

ANNEX XIV – TOURISM

A. OVERVIEW

1. The tourism sector is estimated to contribute 2 to 4 percent of GDP including direct and indirect effects. It generates direct employment for about 50,000 and indirect employment for an additional 65,000, and over \$350 million in foreign exchange earnings. The tourism sector started to pick up following the cease-fire and peace negotiations in 2002 reaching a historical record of 565,000 arrivals in 2004.

Table 1: Tourism Statistics

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------------------------|---------|---------|---------|---------|-------------|
| Tourist arrivals | 336,794 | 393,171 | 500,642 | 565,000 | 400-500,000 |
| Tourist guest Nights ('000) | 3,342 | 3,989 | 4,700 | 5,000 | - |
| Room occupancy rate | 42.1 | 43.1 | 53.2 | 59.5 | 51.8 |
| Gross tourist receipts (Rs Mn) | 19,034 | 23,724 | 31,209 | 38,420 | 34,000 |
| Total employment | 80,904 | 87,600 | 115,000 | 130,000 | 115,000 |
| Direct | 33,710 | 36,500 | 50,000 | 60,000 | 50,000 |
| Indirect | 47,194 | 51,100 | 65,000 | 70,000 | 65,000 |

Source: Central Bank of Sri Lanka and staff estimates.

B. OVERVIEW OF DAMAGE

2. **Tsunami effects.** The tsunami that hit several countries in Asia and Africa resulted in extensive asset losses for the tourism sector (250 million). About \$200 million damages to hotel rooms was sustained and \$50 million in tourism related assets (souvenir shops, restaurants, vehicles). About 50 hotels were partially damaged and 8 hotels were fully damaged of the 105 hotels located in the tsunami affected areas and total 242 registered hotels in the country. In terms of rooms 3,500 out of the total 14,000 rooms in medium to large scale hotels are currently not in operation. Some of these could be back in operation in a few weeks or month. In the small guest houses about 1,200 rooms out of a total of 4,000 rooms have been affected. There are also indirect effects (such as loss of revenue, cash flow, etc.) on the economy which will have a multiplier effects on employment and other businesses that support tourism, which are difficult to quantify at this point.

3. **Status.** Tourist arrivals were poised to reach 600,000 in 2005 before the tsunami with 150,000 arrivals expected during the first 3 months of the year. This estimate has now been revised downwards to 400-500,000 arrivals resulting in an estimated output loss for the sector of \$65-130 million in 2005. Minimal disruption to the tourism sector is expected beyond 2005. For some of the hotels in the affected regions that were not damaged (Lighthouse), occupancies are high as 'tourists' are replaced with aid workers and damage assessment teams, at least on a temporary basis. While other undamaged coastal hotels (Taj Exotica) the occupancy is under 10 percent. Hotels in the interior are also suffering low occupancies due to the drastic downturn in 'tourists.' While Colombo

hotels are full with regular business travelers and damage assessors. Sri Lanka also has significant tourist resources, which were not affected such as the cultural triangle and hill country. Sri Lanka is not entirely dependent on beach tourism, although most tourists prefer the combined beach/cultural sites package. Around 40 percent of the foreign guest nights stays in Sri Lanka are spent along the beaches of the island's Southern and Eastern coasts, which were among the hardest hit by the tsunami. In addition, the tsunami is expected to have an indirect negative effect on tourism in non-beach areas.

4. **Insurance.** It is unfortunate that after two strong years for the industry, many hotel owners had just recently completed renovation works. It is unclear at this point, just how much of the damage will be covered by insurance. Many hotels, particularly the smaller ones, did not have good insurance or no insurance at all. Insurance companies seem to be willing to pay if the hotel is covered by earthquake insurance, but not flooding. Many properties were probably not insured for full replacement value. Some insurance policies have caps that apply. The hotel association plans to hire an insurance expert to provide advice on these matters. In most cases, the larger hotel companies either have good insurance or are supported by companies with diversified holdings such that financial needs can be managed making the tsunami more devastating for the smaller companies.

5. **Reconstruction.** The larger hotels already have plans of starting reconstruction work as early as February. However, the majority of the asset losses are not covered by insurance. The Ministry of Tourism plans to assist the tourism sector by helping manage the negative perception caused by media reporting, providing for duty free import privileges of necessary equipment for reconstruction, and providing concessionary loans to businesses. Already, the Central Bank of Sri Lanka has announced a loan facility for small and medium scale enterprises which some enterprises in the tourism sector are starting to investigate.

C. ISSUES

6. It is difficult to say at this point when tourists will return, but the expectation for 500,000 arrivals in 2005 would appear optimistic given the loss of high season, magnitude of cancellations, and overall devastation in important tourism destinations which may make them incongruent with a beach holiday atmosphere. Many tourists like to combine the cultural triangle in the interior with the beach. Even if hotels along the coast are fully repaired, the overall attractiveness/charm of these destinations has diminished and may take some time to recover. Travelers may opt to skip Sri Lanka this year and choose another destination.

7. There are a number of policies or policy interpretations which are hindering the recovery process, including:

- The 100 meter rule – not clear who this applies to so some businesses are not motivated to repair; police are stopping some repair work.

- For local workers, whether working for one of the organized clean up efforts will mean loss of refugee or other benefit status.
- If people clear debris from their shop there is a fear they may lose the land to rebuild.
- There needs to be a coordinated approach with different agencies such as the Tourism Ministry and Tourism Board, the private sector, and public sector working together to speed up recovery efforts.
- There seems to be no shortage of labor in coastal areas given job loss. This needs to be better organized to help the clean up and rebuilding effort.
- Erosion from the tsunami may be a problem in certain areas such as Golden Mile. Hoteliers are very concerned that the beach is slipping away which could jeopardize their entire future. This needs to be looked by a geologist, marine engineer, and possible remedial action taken.
- Dumping debris in the sea could have detrimental environmental impacts in the long run.
- For some of these coastal towns that rely almost entirely on tourism, there are concerns that any prolonged downturn in arrivals will lead to serious social problems: depression, unemployment, crime, hopelessness.
- It is probably worth noting that the private sector has played a major role in the relief efforts and is continuing to do so.

D. INITIAL RECOMMENDATIONS

Short Term

8. In the short term, the following are key recommendations:
 - Marketing and promotional activities to bring tourists back. This should have input from private and public sector and organizations such as Pacific Asia Travel Association (PATA) which has vast experience developing tourist marketing programs in crisis situations. Marketing efforts should include a focus on potential repeat travelers, domestic travelers, and possibly more regional travelers.
 - Consider soft loans for SMEs to help rebuild and or address cash flow shortfalls (Government is apparently considering \$100-125 million facility). The difficulty will be on how to distribute and control. Lending criteria may need to be relaxed.
 - Assess impact from tsunami on erosion, reefs, marine life.
 - Clean debris from tourist towns to make them more attractive.
 - Allow duty-free importation of re-construction materials.
 - Clarify (or reconsider) the 100 meter setback policy.
 - Encourage professional input on insurance situation.

Long Term

9. In the longer term, it will be important to:
 - Track industry's benefits.
 - Take the opportunity to develop master plan of some of the resort towns and allow for sufficient infrastructure to increase attractiveness.
 - Be careful not to overtax this industry.
 - Develop "Tourism Crisis Management" should be at the country, destination, and company level. PATA can help here as well.

Note: A team from the World Tourism Organization (WTO) is due to travel to all affected countries next week and may be able to do a more detailed assessment of the impacts and provide recommendations. A meeting, sponsored by WTO and PATA, will be held in Phuket Jan 31-Feb1 to discuss the crisis for the various destinations and action plans to move forward.