

## The impact of the Sri Lankan economic crisis on the brain drain of IT professionals

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### Abstract

This study analyses how the Sri Lanka's economic crisis has impacted the brain drain of IT professionals. This qualitative study analyses the motivating factors that make IT Professionals seek career opportunities abroad. This study surveyed employees of seven IT organisations based in Colombo. Furthermore, this study examined the impact of the migration of IT professionals on the Sri Lankan IT sector, highlighting the relationship between economic uncertainty and talent migration. This study found that the main causes for migration is economic uncertainty, the rising costs of living, higher taxes and the pursuit of better career opportunities and living conditions. The Sri Lankan IT sector is facing a dearth of IT talent due to the migration of experienced IT professionals, which has led to severe resourcing challenges.

**Keywords:** Brain Drain, Economic Crisis, IT Industry

## 1. Introduction

### 1.1 Background of the Study

"Brain drain" refers to the migration of highly educated and skilled individuals from one country to another, which is generally motivated by benefits such as greater economic prospects, more job options, and access to advanced education and research facilities. This phenomenon has the potential to have far-reaching consequences for both countries of origin and destination, influencing labour dynamics, innovation, and economic development (Fernandez-Reino & Paco, 2019; Smith & Johnson, 2015). Further, Beine, Docquier, and Rapoport (2008) also state that, the migration of highly skilled and educated persons from one country to another, poses substantial problems to the workforce and development of the source country.

The process of "brain drain" in Sri Lanka's IT sector continues, due to IT professionals migrating in search of better career opportunities, higher wages, and better living conditions (Silva & Perera, 2017; Fernando & Gunawardena, 2019). The IT business in Sri Lanka has grown significantly in the recent years, but emigration of qualified IT employees

has been a source of concern for the country, threatening the local workforce, innovation, and the general development of the IT sector.

### 1.2 Industry Overview

The IT sector provides professional services with various parties involved in the complex service innovation process. Moreover, the IT sector contributes greatly to a country's economic development through job creation, innovation, increased productivity, and global competitiveness (UNCTAD, 2019). It also promotes economic growth by increasing job opportunities and accelerating technology advancements, ultimately improving a country's worldwide status. In addition, foreign revenue of approximately \$ 1.5-1.7 billion (which is nearly 2% of the GDP) was generated from the Sri Lankan IT sector in the last 10-15 years. A considerable number of professionals have left the country, which has had a major impact, not only on the relevant industry, but also on Sri Lanka's economy as a whole.

### 1.3 Research Problem

Sri Lanka is one of the few countries in the world to have experienced three consecutive socioeconomic crises that slowed economic growth. These, along with the social and

political events in 2022, have exacerbated financial troubles. Prior to the pandemic, the Sri Lankan IT industry employed over 120,000 people and was on its way to increasing income and job possibilities. However, the current economic crisis has negatively impacted the industry. As the crisis worsens, competent IT experts are increasingly looking for opportunities abroad, resulting in a loss of important human capital and expertise in the IT sector.

#### 1.4 Rationale

Understanding the effects of the economic crisis on the workforce is critical, as it directly affects the livelihoods of those working in the IT sector. Given that the IT industry has been a vital driver of economic growth in Sri Lanka, policymakers and industry stakeholders must understand how the crisis affects skilled professional emigration. Furthermore, research into the larger socioeconomic ramifications of brain drain in the IT sector is critical, since it can stymie technological developments, innovation, and overall economic progress. Furthermore, the business environment of Sri Lanka, which is marked by economic hardships, political instability, and natural disasters, provides interesting insights into the interplay between the crisis and brain drain.

#### 1.5 Research Aim

The research aim is to study the impact of the Sri Lankan economic crisis on the brain drain of IT professionals.

#### 1.6 Research Objectives

The objective of this study are to determine the scope of the brain drain problem, identify the mechanisms driving it, and assess its implications for the IT industry and the economy.

#### 1.7 Scope

This study surveyed employees belonging to seven IT companies located in Colombo, Sri Lanka.

### 2. Methodology

This study followed the inductive approach, qualitative research method and the case study strategy.

#### 2.1 Sample

A sample of 8 IT professionals was selected: six software engineers and two HR professionals working at IT companies located in Colombo. The purposive sampling technique was used to select the participants.

#### 2.2 Data Collection

The primary data was collected through in-depth semi-structured interviews.

#### 2.3 Data Analysis

Thematic analysis was used to analyze the respondents' feedback.

### 3. Findings and Analysis

The demographic details of the respondents are given in Table 1 below.

The respondents are in the age group 29 to 42. Three respondents possess a MBA degree and three a BSc degree. The majority of the responders are male. The respondents' work experience ranges from 2 to 12 years.

**Table 1. Demographic Details**

	Gender	Age	Education	Work Exper.
P1	F	35	MBA	7
P2	M	26	BSc	2
P3	M	33	BSc	6
P4	M	40	MBA	12
P5	M	42	CQHRM	10
P6	M	35	MBA	8
P7	F	29	BSc	4

According to Lee (1966), migration is driven by Push and Pull Factors. The Push factors are unfavorable conditions in the home country that push people to migrate to other countries, while Pull factors are the favorable factors in the host country, which people find attractive. The push and pull factors driving the migration of Sri Lankan IT professionals are discussed below.

#### 3.1 Push Factors

##### 3.1.1 Political and Economic Instability in Sri Lanka

Sri Lanka is currently experiencing a serious economic and political crisis. Since 2019, the crisis has resulted in a huge loss in foreign currency reserves, hurting the country's ability

to acquire imports and drastically raising prices for goods.

The interviewees were asked to explain what motivates them to seek employment abroad. The main concerns raised were the economic crisis accompanied by political instability. Thus, it shows that economic insecurity has caused IT professionals to be concerned about their future in Sri Lanka.

Respondent P1 stated, *“There is economic uncertainty here, with job security becoming a concern and the rising cost of living and high inflation rates have made it increasingly challenging to meet every day needs.”*

Respondent P2 stated, *“I’ve seriously thought about leaving Sri Lanka because of the current economic crisis. The job market here is quite unstable, and there appears to be better opportunities waiting for me outside the country.”*

Respondent P5 stated, *“The economic crisis and instability in Sri Lanka’s IT sector have severely impacted our career growth and overall job satisfaction.”*

Respondent P6 stated, *“The economic crisis has made it really tough to make a decent living, with prices constantly rising. The frequent changes in leadership and the government’s lack of transparency in handling the crisis have made me lose confidence in their ability to fix things.”*

Respondent P7 stated, *“Our employee turnover rate in the IT department has increased in the last year. This increase is mostly because of the economic crisis and the financial challenges that our employees are experiencing.”*

Economic uncertainty, the rising cost of living, and job insecurity are all push factors in Sri Lanka, which push professionals to seek employment abroad. These factors function as powerful motivators, driving people to seek better opportunities elsewhere (Iredale, 2001). The pull factors include better career opportunities and a higher quality of life in other countries. These appealing opportunities abroad act as magnets, attracting people to migrate (Lee, 1966). Additionally, the trend of emigration among IT professionals shows the influence of social networks, since when peers

in their profession leave, a network effect occurs, further boosting migration (Massey et al., 1993). The professionals have many years of work experience and valuable expertise, which make them very attractive to the host country.

All the responses demonstrate that political and economic instability is a substantial contributing factor to the ongoing brain drain in the IT sector.

### 3.1.2 State of the Job Market

The interviewees were asked to explain how they perceive the job market in Sri Lanka now compared to the pre-economic crisis situation. Several respondents shared their insights and the majority showed a concern about the current state of the job market.

Respondent P1 stated, *“Before the crisis, the job market was more favorable. There were plenty of job opportunities, and the demand for software engineers were higher. However, in recent years, particularly since the onset of the economic crisis, I’ve noticed a noticeable change. The job market has become more competitive, with fewer job openings available. This shift has led me, and many of my colleagues, to reconsider our career plans and explore opportunities both within and outside Sri Lanka.”*

Respondent P4 stated, *“Finding a job as a software engineer in Sri Lanka has become much more difficult since the economic crisis. There is more competition, and it looks like there are fewer job openings as well.”*

Respondent P6 stated, *“Yes, we’ve noticed a significant uptick in IT professionals leaving our company because of the economic situation. This increase is roughly around 35% higher than what we used to see before the economic crisis hit. A lot of our IT team members are worried about job security and their financial stability, so they’ve been looking at job prospects both within Sri Lanka and abroad.”*

Respondent P7 stated, *“Employees mentioned that the main reason to leave the organization was due to job insecurity. They’re worried that layoffs or downsizing might impact their jobs. The lack of benefits and incentives have also*

*been a main issue, especially when comparing offers from companies abroad”.*

The above responses of participants highlight the economic crisis's severe influence on the job market for IT Professionals. With their extensive industry experience over the years, these professionals have observed a distinct shift from a very favorable pre-crisis job market to one that is harder and more competitive. This is consistent with past studies, which show how economic downturns can lead to fewer job possibilities and higher labor market competition (Dornbusch & Fischer, 1993). Moreover, the IT professionals' concerns about limited career progression opportunities, as evidenced by increasing competition and fewer job openings, match the difficulties commonly linked with economic downturns. HR professionals' observations are consistent with software engineers' perceptions, as they reported a significant increase in IT professionals leaving their organizations due to concerns about job insecurity and financial instability, both of which are common consequences of economic insecurity.

### 3.1.3 Limited Educational Opportunities

Limited educational options in Sri Lanka have been a significant contributor to the phenomenon of brain drain (Docquier & Rapoport, 2012). Economic crises frequently reduce expenditure on education, resulting in overcrowded classrooms and obsolete curricula. Moreover, access to quality education is critical for IT professionals, and a lack of it can drive them to seek better chances abroad, increasing brain drain.

Respondent P3 stated, *“This economic crisis became a major motivator to seek employment abroad. In addition to that, I want my children to have better educational opportunities, rather than face economic challenges”.*

Respondent P4 stated, *“My children's education is very important to me, and I think looking into opportunities abroad may be the best way to secure their future”.*

Respondent P5 stated, *“The main reason for me to seek migration is to take advantage of better higher education opportunities abroad. I believe that investing in my education abroad*

*will result in better professional opportunities in the long term”.*

Access to world class universities, advanced courses, and cutting-edge research facilities can help professionals to improve their skills and knowledge and make them more competitive in the global employment market. This is consistent with the human capital theory, which states that investment in education and skill development can lead to increased earning potential and professional advancement. The "brain drain" phenomenon, in which highly trained individuals leave for better opportunities, deprives the country of important human capital and expertise (Docquier & Rapoport, 2012). The loss of these qualified workers can stymie a country's economic and technical advancement. The economic crisis aggravates the problem by reducing educational resources and quality within Sri Lanka, making educational emigration attractive. When people opt to leave the country, it can create a "skill gap" in which companies, especially in the IT sector, struggle to recruit competent talent, stifling economic recovery (International Labour Organisation, 2016).

## 3.2 Pull Factors

### 3.2.1 Brain Gain Policies in Destination Countries

Destination countries utilize brain gain policies to attract and retain highly skilled immigrants. These policies emphasize skill-based immigration systems, foreign qualification recognition, entrepreneurial visas, and dual-career support in order to capitalize immigrants' expertise and to ultimately boost economic growth and innovation (Kapoor & McHale, 2005).

Respondent P2 stated, *“Australia, Canada, United States, and countries in Western Europe like Germany and the Netherlands offer a higher standard of living, good job opportunities, and higher salaries which are important factors for us when considering working there”.*

Respondent P4 stated, *“Australia, Netherlands, and Sweden are some of the top picks among IT professionals, including me. These places are known for offering a really high quality of life. You've got great access to healthcare,*

*education, and a safe environment. It's all pretty attractive to us".*

Respondent P5 stated, *"Actually, I'm planning to go to Australia. Their career prospects, work-life balance, and being part of a strong international community are the key elements driving my decision"*.

The responses from the participants reflect a strong inclination towards considering specific countries as preferred destinations for working abroad, with a notable emphasis on Australia, Canada, the US, and several Western European nations, including Germany and the Netherlands. The factors contributing to the attractiveness of these destinations are threefold: a higher standard of living, good job opportunities, and higher salaries.

These countries are renowned for their strong economies and well-paying job markets. Moreover, the quality of life considerations also features prominently in participants' responses. The respondents highlighted access to good healthcare, education, and a safe environment as key factors influencing their choices. Skilled migrants seek destinations that allow them to leverage their skills and experience for an improved standard of living (Kapur & McHale, 2005).

### 3.3 Discussion

As a result of the economic crisis, the IT workforce is shrinking. The IT Industry is not only losing experienced employees, but they are also risking international business partnerships. The absence of IT expertise has the potential to impede international business operations and competitiveness. Although the IT Industry as a whole will face negative consequences, the IT professionals who secure lucrative jobs abroad can benefit from the opportunities in the host country. Some of these professionals may return to Sri Lanka to setup companies of their own or seek partnerships with Sri Lankan companies, which will benefit the IT sector.

### 3.4 Conclusion

In conclusion, the impact of the Sri Lankan economic crisis on the brain drain of professionals in the IT industry is a multifaceted and concerning phenomenon. This

crisis has compelled talented IT professionals to seek opportunities abroad, driven by factors such as limited career prospects, economic instability, and the pursuit of a better quality of life. The resulting loss of human capital poses significant challenges for Sri Lanka's IT sector and its broader economic development. The policies and strategies implemented to address this issue, including talent retention measures and economic reforms, will play a crucial role in determining whether the country can mitigate the brain drain and harness the potential of its IT workforce. As Sri Lanka navigates its way through these challenges, it underscores the importance of a holistic approach that considers not only economic stability but also the aspirations and opportunities of its IT professionals, ultimately shaping the future of the nation's technological landscape.

## 3.5 Recommendations

### 3.5.1 Government should strengthen economic resilience

This entails developing a comprehensive strategy to strengthen the country's economic base and reduce vulnerabilities. Key components include fiscal restraint, attracting foreign investment, and diversifying the economy. Furthermore, initiatives to improve export competitiveness, build vital infrastructure, and invest in talent development are critical. Long-term economic stability requires the development of an innovative ecosystem and the promotion of financial inclusion. Furthermore, reducing rules, creating social safety nets, and emphasizing openness and good governance are critical tasks. Collaboration on both the regional and global levels can help to increase economic resilience. Sri Lanka may build a more stable and successful economic climate by implementing these policies, making it more appealing to IT professionals and alleviating the brain drain crisis.

### 3.5.2 Reducing taxes introduced during the crisis

To get over the current economic crisis, the Sri Lankan government proposed a reversal of tax cuts. The VAT was raised to 12% in May 2022,

and it was raised to 15% in the recently passed interim budget. These higher tax rates may place an additional financial burden on IT professionals who are already dealing with economic uncertainty. In this situation, lowering these high taxes, particularly those affecting income and investments, becomes critical. Lowering tax rates or establishing incentives for talented workers might help IT professionals relieve financial stress, making it more appealing for them to stay and work in Sri Lanka. This measure will not only help to retain talent, but it will also help to drive economic growth by promoting investment and entrepreneurship in the IT sector.

### 3.5.3 Fostering a culture of entrepreneurship and innovation

According to Raiser (2023), Sri Lankans lost half a million jobs as a result of the economic downturn which were in the industry and services sectors. Therefore, Sri Lanka should deliberately foster an environment in which information technology personnel are not only employees but also creators and innovators. In order to do this, the government should build innovation hubs, incubators, and accelerators in partnership with industry stakeholders to offer IT experts with the resources, mentorship, and money needed to launch their companies and IT ventures. Offering tax breaks and simplifying restrictions for businesses can help to boost entrepreneurial activity even further. IT professionals can explore employment prospects that not only help their personal progress, but also contribute to the country's economic rebirth by creating a culture of entrepreneurship and innovation.

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