

**The Impact of the Global Economic Slowdown on Poverty and Sustainable  
Development in Asia and the Pacific  
28-30 Sept 2009, Hanoi**

**Tourism Fall Out in Sri Lanka  
Possible Reasons and Implications for Poverty Reduction**

**Prepared by  
Karin Fernando and Arunika Meedeniya  
Centre for Poverty Analysis**

The views expressed in this paper/presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequence of their use. Terminology used may not necessarily be consistent with ADB official terms.



# Structure of the Presentation

---

- Introduction to the study
- Main Findings of the study
  - Macro picture – changing trends and drivers of change
  - Micro Picture – effects of changes on poverty/livelihoods
- Summary and Conclusions



- **Objectives of the paper**

To explore the impact of the global recession on the tourism industry in Sri Lanka and how this has manifested in terms of poverty reduction in the country.

- **Research Questions**

Has the financial crisis affected tourism in Sri Lanka? If so,  
To what extent this impacted livelihoods of poor households?  
Were there buffering mechanisms that helped the industry?

- **Data collection**

Literature reviews, Macro data analysis, Key person interviews



# Tourism and Poverty Reduction

- **Tourism stimulates economic growth**  
(at national and local levels, in the service, agriculture & industrial sectors.)
- **Tourism provides a range of employment opportunities to the poor**  
(formal, informal jobs, micro/small/medium enterprises, indirect jobs, labour intensive)
- **Tourism spreads development to poor and remote regions that may not benefit from other types of economic development**  
(remote locations with cultural or natural heritage.)
- **Tourism infrastructure can benefit the livelihoods of the poor**  
(improvement of services - transport, communications, water, energy, health.)

Source: Yamakawa, 2007 (UNESCAP) (online)



# Poverty in Sri Lanka

- Poverty has been declining over time – **however with regional disparities**
- Poverty differs by sector - estate (enclave structure), rural (reliance on agriculture), urban (lack of services, land tenure), **but prevalence of poverty is rural with 80% of poor residing in rural areas**
- **Common elements** that drive poverty are **education levels and reliance on low value employment** (i.e wage labour, agriculture).

**Diversified Livelihood portfolios are a coping mechanism for moving of poverty - factors that matter yield and stability of income sources**



# Employment Types and Poverty

- No data on the extent of poor people's reliance on tourism sector.  
**Employment characteristics used to identify poor in tourism:**
- Comparing poor and non-poor households, the **poor households tend to be in elementary jobs, agriculture work, and sales and service** sectors (non-poor have greater range and types of jobs)
- Among those below the poverty line:  
**Poverty incidence** is highest among households whose employment types are **casual work, unpaid family employment, contractual work, and self-employed**  
**Greater chance** of household being poor if jobs are **elementary occupations, agriculture work, craft related work**. (HHs with professions such as clerks, technicians have a weaker association with poverty)

**In tourism sector those more likely to be poor: ie: casual workers, locally owned / small guest houses/restaurants, guides, transport providers, handcrafts/gift shops/vendors, farmers (as suppliers)**

# Some Poverty data

Occupation group	Poor %	Non-poor %
Senior Officials and Managers	3.2	96.8
Professionals	0.0	100.0
Technical and Associate professionals	4.0	96.0
Clerks	3.0	97.0
Proprietors and Managers of enterprises	5.2	94.8
Sales and Service workers	16.0	84.0
Skilled agricultural and Fishery workers	12.4	87.6
Craft and Machine operators, Assemblers	6.1	93.9
Elementary occupations	23.3	76.7

Source: DCS, 2008

Employment Status	% Below poverty line
Regular employee	7.4
Self-Employed	13.9
Contractual employee	16.7
Unpaid Family Worker	18.1
Casual employee	24.5

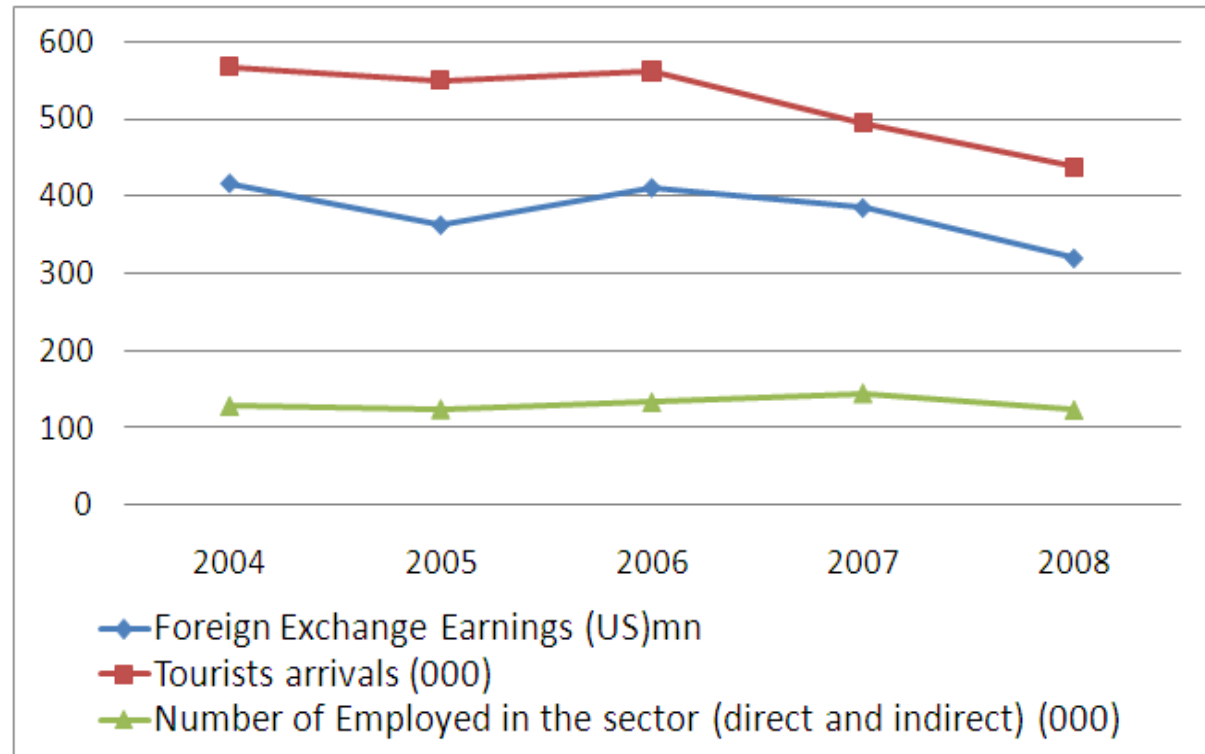
Occupational category	% Below poverty line
Clerks in household	2.5
Professionals in household	2.7
Technicians in household	3.6
Legislators, Senior Managers, Officials in household	5.1
Craft and related Trades persons in household	16.2
Skilled Agricultural and Fishery workers in household	28.1
Elementary occupation workers in household	33.6

Source: Gunewardena, D. et al, 2007.

# Macro Trends - Summary

Data from 2000 – 2008 was used to capture the more trends:

- **Economic contribution has declined**, dropping from 4 – 6<sup>th</sup> place in ForEx earnings.
- **International arrivals have reduced sharply** as well as **earnings/ tourist.**
- **Numbers employed have reduced**



In 2007 – 2008, overall value of the tourism industry and potential to generate income has declined.



# Macro Trends – Summary Contd.

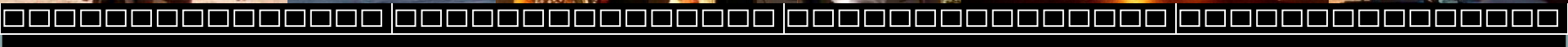
- **Composition of travelers has changed from traditional western tourist (UK, Germany) to Asians (India). New markets have emerged - Middle East and Free and Independent Travelers (Fits)**

*There has been a drop income generated and the spread of income. Both are higher with western tourists, who spend more and also spread it wider – in terms of the services they use, and also as they tend to travel regionally and for different attractions, so there is more geographical spread of the yield. So the change in composition has meant lower per diem yields.*

Deputy Director - Domestic Tourism, Sri Lanka Tourism Development Authority

- **Tourist Interests remains strongly with the sun/beach sector. However less time & money spent, and less excursions**

**This change has resulted less benefits regionally and among types of employment.**



# Drivers of Change

- Changes in number of arrivals, composition and spending,

**especially of the western tourists linked to the Financial Crisis**

*People [western] still want to travel, which is why the short haul sector is doing well. People are looking to travel on smaller budgets. They can drive up to Spain or Portugal instead of coming here. Sri Lanka is still long haul, even though it is relatively cheap. Those who do come have cut down on the duration of their stay. Usually the average stay was 11 nights. Now it has been reduced to 6-7 nights or a week.*

President, Tourist Hoteliers Association of Sri Lanka (THASL)

- Trend over time shows links to the **conflict** in Sri Lanka as a strong driver of the decline of the Industry

**The civil conflict was the main driver of change while the financial crisis further aggravated it.**



# Micro Picture – Effects on the Poor

- In the “formal” sector (registered businesses), overall reduction in business, has affected employment, at the lower end:

*Staff are on permanent, contract and casual basis. The first to go are the casuals, then the contractual staff. There was a 20% shed of staff during the height of the problem, during 6-8 months in 2008...*

President, Tourist Hoteliers Association of Sri Lanka (THASL)

**Specific loss of jobs with high associations to poverty (i.e casual, wage labour) has taken place with impact on poor peoples' livelihoods**



# Effects on the Poor contd.

**In the “Informal” sector (unregistered, self employed) overall reduction in business reported but data does not easy to distil.**

- Lodging and restaurant owners affected by dropping of prices by the larger hotels, all exclusive packages
- Guides – reduction in number of guides, and less demand and income from services (primary income source)

*Britain and Holland were the main client base and we normally get groups of 20 – 35. They normally stay in high-end star hotels... Now the tourists spend less compared to the past. They look for cheaper guides and some try to guide themselves by books. I think they do not have enough money now.*

Guide, Area and Site Guides Association, Pollonaruwa

- Vendors, handicraft sellers – affected by reduced guests as well as composition (Asians tend to buy less of these types of items)



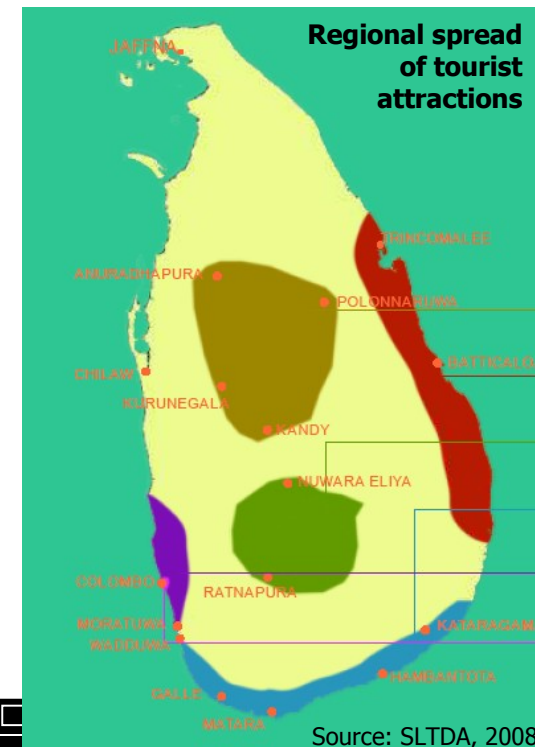
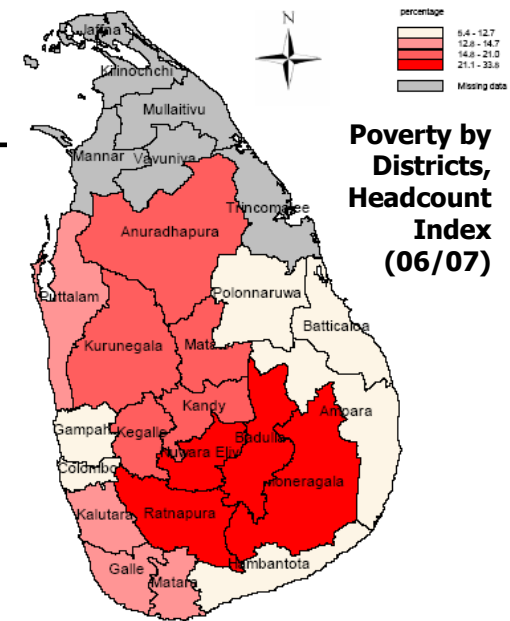
# Micro Picture – Regional Effects

- **Beach Tourism (south) - high involvement and diversity of the informal tourism services as primary income sources and been badly hit**
- **Cultural sites (North Central) – located in rural areas, with comparatively greater poverty, less income diversity and under employment...**

*Apart from tour guides like us most of the taxi drivers, mobile businessmen like hat sellers, postcard sellers and handicraft sellers were also got affected by the reduced number of tourists in Polonnaruwa.”*

Guide, Area and Site Guides Association, Pollonaruwa

**Overall drop in amount of time in the country and excursions and travel restrictions – have reduced gains to local economies and the livelihoods of poor communities.**



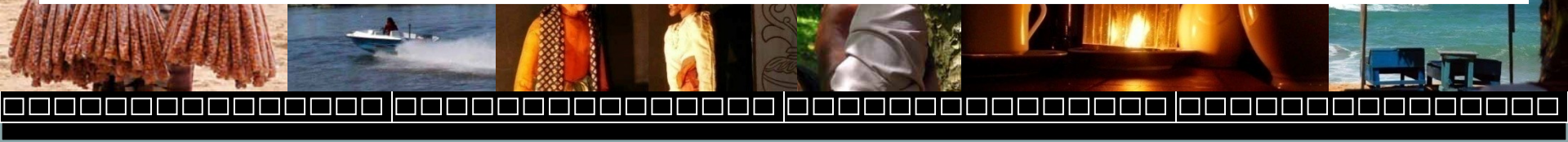
Source: SLTDA, 2008

- **Within the trends some positive features acted as buffers:**
  - A new market segment (middle eastern tourists) – more business
  - Returning tourists – direct impacts to small businesses
  - New interest nature based tourism - more business/regional
  - Travel features of free and independent tourists - local gains
- **Benefits from domestic tourism:**
  - Has gone to larger operations (cost cutting/packages) with negative effects on the smaller operations.
  - Gains for certain types of jobs (that don't gain from international tourism) (fruit and vegetable growers and vendors)



# Summary and Conclusions

- During the period of the global crisis, tourism trends have changed resulting in reduced earnings and contribution to development.
- The change has been driven by the civil conflict (over time), while as the financial crisis served to further aggravate the decline.
- Overall shrinking of the industry has reduced the stability and yield of income sources that poor are engaged in, however
- The extent to which it increased their vulnerability is dependent on a combination of factors such as level of engagement (primary or supplementary), type of jobs (casual labour, guiding, crafts etc) or regional spread.
- There have been buffers that have helped the industry in general, but with mixed (+/\_ ) effects on livelihoods of poor communities.



# Opportunity for Growth

**End of the armed struggle and some signs of recovery from the crisis and positive indicators for the future growth of the tourism sector...**

- **Need to consider pro-poor tourism orientation with greater sharing of benefits to the informal sector and regional economies**

## Thank you

