

# **STRATEGIC DIRECTION FOR THE TOURISM INDUSTRY IN SRI LANKA**

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## **Introduction**

Sri Lanka Tourism having embarked on International Tourism industry since the mid 60s has treaded a path with a vision of becoming the foremost tourist destination in Asia. The tourism industry possesses the experience in tourism and had the strength to be resilient throughout the last few decades, not only to resurrect whenever uncontrollable factors intervene but also to develop the industry to an extent where the country now receives well over 550,000 tourists a year, with annual foreign exchange earnings of around US\$ 400 million.

Tourism industry has had its small beginnings with the endeavors of a few highly committed private sector Companies. In terms of available records, there had been only 18,969 international travelers to Sri Lanka in 1966. Since then the Government intervention in Tourism industry has gradually become more visible which reached the climax with the passing of the Tourist Board Act No 10 in 1966 and the setting up of the Ceylon Tourist Board as the Government machinery to oversee the industry. Having considered Tourism to be totally a private sector driven industry within the broader Government policy frame -work, Government intervention ensured a clear policy direction for the industry to move forward. This will continue to be so in the foreseeable future too which signifies Government contention that the private sector is the engine of growth. In order to ensure sustainable and orderly growth of the tourism industry, foreign and private sector investments were invited which resulted in a steady growth of the industry, making it the fourth largest foreign exchange earner to the country.

Tourism Authorities in Sri Lanka had been guided by two 10-year master plans since 1967 prepared by the WTO experts with UNDP assistance. These master plans were formulated through comprehensive studies covering all relevant areas such as product development, demarcation of resorts, product positioning, marketing etc. with an analysis of both macro and micro factors of the industry and development of policies, objectives and strategies.

These master plans followed by action programs thereafter, was the driving force for the steady sustainable development of tourism and the integration of tourism into the country's economy, society and the environment. The ultimate objective thereby was making tourism an industry extensively supporting the community at large and contributing immensely towards the Government poverty alleviation efforts.

Sri Lanka has since then come a long way. Undisputedly the Sri Lankan tourist industry now remains a vital element of the country's socio economic development and has been fully accepted by the international donors as an industry that has to be protected for the benefit of a large population depending on Tourism through direct and indirect employment.

### **Achievements and Impediments**

The country which initially attracted mainly Scandinavian tourists to its sandy beaches and the year round tropical climate soon expanded the product lines to ancient cities, wild life mountains enticing holiday makers of long haul markets from Europe. Today Sri Lanka tourism has successfully opened up packages to a wider spectrum of holidays and to activities targeting niche markets seeking tranquillity and adventure. Greater emphasis has been laid upon developing regional cooperation through economic and political groupings such as SAARC and BIMST-EC. As a result of pursued efforts, India became the foremost market in the whole of South Asia and the Asia-Pacific region. Sri Lanka is also a recognized venue for the meetings industry and there has been a steady growth in the MICE sector recording around 10% of the overall visitor arrivals into the country.

Sri Lanka, apart from being gifted with a diversity of attractions which only a few countries can match with its uniqueness, the hotel and travel industry has been profoundly resilient to many situations in the past with immense potential to resurrect within a short period. This is mainly due to the commitment, experience and above all the level of professionalism that has been built into the industry in all sectors from accommodation to transport.

The increasing air accessibility is opening the country for new generating markets. This has been strength where the industry has now been able to move beyond traditional markets. The following were the top ten country generating markets for Sri Lanka in 2004.

#### **Ten Major Markets**

•UK	-	93,278
•India	-	90,603
•Germany	-	58,908
•France	-	28,585
•Australia	-	19,958
•Netherlands	-	18,197
•Japan	-	17,115
•Italy	-	15,654
•China	-	7,251
•Thailand	-	5,999

Although with constant fluctuations, tourist arrivals into the country have maintained an upward trend to reach the climax in the year 2004.

<b>Year</b>	<b>Tourist arrivals</b>	<b>Foreign Exchange Earnings</b>	<b>Direct &amp; Indirect Employment</b>
1995	403,101	225.4	35,068
1996	302,265	173.0	31,963
1997	366,165	216.7	34,006
1998	381,063	230.5	34,780
1999	436,440	274.9	36,560
2000	400,414	252.8	37,943
2001	336,440	211.1	33,710
2002	393,171	253.0	38,821
2003	500,642	340.0	46,761
2004	566,202	416.0	53,766

The Government encourages the industry to offer value to its customer than offer low cost holidays. This is the objective of the product development. The average spending therefore has been increasing over the last few years. The MICE traveler in any event spends 4-5 times over average holiday maker. Hence the emphasis to develop the MICE segment with increased activities by the Convention Bureau is being pursued.

The registered hotel rooms increased from 11,255 in 1955 to 14,322 in 2004. There are many small-scale unregistered accommodation facilities to look after low end of the markets.

<b>Year</b>	<b>Average Spending pattern.</b>
1995	56.1
1996	57.9
1997	58.6
1998	59.5
1999	61.4
2000	62.3
2001	63.1
2002	63.4
2003	66.8
2004	72.2

Despite these achievements the industry has undergone many vicissitudes. Unfortunately most circumstances were beyond the control of the industry itself. The internal security situation that prevailed in Sri Lanka during the last 15-20 years and the incidents that occurred from time to time has had a direct impact on the tourism industry with prolonged low tourist arrivals.

The opportunity cost of the industry is so vast that the magnitude of the losses resulted in the industry's inability to make further investments. The periods such as 1983, 1988/89, 1996/97 and 2001 have been particularly unfavourable for the industry due to perceptions among the consumers abroad on the situation in Sri Lanka. This is inspired of the fact that tourists have never been directly targeted or have been directly subjected to suffer by the incidents that occurred in the country.

### **Aftermath of Tsunami**

Much has been reported on the devastation caused by Tsunami. Why the damage was so high is easily explainable. Sri Lanka has never experienced a tsunami before and was taken completely unprepared. Even a prior warning would not have made the people believe that such a catastrophe would occur. That was the reality.

The damages to the Tourism plant however had not been as much as was anticipated in terms of property. Out of the 247 Sri Lanka Tourist Board registered hotels, 53 hotels along the East Coast, South Coast and the South West Coast were affected and of these only 8 hotels suffered severe structural damages. Other than the totally destroyed hotels several others have come back into operation within days after clearing and cleaning. But it is the loss of business that the industry is now facing, with a large number of cancellations specially affecting the high season. The negative perception that was created in the minds of the consumers due to extensive international media publicity covering the Tsunami has resulted in tour operators canceling their scheduled travel packages to Sri Lanka.

Tsunami hit the industry at a time it reached the highest arrivals of 566,202 in the year 2004 contributing to the economy USD 416 million and this was the highest ever in terms of arrivals and receipts. Damage caused to the informal sector which is an integral part of the total tourism product needs urgent attention. By this time the industry was generating an employment of 112,000 both directly and indirectly.

As a result of the sudden cancellations, tourist arrivals during the months of January and February dropped by - 20% in 2005 compared to the arrivals during the corresponding period in the year 2004. Hotel occupancy rate that prevailed around 85% throughout the year 2004 dropped to 30 % in January & February. While hotels in Colombo survived with the influx of relief workers from abroad, even this is a temporary scenario. The hotels in other areas, for instance in the cultural triangle and the hill country also suffered due to low occupancy, though they are nowhere near the beaches. Needless therefore to elaborate on the overall impact of this situation on the economy, particularly on those families who are dependent upon the industry, whether he is a chef, supplier to the hotel or a vendor selling handicrafts.

Assessment of the damages to the Industry as an overview is attached as Annexure I with the data obtained from the Ministry's data bank.

## **Recovery Strategy**

The Government did everything possible from immediate relief to short term recovery through both the Governmental agencies and the private sector institutional network coming under the purview of the Tourism sector. The immediate action included arranging transport to pick up stranded tourists, setting up of a reception center, providing them full hospitality until they opted to leave the country or spend the holiday elsewhere in the country. The entire cost of this operation was borne by the Government.

Hon Minister of Tourism, under the direction of Her Excellency the President, appointed a Tourism Task Force which included top level hotel and travel industry personnel and senior officials and they were advised to draw up an action plan for the resurgence of the affected tourism industry. The Tourism Task Force was directly linked to mechanisms under the Presidential Task Force for Rebuilding the Nation (TAFREN).

Fortunately there were no outbreaks of post Tsunami diseases as confirmed by WHO which was promptly conveyed to the tourist generating markets through diplomatic channels. Law and order was effectively maintained ensuring safety of the stranded tourists until they were brought to the reception center in Colombo. Government ensured forthwith the restoration of basic infrastructure such as roads, telecommunications and electricity within a week. This helped the tourism industry too for its fast recovery.

To restore accommodation facilities back to normal, the Government of Sri Lanka has agreed to introduce a duty free package for importation of material and equipment for refurbishment and reconstruction of the damaged hotel properties. A special loan scheme has been introduced to ease the financial difficulties faced by the industry wherein an affected hotelier or a tourism business person can obtain a loan of Rs. 10 million at 7% interest with a grace period of one year.

The Tourist Board launched the "Bounce Back Sri Lanka" campaign vigorously in close consultation with the private sector for confidence building and mind setting of the tourists. This campaign entails programs for tourism media, tour operators and the creation of special events. Under this program world-renowned celebrities from the leading markets were invited and are being invited to Sri Lanka.

The 'Buy one and Get one free' package launched together with the National Carrier Sri Lankan Air lines, Hoteliers and the Central Cultural Fund of which the effective period is from 24<sup>th</sup> February to 31<sup>st</sup> June 2005 will generate tourists from London, Paris, Frankfurt and Tokyo and temporarily relieve the industry which is ailing after the Tsunami.

The international organizations such as WTO and ICCA came forward to assist Sri Lankan Tourism and the MICE industry. WTO appointed a Task Force to ascertain the various relief assistance to be given to Sri Lanka and other affected countries in which Tourism Ministry of Sri Lanka is a member. WTO has already agreed to extend some financial support for the informal sector which includes small time guest houses, restaurants, souvenir and batik shops etc. ICCA went on to assist Sri Lanka by communicating ground realities thus correcting misperceptions. Most of these actions were successful and the industry is on the path to recovery which is indicative from the arrivals in March with a positive increase compared to the corresponding period of the previous year.

## **FUTURE DIRECTION**

The Government meanwhile is taking measures to strengthen the administrative mechanism of the tourism industry mainly to inject more dynamism by actively involving the private sector which is the engine of growth.

With the introduction of the new Law which will be brought before Parliament shortly, the present Sri Lanka Tourist Board will be converted to a Tourism Development Authority. The tourism marketing and promotion currently being handled by the Tourist Board will be assigned to a public-private sector driven Company called Sri Lanka Promotion Bureau to handle promotion in a more professional manner. Tourism Development Authority will exercise enforcement of regulations and Tourism Development, Research and International Affairs. The prestigious Hotel School currently functioning as the human resource development arm of the Tourist Board will be restructured to be governed by an independent Board of Management as an autonomous body.

## **Assessment of Markets and Market Segments**

Sri Lanka for some years was dependent on market penetration and product development strategies. The industry needs to strengthen market development and diversification strategies for which a great deal of research studies is envisaged in order to focus the meagre resources on marketing and promotion.

Entering the Indian market in 1996 was a success story. Today India has become a prime market. Similarly there is need to identify the countries where Sri Lanka has the potential to tap. In such studies, segmenting and profiling the target market segments, for instance, the honeymoon market, in each identified country will enable the industry to formulate right strategies. Engaging research experts entails enormous costs and can be done only with donor assistance.

Once the target countries and various segments are identified, the industry needs to develop the strategies and action plans for which once again funding would be required particularly when the circumstances demand advertising within a short period. Advertising campaigns launched by Malaysia (Malaysia Truly Asia) and India (Incredible India) and the positive results generated thereafter are impressive. Sri Lanka could not do so due to heavy costs in advertising internationally. The only significant engagement of international companies is the Public Relations campaign assigned to BATEY Singapore in 2003 which again is not consumer advertising. It has been profoundly felt that there is an urgent need to launch an advertising campaign targeting the key generating markets to resurrect the Tsunami affected industry for which funding is to be mobilized.

### **Positioning Sri Lanka as Gateway to South Asia**

Positioning Sri Lanka as the Gateway to South Asia is a strategic approach preferred by Sri Lanka tourism to remain competitive in the market place. Steps are being taken to effectively enter into bilateral negotiations with the regional member countries, ensuring expansion of air access and high mobility. The SAARC and BIMST-EC programs have been given focused attention. The signing of the MOU between Sri Lanka and Pakistan on Tourism and Archeology is one of the recent events to increase tourist traffic both ways once the programs are launched. Its forthcoming possibility would be dual country promotions and tour packages.

In the endeavours to position Sri Lanka as the Gateway to South Asia carefully identifying, selecting and promoting cultural, religious and sporting events of National importance has been pursued by Sri Lanka tourism during the past several years. Kandy Esala Perahara, Navam Perahara ,Kelaniya Duruthu Perahara ,Sinhala new year, Vesak Poya celebrations, SriPada pilgrimage, Poson festival are some unique cultural and religious events already documented. The hot air balloon festival is picking up to be an annual event. The Gateway to South Asia Travel Mart which is to be held for the third time in Colombo in June this year is expected to be a success story. South Asian Games are scheduled to be held in Sri Lanka this year.

Colombo has already earned a name as a potential shopping center and the future is bright. Duty free shopping facilities yet to be fully developed are another area for future promotion, to showcase Sri Lanka as a center of excellence.

The initial investment required for the setting up of the basic infrastructure for this purpose is a grave constraint as far as funding is concerned. Tourism industry needs at this juncture to intensify promotions in existing markets to maximize tourist arrival from these countries. At the same time, market development is important for the future survival, given the present dependence on the western European market which is over 60% of the total arrivals. In this respect, Indian, South Asian, Middle Eastern and East Asian markets including China and Japan remain to be exploited by Sri Lanka. Therefore, market specific promotions should be undertaken at national level with the cooperation of key players in the industry to tap potential generating markets.

The Government is exploring all avenues to entice International Hotel Chains to set up operations in Sri Lanka. Sheraton Group, Hyatt International, Ramada Group is planning to invest in Sri Lanka. Ministry of Tourism is closely working with the BOI, UDA and other stakeholder agencies to see the possibility of extending facilities to investors in the hotel industry and the recreational facility development areas.

### **Transform Tourism to be a Foremost Foreign Exchange Generating Industry**

For tourism industry to succeed with sustainability it should generate revenue on par with other international businesses. If not, the deterioration will be inevitable. Experience has shown that the countries that have lowered rates to gain short term advantages have not been able to revert to original price level due to set perceptions in the consumers mind. Sri Lanka Tourism is cautious not to fall into that predicament. The strategy therefore is to attract high spending tourists through developing niche products such as Eco, Nature, Adventure, and Agro and so on.

Sri Lanka is one of the few destinations in the world that has diversity of attractions within close proximity. It has been planned to develop these attractions into different themes in the effort to transform Sri Lanka into an up market tourist destination.

MICE Tourism (Meetings, Incentive Travel, Conferences and Exhibitions) that was started 10 years ago in a small way has now grown to bring in at least 10% of the total tourist arrivals into the country. With the work being carried out by Sri Lanka Convention Bureau jointly with the Sri Lankan Airlines and industry members of the Bureau has made Sri Lanka already an emerging venue for the meetings industry.

The Bureau has plans to approach a large number of international organizations and to bid for events for which venues are not yet selected. It has already succeeded in winning bids.



This is therefore an area for further expansion not only because the meetings industry attracts visitors to Sri Lanka, but also because MICE travelers spend 4-5 times over average tourist. MICE visits generate family holidays and moreover MICE tourism leads to trade and investments.

In MICE sector Sri Lanka has fallen behind countries like Singapore, Malaysia and Hong Kong. The simple reason being that these countries began hospitality industry with MICE tourism and then extended it to the leisure sector. Therefore, they ensured the infrastructure to be in place which is a pre requisite for the MICE Tourism. It is for this reason that large MICE events can be held in these countries.

Sri Lanka remains competitive with value for money for medium scale conferences and Incentive travel. While the general infrastructure development is benefiting the MICE industry, it is time to consider augmenting facilities in the venues outside Colombo. Such investments have to come from either the State or foreign donors, in view of the return on investment being long term.

### **Promote Tourism to be a Vehicle for Rural Poverty Alleviation**

One success factor in Sri Lanka is that tourism has remained closely linked to the society. The industry has become sustainable due to this reason. A good percentage of the population depends on Tourism, especially in remote rural areas. Hence the industry has the ability to alleviate poverty. The Ministry is promoting the Village Tourism Concept and working closely with the Ministry of Rural Industrial Development with the objective of creating economic opportunities for the rural community. Encouraging village folk to produce saleable handicraft and agricultural products and assisting them to market those products at reasonable prices are major concerns. Ministry and the Sri Lanka Tourist Board are in the process of developing a few Eco-tourism projects in places such as Udawalawa, Kiralakkale, Rakawa, Madu Ganga, and Unawatuna with the involvement of the village community. The vast potential Eco-Tourism has for rural poverty reduction is yet to be exploited.

### **Tourism Product Quality Improvement**

A domestic campaign to create awareness among local population on the importance of environment cleanliness and the responsibility of utilizing natural resources economically has already been commenced. It is hoped to create general awareness of the people by relating success stories in areas where Tourism is thriving and how the awareness of the people in surrounding villages is mutually benefiting. However, that has not been adequate. There are plans to intensify regulatory procedures and implement laws and regulations for quality standards.

The new Tourism Authority will be empowered with regulations to ensure enforcement on a wider scale than done at present.

Education is the key factor in this regard. The Education will also be extended to small scale entrepreneurs encouraging and guiding them to develop quality structures and services.

Quality improvements cannot be achieved without human resource development in Tourism and facilitating job creation and improve standards. With the restructuring of the Hotel School this process will be strengthened.

### **Investor Facilitation for Investing In Tourism Products**

Sri Lanka Tourist Board has already identified 24 Tourism Development Zones where the investors will be encouraged to invest. There will be further land acquisition and leasing of new areas for hotels and recreational facility development in identified locations. The Ministry is in the process of making further expansions on BOI concessions and mobilizing foreign funding.

Some of the major projects being carried out are Kalipinya and Dedduwa Development Project where Land Ministry approval is awaited. Dutch Hospital building located in the Colombo city is to be converted to a heritage hotel. Udawalawa Eco Tourism Project is awaiting land allocation from the Department of Forests. Victoria Hotel Project is being finalized with the Land Reform Commission. Ministry has recommended the Pinnawala Safari Zoo Project to be undertaken by a UK based company.

### **Infrastructure Development to Facilitate Tourism Activities**

Tourism Authority will lead in this area by working closely with the Road Development Authority, Provincial Councils, and Pradeshiya Sabas for better access roads. Ministry is in constant touch with those authorities to expedite road projects. A proposal for the setting up of a high powered Project Approving Committee involving Ministries of Lands, Environment, Fisheries, Central Cultural Fund has already been approved by the Cabinet. Setting up of the land bank will be done simultaneously.

JBIC funded Tourism Resources Improvement Project (TRIP) will be carried out in Negombo, Nuwaraeliya, Sigiriya and Anuradhapura facilitating several infrastructure components such as visitor centres, feeder roads, signage etc.

## Conclusion

Sri Lanka has followed an orderly and planned development in tourism. The future economy of this country is much dependent on tourism for many reasons unique to Sri Lanka. If not for the past negative macro political factors followed by Tsunami, the industry would have been way ahead of other competing countries but the potential still remains to be exploited with peace efforts being continued in the country. It is time that the industry move forward and the development programs need the support of the stakeholder agencies and the community at large and the foreign donor assistance will be essential.

The Government of Sri Lanka has resolved to invigorate the Tourism industry with the setting up four separate entities, namely the Tourism Development Authority, the Tourism Promotion Bureau, the Institute of Tourism & Hotel Management and the Sri Lanka Convention Bureau by enforcing a New Law to beautifully harmonize public private partnership within the industry, which is a prerequisite for the success of the industry.

*GM.R. strategies of Tourism industry 20.04.2005R*

