal	5	2	1	3	11
Marketing & Promotion	7	3	3	7	20
Product Development	8	5	4	5	22
Tourism Sector Development	2	1	2	2	7
Total	35	21	17	27	100

Alarmingly, over half of survey respondents reported that they found it hard to access information and benefits from COVID-19 related assistance

¹⁵ Sri Lanka Tourism Development Authority, Eastern Tourism Bureau, Arugam Bay Tourism Association, District Administration and institutions representing the line ministries at national level (e.g., Ministry of Labour).

packages, calling into question the efficiency and effectiveness of existing institutional support system. However, the success of firm level business strategies (e.g. reduced prices, discounts and preparation for COVID-19) is a green signal in the dark. As viewed by the respondents, these measures paved the path for them to rethink their justifiable coexistence, workforce skills-gap development and more focus on innovation in order to meet post-COVID-19 standards of tourism and travel industry. They are also in search of new and updated marketing strategies and avenues to make AB an enjoyable paradise for both local and foreign guests. The MSEs' ability to navigate through the COVID-19 crisis shows that there will be new opportunities for them to reinvent businesses based on their past experiences, but needed is institutional and efficient policy support.

Conclusion

The key finding of the analysis is that MSEs have demonstrated their capacity to survive through a crisis and key stakeholder groups need to take a full advantage of this positive response.

It is apparent that more efficient and effective institutional and policy support system could help MSEs to steer through the challenges presented by the pandemic and turn these challenges into opportunities to reinvent their businesses. Thus, supporting MSEs should be the main focus of economic and social development strategies at national, provincial and district level. As the COVID-19 pandemic is a crisis with an unforeseeable ending, the government has to ensure efficient delivery of institutional and policy support systems to create a more resilient and sustainable MSEs particularly in high growth sectors such as tourism.

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