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**Trade & Investment opportunities for private sector – Panel Discussion**

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Most of us, whether we engage ourselves in tourism trade or not, have a fair idea what tourism is. Generally speaking, it denotes travel for recreational purposes, and the World Tourism Organization (WTO) defines tourists as those who *“travel to and stay in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes, not related to the exercise of an activity remunerated from within the place visited”*.

Those who are engaged in the trade or associated with it are well aware of the importance of tourism to the global economy. In 2007, over 900 million tourist arrivals were recorded worldwide with a growth of 6.6% as compared to the previous year. During the same year, the income generated from tourism was in the region of massive US\$ 850 billion.

Year 2008 was a contrast to previous years. Despite the signals that the world economy was in for a severe beating, international tourist arrivals during the first half of the year were robust. However, during the second half of the year, when the economic crisis deepened, the travel trade underwent a rapid slowing down and the effects of that development became evident when figures for the 2008 winter season became public.

Speaking of tourism in Sri Lanka, recently the Hon. Milinda Moragoda, Minister of Tourism took his staff from the Ministry and the four institutions functioning under the ministry to Anuradhapura with a view to receiving advice from the Maha Sangha with regard to issues relating to tourism in general and rebranding of Sri Lanka tourism with a new logo to attract the attention of international travellers, in particular. I vividly recall one monk speaking privately after the consultations, who said that he thought tourism was an amalgam of BBQs, beach parties, bright lights with liquor flowing freely, and he had no idea of the role the hospitality trade played in creating jobs, providing economic opportunities to the society and releasing a fairly large segment of the population from the depths of poverty. That admission demonstrated lack of knowledge on the positive role of tourism on those who provide goods and services to that trade. It is estimated that close to 900,000 persons depend on tourism in Sri Lanka.

My function today is to examine the role of tourism in the post conflict Sri Lanka. The topic itself acknowledges the fact that tourism and the conflict, which we have endured for more than two decades, are interrelated.

In the first instance, we have to admit the fact that development of tourism is capital intensive, which can come from two broad sources, namely local and foreign investment.

The industry that suffered continuously since mid 1980s due to the conflict, suffered further from the 2004 tsunami and later due to the resumption of the conflict during the second half of 2006. To make matters worse, currently the industry has to deal with the adverse effects of the global financial crisis, which are experienced in the developed as well as developing countries. In the case of Sri Lanka, that situation has put the industry in a dire situation with some hotels, restaurants and similar facilities now on the verge of closing down fully or partially, if no concrete steps are taken to help them out.

While speaking of the future of tourism, those who are currently in the industry, particularly those belonging to the SME sector, may ask what assistance the state will give to the industry. It is a fact that the government had announced a relief package to assist the industry that is facing hard times. Ironically, despite this policy decision, many hoteliers, who sought such relief from their bankers had found out to their dismay that the local banks are not ready or willing to support the industry by providing the financial package announced by the government. Reason for this situation, appears to be due to the fact that the Central Bank had so far not come up with resources to support the banks to engage in such a rescue effort. Given the dire state of the economy of the country, resulting from the developments that have taken place beyond our shores, which has forced the government to seek IMF relief, it is questionable to what extent the Central Bank or the Treasury would be in a position to support such rescue efforts. This may not come as a consolation to the long suffering industry and as responsible authorities; we have to redouble our efforts to find ways and means of keeping the tourist establishments afloat until such time the economic tsunami blows itself away.

Speaking of investment, we have to accept that while the private sector might have a limited ability to invest on new infrastructure development in the current adverse climate, their capacity alone may not be sufficient to meet the target of accommodating 1.5 million arrivals by 2016. It is to be noted that, of the total capacity numbering approximately 15,000 rooms that we have today, more than 50% requires to be refurbished to bring them to international standards. That exercise will require substantial amount of investment. Even after such an exercise, the industry will be able to accommodate only 800,000 arrivals, leaving a gap of another 700,000 to be accommodated within the next 6 years, if we were to meet our target for 2015. Of course, there are others, who believe that rather than increasing the number of arrivals, we should focus on increasing the income by catering to high spenders, which can be achieved by providing better products and facilities.

Apart from the private local investment, the industry might expect the government to contribute significantly toward development of tourism related infrastructure. While there may be justifications for such expectations, it should be borne in mind that there will be competing demands for government resources, particularly in the post conflict environment, which will make it all the more difficult for the state to come up with significant resources to develop the tourist industry. The quantum of resources required to bring normalcy to the Eastern Province is a good example to understand the enormity of the task before the government. For example, practically everything ground up will require reconstruction, such as roads, bridges, power lines, schools, hospitals, communication facilities, housing etc., requiring enormous amounts of investment by the government. With the armed conflict now restricted to the Northern Province fast coming to an end, resource requirements of the east will have to be doubled, to

bring semblance of normalcy to that Province. Last week, President Rajapaksa, inaugurated what most of us would describe as an ambitious project to reconstruct the rail connection to the north. That endeavour itself would require in excess of 14 billion rupees, which the government has to come up with to make the Yal Devi to connect Kks with Colombo. This is a clear demonstration of the kind of investment that will be required by the competing sectors of the economy in rebuilding the conflict devastated northern and eastern provinces.

Against this background, one might ask why is it that the Sri Lanka Tourism Development Authority (SLTDA), which receives resources directly from the industry, cannot undertake at least some of the urgently needed development work. The answer should be clear at least to those who are aware of the operation of the Tourism Development Levy. Bulk of that levy amounting to 70% of the total, is earmarked for promotional activities leaving a meagre 14% for the activities of the Tourism Development Authority. The outcome of this lop sided distribution, determined in the Tourism Act No. 38 of 2005, is that the SLTDA is unable even to complete urgently needed renovations to its dilapidated rest houses in Kataragama and Anuradhapura. The paucity of resources available to the Tourism Development Authority is such, recently it had to request the Treasury for a loan to meet the cost of land acquisition at Kalpitiya, where an ambitious project to develop 14 islands with approximately 4000 acres is in the pipeline. That loan is yet to materialize.

This being the situation, it is rather difficult to expect that there will be sufficient resources that can be generated locally to meet the future demands of the industry. Therefore, bulk of the capital required has to come from outside Sri Lanka.

So far, you may have heard the negative side of the story. However, I have to make it clear that the situation is not that bleak. Let us see how we can come up with an entirely different scenario in the post conflict Sri Lanka.

You would recall that in the mid seventies and even in the eighties, South East Asia was involved in a war that engulfed Vietnam, Cambodia and Laos, threatening the political stability of other neighbouring countries. There was much destruction that took place, in those countries, which made independent observers to believe that it would take decades for them to reach normalcy. If you look at these countries today, it is clear that they have made it good, within a short period of time, in the post war period.

Looking from the tourism point of view, in 2005 Vietnam had 3.4 million visitors earning 1.88 billion dollars, which increased to 4.1 million arrivals with 3.4 billion dollars by 2007. Meanwhile, Cambodian figures, which stood at 1.3 million arrivals and 840 million dollars in 2005, went up to 1.8 million arrivals and 1.4 billion dollars two years later. These figures provide us a snap shot of the immensity of the growth in the tourism sector in those two countries in the post conflict period.

In the case of Sri Lanka, with the exception of several properties in the east been destroyed due to the armed conflict, rest of the properties in the country, whether they were beach resorts or similar properties situated in other parts of the country, had not been damaged due to the conflict. Moreover,

majority of properties that were adversely affected by the tsunami of 2004 have been repaired and are now in business. This being the situation, with the end of the armed conflict, Sri Lanka will be in a better position to take off much faster than the South East Asian countries, that suffered the consequences of a terrible war that lasted several decades.

In the case of Sri Lanka, the first stage of recovery will begin with the end of the armed conflict. With that development, there will be a positive impact on the international media, which will rekindle the interest in Sri Lanka in many quarters. A follow up to that situation, will be the softening of travel advisories on Sri Lanka, which prevented both tourists as well as travel agents from focusing on Sri Lanka. Simultaneously there will be an influx of investors, what I would describe as early birds, who would be interested in getting an early foothold. With that kind of developments taking place, once again business will be brisk and hotels will begin to fill up, driving up the demand. Before that happens, authorities concerned will have to introduce a regulatory framework and strict enforcement to prevent exploitation of tourists as well as tourist establishments by tour operators, travel guides etc., who currently demand as much as 50% to 60% commissions from sales and unfair competition practiced by the city hotels. Continuation of such practices in the post conflict period would lead to damaging the nascent travel industry.

In such a scenario, the first task would be to focus on the upgrading of the existing hotel rooms numbering approximately 7000. Undoubtedly this will require considerable investment, which the property owners will have to find either locally or through foreign sources.

If the existing room capacity, even after a refurbishment exercise, could accommodate approximately 800,000 arrivals, then clearly there will be a demand for the room capacity to be increased by almost 100 per cent to meet the target set for 2015. Cost of that exercise will be enormous. However, if the investment climate remains attractive, and there is assurance that peace will hold, it will not be too difficult to ensure high level of foreign investment to post conflict Sri Lanka.

Last week, when a World Bank mission was in Sri Lanka to focus on the tourism sector, views were expressed that the investment climate for tourism would not be that good due to the current global financial crisis. However, while attending the WTM in Berlin two weeks back in mid March, I also heard from prominent players of the trade that, seasoned travellers still put money aside for their holidays, even if they had to cut corners on other needs. That demonstrated the fact, that the travel industry will come back to life slowly but surely, as people, who labour for a good part of the year, would yearn for a well deserved holiday.

As you may be aware, Sri Lanka Tourism Development Authority (SLTDA) has already taken action to block out land at the Passikudah Bay among a number of investors, who are expected to develop that area in to an exclusive resort with 700 room capacity. Mind you, that with the exception of Trincomalee, quality accommodation in the northern and eastern coastal areas is practically nonexistent. However, the eastern coast of Sri Lanka is an area, where the best beaches in the island could be found to the extent, with careful planning that area could be developed to rival Hawaii. In

addition to Passikudah, the Authority is also in the process of making preliminary arrangements to develop 14 islands in Kalpitiya, covering an area of 4000 acres as an up market tourist resort, which will bring revenue to the country, employment to the youth in a hitherto neglected region of the island, and economic bonanza to the tillers of the land, and harvesters of the sea. It is expected that this resort would add up to 4000 new rooms to our inventory and provide as many as 20,000 direct and many more indirect job opportunities.

The Tourism Development Authority has yet another development project in the pipeline. That project will come up in Dedduwa, in the Bentota area, south of Colombo. Once the acquisition of land is completed, there will be 1700 acres of land to be developed. In the near future, the Authority will also examine what other areas, are available, particularly in the Eastern and Northern coastline, suitable for development as tourist resorts, which will change the economic landscape of those areas.

Some of the hoteliers, whose properties are currently functioning under capacity might question the rationale for development of new resorts such as Kalpitiya, Passikudah and Dedduwa, when the existing capacity is yet to be filled. We should bear in mind that with the steady arrival of tourists the existing capacity will be gradually filled up and when that happens, there will be a demand for refurbishment of mothballed rooms and when that process is also completed; new capacity has to be found to meet the increasing demand.

New investment will not be limited to building of hotels with local resources or inviting international hotel chains to the country and opening up of restaurants and bars etc. There will be a galaxy of new opportunities from theme parks and amusement parks to gated wild life parks, local air transportation, wellness centres, and other means of entertainment such as facilities for golfing, boating and marinas, cruise ships, facilities for conferences, meetings etc. These will act as magnets to bring travellers, who would have otherwise skipped the destination. One good example in the post conflict scenario is the immediate availability of an ocean going passenger liner, which can carry up to 900 passengers. In view of the imminent end of the armed conflict, this ship will be available to an operator with imagination, who is willing to invest on a new opportunity, from carrying passengers from a point to point within the island, or to cruises to nearby destinations such as India, Maldives etc. Tourism Development authority is ready to assist such an investor willing to put his money on this new venture.

There are many other areas that would benefit from the new situation. Imagine the cost the government has to meet and the time taken in getting a doctor or an engineer qualified. In comparison, think of the cost and time required to train a G.C.E qualified youth in fields such as cookery, housekeeping, front office or restaurant and bar service. As most of us know, one of these modules can be completed within 6 months time and after a brief period of on the job training, a young man or a woman, who has had no previous skill, will be ready for employment with the potential of receiving a prestigious diploma offered by SLITHM at a later date. In fact, at one of the certificate awarding ceremony conducted by the institute recently, I found that considerable numbers of certificates were collected by the parents, as the students had already gone abroad after the initial period of training. There is a demand for qualified skilled personnel trained in the hospitality industry and with some

investment and perhaps collaboration with an internationally recognized training institute; the private sector could enter in to a rewarding experience of training for the hospitality industry.

Once the infrastructure is in place, tourism can help providing employment to the local population, where such opportunities never existed before. The accepted ratio of direct employment per room in Sri Lanka is 1:5, while indirect employment can be much higher. However, in some countries, the direct employment ratio is as high as 1:7, as confirmed by a Minister of Tourism of a Caribbean country during the recent ITB fair in Berlin. Consequently tourism has the potential to make a significant dent in the employment market and transform an unskilled person to a skilled person within a short period of time.

Tourism also has the potential to have a positive impact on many sectors of the economy of a country. The agricultural sector, which produce food in various forms from vegetable to fruits, the animal husbandry sector, which produces milk and meat products, fisheries sector brining in the bonanza of the ocean as well as the inland fisheries and floricultural sector, which produces flowers of various hues for individual tourist as well as for various events hosted by hotels, are some of the sectors that will benefit from the increase in the arrivals. In addition, other service industries, such as transportation, including ground, air, rail, cruise ships as well as taxies and even the three wheelers will reap the benefit of tourism. Moreover, other hospitality related activities, such as shopping malls, entertainment venues, amusement parks, gaming centres, theatre etc., are among those that will benefit from tourism. All what we have to do is to close our eyes and visualize such activities taking place in locations such as hitherto neglected areas such as Kalpitiya in the district of Putlam, or in pockets of resorts that will spring up in the Eastern coastline such as Arugam Bay, Passikudah, Trincomalee, Nilaveli, and other locations all the way up to the Nayaru Bay south of Mulaitivu. Imagine the benefits the investors would reap as well as the communities living in those areas would accrue, once tourism takes a foothold hold in those localities.

We have to admit, that majority of these areas have never experienced development that has taken place elsewhere in the post independent Sri Lanka. Lack of infrastructure, and development that never materialized made the inhabitants in those areas prime targets of those who were engaging in extremism and terrorism to achieve their political goals. The youth of these areas had no opportunities for their future development and became easy targets of destructive forces. Consequently, the tourism industry, which had much hope in the late 70s and early 80s in those areas, was severely affected, as in the case of Trincomalee area, or was totally destroyed as was the case in Passikudah.

Recently I undertook a visit to north of Trincomalee and was pleasantly surprised at the speed in which development is taking place in that area. While existing road network is being redeveloped, I saw numerous new roads that are being constructed, the age old ferry system that hindered the normal flow of traffic, being replaced with new steel bridges and power lines being installed crisscrossing the countryside. Such infrastructure development undertaken by the state will bring stability to the area and act as a catalyst for investors to build.

Before I conclude I wish to share with you two new developments. The first relates to decentralisation of responsibilities coming under the Ministry of Tourism. Although tourism is one of the concurrent subjects in terms of the 13<sup>th</sup> Amendment to the Constitution, not much has happened in the past two decades to empower the provincial administrations in a meaningful manner, so that provinces would enjoy some of the responsibilities and benefits with regard to development, classification and revenue collection at the provincial level. With this shortcoming in mind, Minister of Tourism has instructed the SLTDA to focus on decentralisation and sought the assistance of India for an advisor on transfer of responsibilities to the provincial level. The Development Authority is hopeful that with such assistance, it will be able to work toward sharing of responsibilities with the provinces and through that process, allow provincial administrations to make contributions to develop tourism at the provincial level.

The other measure taken by the Minister of Tourism was to negotiate with the World Bank for assistance, which step will inject approximately US\$ 20 million to develop the tourism industry. As you know, World Bank assistance is directed more towards capacity building rather than infrastructure development. Nevertheless this exercise would assist Sri Lanka tourism in three broad areas viz. improving the efficiency of institutional framework; improving localized tourism related infrastructure services; improving and extending the product content and supply chains that are aligned with sustainable tourism and provide much needed support to the industry, which requires such assistance to escape from the neglect experienced since mid 1980s. A mission from the World Bank was in Sri Lanka during the second half of March and a project office has already been opened to facilitate this project, which is expected to take off toward the latter part of the year.

Thank you.