

**Sri Lanka**  
**State of the Economy Report 2011**

**Chapter 12**  
**Developing Tourism for Inclusive Growth**

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## 12. Developing Tourism for Inclusive Growth

### 12.1 Background

The tourism industry in Sri Lanka has begun to record a strong recovery - with a substantial increase in arrivals in 2010 - following the end of the conflict in May 2009. With tourism and related economic activities expected to continue their strong performance, the contribution to Sri Lanka's medium to long term development objectives will be important. Tourism holds out the promise of supporting inclusive growth in the country, through its contribution to foreign exchange earnings and more critically, by generating employment and livelihoods opportunities. The sector can also help bridge existing economic inequities given the diverse nature of employment it generates across socio-economic segments.

Direct employment opportunities in the tourism industry are to be found in hotels, with tour operators, travel agencies, airlines and transport operators, agencies providing recreational services, etc. In addition, a number of economic opportunities can be derived through forward and backward linkages with other economic sectors, including transport, construction, engineering, manufacturing, agriculture, food and horticulture, telecom, IT, healthcare, etc. These may often be indirect employment opportunities that are generated as a result of a dynamic tourism industry.

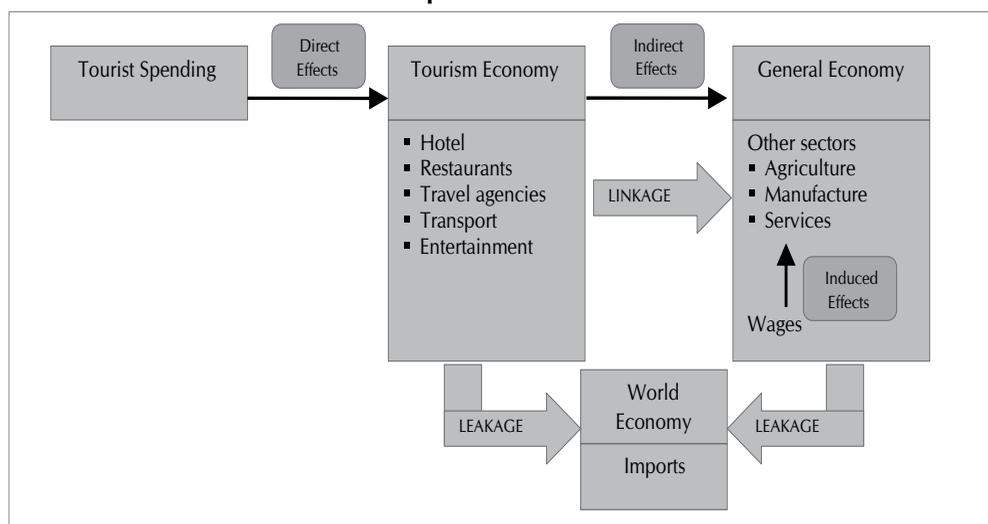
In addition, concepts such as 'responsible tourism' can be viewed as important drivers that promote sustainable growth. Environmental consciousness is an increasingly important element in international demand for travel and tourism at the global level. Therefore, if tourism strategies can be appropriately placed within an environmentally-friendly framework, it would play an imperative role in inclusive growth and development. In this connection, this discussion looks at linkages between inclusive growth and tourism, and identifies critical policy issues related to achieving such objectives through tourism development in Sri Lanka.

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*Besides the volume-based tourism targets, integrated policies to take care of environmental concerns and community benefits would make tourism's role in economic growth more inclusive*

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**Figure 12.1**  
**Impacts of Tourism**



Source: Lejárraga, I. and P. Walkenhors, 2010, "On Linkages and Leverages: Measuring the Secondary Effects of Tourism, *Applied Economics Letters*, Vol. 17, No. 5.

## 12.2 Tourism and Economic Development

The impacts of tourism on an economy are various and complex, and is thus hard to measure. The benefits of tourist spending can flow in the form of direct, indirect and induced benefits (Figure 12.1). Direct impacts are generated via initial tourist spending, and indirect impacts are due to purchase of goods and services from the non-tourist sectors of the economy. Induced impacts arise due to changes in wage income in the tourism economy and its consequent impacts on the general economy. All tourism expenditure is not retained in the economy and a portion of tourism expenditure leaks out for imports and to pay for foreign factors of production as leakages.

### 12.2.1 Contribution of Tourism

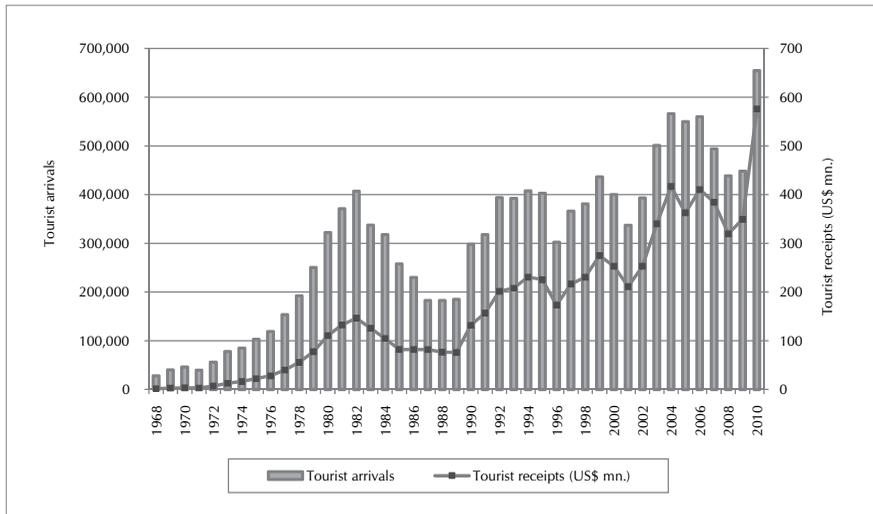
In the case of Sri Lanka, the tourism industry has direct and significant impacts on foreign exchange earnings of the country, and thereby on the entire economy. There has been a surge in arrivals as well as foreign exchange

earnings in 2010 (Figure 12.2). Arrivals increased by 46 per cent in 2010 when compared with that of 2009 while earnings rose by 76 per cent from US\$ 326 million in 2009 to US\$ 576 million in 2010. Tourism is the fourth largest source of foreign exchange earnings for Sri Lanka, following garments, migrant remittances and tea.

In addition to foreign exchange earnings, tourism generated direct and indirect employment of 55,023 and 77,032, respectively, in 2010, accounting for 1.6 per cent of total employment in the country (Figure 12.3). Around 60 per cent of the direct employment is in hotels and restaurants.<sup>1</sup> Other primary direct employment channels include travel agents and tour operators (14 per cent), airlines (10 per cent), and guides (7 per cent). Of total direct employment by the industry, managerial and scientific professionals account for 17 per cent, while technical, clerical and supervisory employment form 59 per cent. The rest involve employment that is of a manual and operative nature.

<sup>1</sup> Sri Lanka Tourism Development Authority, *Annual Statistical Report 2009*.

**Figure 12.2**  
**Tourist Arrivals and Earnings**



Source: Sri Lanka Tourism Development Authority.

Over the years, indirect employment has been higher than direct employment generated by the tourism industry. The ratio of direct employment to indirect employment is 1:1.4, meaning that every 100 jobs created in the tourism sector, creates 140 jobs in the supplying sectors.<sup>2</sup> Both direct and indirect employment shows considerable growth of 5.7 per cent in 2010 when compared with 1.5 per cent growth in 2009.

Around 56 per cent of employment in hotels and restaurants are informal in nature.<sup>3</sup> Some of the employment opportunities available in the industry are seasonal in nature, owing to seasonality in tourist arrivals across the year. While disaggregate data is not available, a high proportion informal and/or seasonal jobs create equity implications. The lack of tourism related employment data on a geographic basis

further hinders efforts to assess the contribution of tourism to regional development. In the absence of disaggregated data, a rough picture on distributional impacts of tourism can be drawn only on the basis of the distribution of tourism facilities.

Indirect impacts of tourism are usually measured by multipliers. The direct plus indirect revenue multiplier for tourism in Sri Lanka is estimated to be 2.08.<sup>4</sup> It indicates that one unit of tourist expenditure, directly and indirectly generates more than two units of output in the economy. However, there is no mechanism presently in place to assess the indirect impacts of tourism in the economy by means of income generation and as a source of employment. In 2009, an estimated 151 tourist shops and 21 agencies provided recreational facilities, which together generated 1,837 jobs.<sup>5</sup> As the

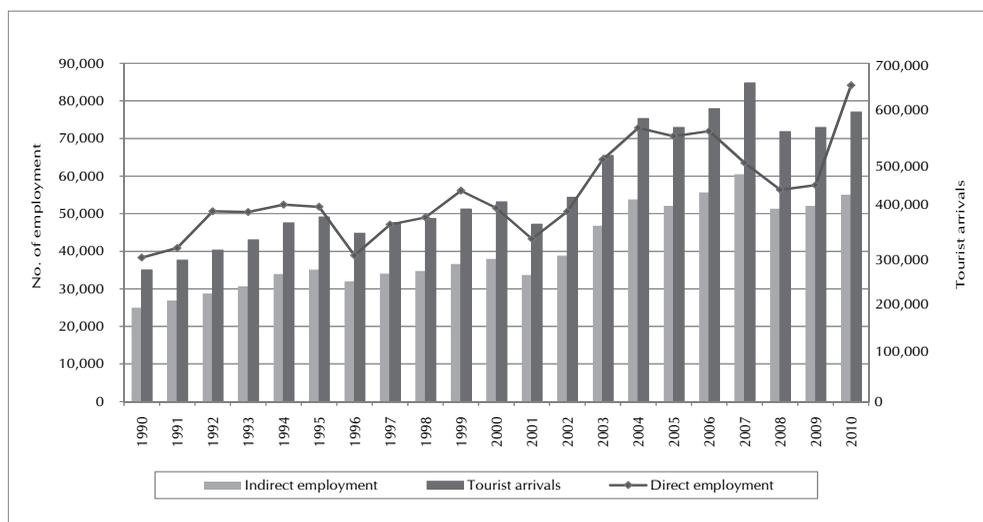
<sup>2</sup> *Ibid.*

<sup>3</sup> DCS, *Sri Lanka Labour Force Survey Annual Report 2009*.

<sup>4</sup> Economic and Social Commission for Asia and the Pacific, 1996, *Economic Impact of Tourism in the Asia-Pacific Region*, Bangkok.

<sup>5</sup> Sri Lanka Tourism Development Authority, *Annual Statistical Report 2009*.

**Figure 12.3**  
**Tourist Arrivals and Employment Generation**



Source: Sri Lanka Tourism Development Authority.

industry grows at a rapid pace, there will be ample opportunities for further such employment generation.

### 12.2.2 Emerging Trends

International tourist arrivals at a global level show an increase of 6.7 per cent in 2010 when compared with 2009,<sup>6</sup> with growth being faster in emerging economies (8 per cent) than in the advanced economies (5 per cent). The Asia Pacific region is forecast to lead growth in 2011, with an increase of 13 per cent. In terms of preferences, more than a half of international tourists travel for leisure, recreation and holidays.<sup>7</sup> As per the present world tourism trends, well off, well educated, health conscious, and socially and environmentally aware individuals will be the industry's new premium customers in the years to come.<sup>8</sup> Accordingly, it can be

expected that there will be high demand for destinations with high natural and cultural endowments.

In the case of Sri Lanka, over the last decade, more than 60 per cent of tourist arrivals have come for pleasure (Figure 12.4). Sri Lanka, being a destination with a large variety of cultural and natural attractions located in a small geographical area, can take advantage of emerging tourism trends. West Europe and South Asia are the regions with highest market share in terms of arrivals, with India (19 per cent) and the UK (18 per cent) taking the lead. It has been widely recognized that Sri Lanka will benefit immensely from targeting niche markets and aiming to attract high-yielding tourists from higher spending segments.<sup>9</sup>

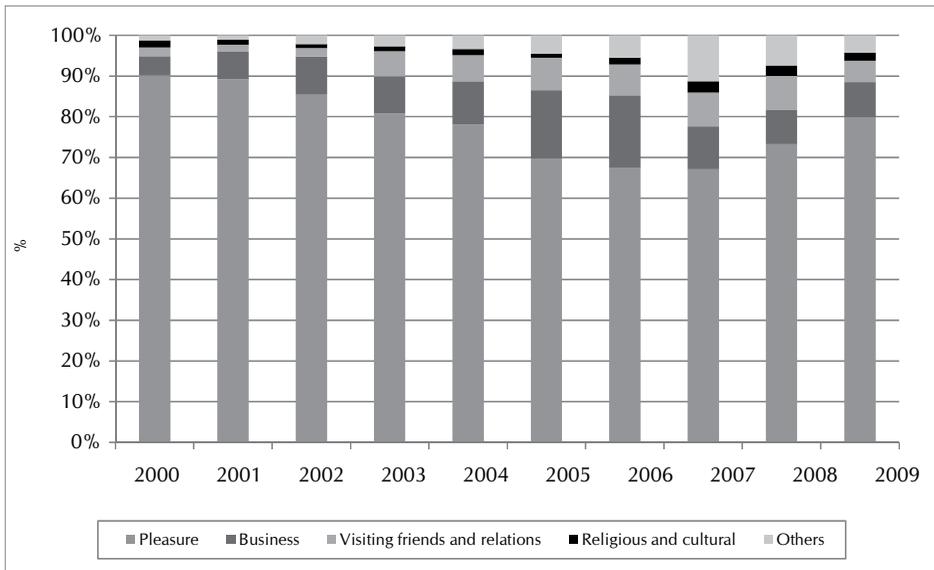
<sup>6</sup> World Tourism Organization, 2011, *UNWTO World Tourism Barometer*, Vol. 9. No. 1, February 2011.

<sup>7</sup> UNWTO, 2010, *Tourism Highlights 2010*.

<sup>8</sup> World Travel Trends Report 2010/2011, [www.messe-berlin.de](http://www.messe-berlin.de).

<sup>9</sup> Sri Lanka Tourism Development Authority, *Annual Statistical Report 2009*.

**Figure 12.4**  
**Percentage of Tourists by Purpose of Visit**



Source: Compiled using data from Sri Lanka Tourism Development Authority, *Annual Statistical Report 2009*.

### 12.3 Tourism and Inclusive Growth in Sri Lanka

Inclusiveness in relation to tourism is based on several aspects. Distribution of tourism resources, infrastructure, distributional aspects of direct and indirect benefits of tourism, and aspects related to environmental and social sustainability are important to consider in this regard.

#### 12.3.1 Tourism Resources and Infrastructure

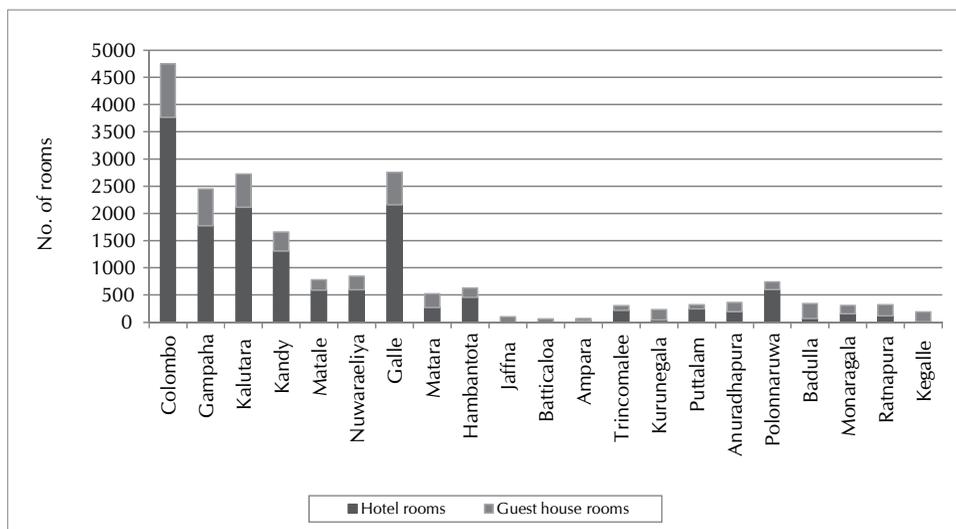
A tourist area is characterized by several factors including attractions, accessibility, amenities and ancillary services. Therefore, not all regions qualify for tourism and tourism has inherently to be based on areas which fulfill the above criteria. Accordingly, the main tourism resort regions in Sri Lanka include Colombo city, Greater Colombo, South coast, East coast, hill country and ancient cities.

Infrastructure services - including airports, railways, roads, waterways, electricity, water supply, etc., - tend to be better in cities, which can hold back tourism development in more remote areas. The distribution of related tourism facilities - such as accommodation, restaurants, recreational and shopping facilities - tend to be geographically skewed. Although tourism zones are scattered across Sri Lanka, accommodation units are confined primarily to the Western, Southern and Central Provinces, and to the North Central Province to a lesser extent (Figure 12.5).

#### 12.3.2 Distributional Aspects of Tourism Benefits

The distribution of accommodation facilities can be taken as a rough indicator of the distribution of employment opportunities in the accommodation sub-sector of tourism. Accordingly, it can be presumed that most of the employment in tourism is generated

**Figure 12.5**  
**Distribution of Hotel Rooms and Guest House Rooms by District**



Source: Sri Lanka Tourism Development Authority.

in the economically developed regions of the country. In addition, accommodation occupancy rates are comparatively lower in certain tourism regions, with implications for region-wise capacity to reap the benefits. For instance, in 2009, the occupancy rate in the East coast (37.8 per cent) was much lower than at the national level (48.4 per cent). The up-country and ancient cities recorded occupancy rates of 42.2 per cent and 44.4 per cent, respectively. The highest occupancy rates have been recorded in the Colombo City (57.8 per cent) and Greater Colombo Area (52.7 per cent).<sup>10</sup>

The extent to which tourism can be inclusive for development is also dependent on the benefits it offers to communities in areas where tourism takes place and its pro-poor impacts. It is acknowledged that mass tourism does not generate major gains to local communities and is characterized with high

rates of leakages. In contrast, small scale community-based forms of tourism, where community participation is considered as an integral element, can be more gainful for local communities. Sri Lanka, a destination rich with natural and cultural endowments, possesses significant potential for development of ecotourism, agrotourism, community tourism, etc. Such forms of tourism use local resources, whereby the level of leakages is comparatively low. Ecotourism by definition carries elements of inclusiveness by means of generating community benefits and contributing to environmental conservation. Although Sri Lanka has taken initiatives to develop ecotourism policies and strategies, they have not yet been implemented in any notable fashion.<sup>11</sup>

The Sri Lanka Tourism Development Authority has introduced 45 tourism zones with the aim of avoiding ad hoc developments across

<sup>10</sup> Sri Lanka Tourism Development Authority, *Annual Statistical Report 2009*.

<sup>11</sup> Wickramasinghe, K., 2009, "Ecotourism for Sustainable Forest Management in Sri Lanka", Environmental Economic Policy Series No. 12, IPS.

the country. A positive development has been that such plans have been based on local community participation, especially fishery communities.<sup>12</sup> In addition, ongoing tourism developments in the East have the potential to provide significant livelihood opportunities and assist in the recovery of conflict-affected households. Another example is the Kalpitiya tourism project, which on completion is expected to offer 37,500 direct and indirect employment opportunities. However, attention also needs to be paid to possible adverse social impacts of tourism, especially in the N&E which are newly open for tourism.

### 12.3.3 Environmental Sustainability

As envisaged in the government's economic policy framework, the target for tourist arrivals to Sri Lanka has been set at 2.5 million by 2016. Whilst necessary facilities are expected to be developed to accommodate higher numbers, unplanned activities can lead to negative environmental and social impacts. Past unplanned tourism developments in certain areas of the country provide evidence of negative environmental impacts due to construction of unauthorized buildings in environmentally sensitive areas, garbage problems, beach pollution, etc.

With the aim of strengthening the institutional framework to facilitate environmen-

tally and socially sound tourism investments, the Sustainable Tourism Development Project was launched in 2010. The project is expected to fund improvements to the overall efficiency and efficacy of the institutional framework to promote tourism, to provide essential highly localized tourism related infrastructure services in the East, and to improve and extend the product content and supply chain of small and medium entrepreneurs related to the tourism industry.<sup>13</sup>

### 12.4 Key Policy Issues and Implications

Integrated policies and strategies should be in place in promoting tourism to contribute to inclusive growth in Sri Lanka. This calls for links with a number of non-tourism sectors. In this respect, relevant agencies working under tourism, poverty and infrastructure should collaborate closely. Policy level initiatives have to be taken to make sure that tourism generates livelihood opportunities for local communities. At present, community benefits offered by tourism are below potential. The promotion of community-based small scale tourism can reverse such trends. Additionally, the tourism industry should also be encouraged to adopt environment-friendly approaches. Ongoing initiatives of making tourism sustainable should provide incentives for tourism businesses that adopt environmentally friendly approaches.

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<sup>12</sup> [www.slttda.lk](http://www.slttda.lk).

<sup>13</sup> [www.slttda.lk](http://www.slttda.lk).