

## **Tourism Emerging as a Leading Business Sector**

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Growing investment in tourism continues to be a significant trend in the business sector subsequent to end of civil war in Sri Lanka. The government has announced an ambitious target of 2.5 million tourist arrivals by 2016. A leading business conglomerate Aitken Spence Group which manages a chain of hotels is planning to invest an additional \$78m (Rs 9.0 billion) in the leisure sector while Hemas Group, another business giant engaged in hotels, will also invest \$75m in the next five years. Jetwing which operates a chain of hotels in Sri Lanka, Vietnam and Laos is spending Rs 1.3b to expand and upgrade two hotels during this year while evaluating other tourism related projects. Another leading business group, Richard Pieris Company PLC (RPC) will shortly enter the leisure business aiming at developing five hotels. Amaya Leisure, a firm connected to Sri Lanka's Vallibel group has announced their plans to invest \$100m in four new hotels in the next four years. Sri Lanka's hoteliers claim that \$10b have to be invested to more than double the country's hotel rooms to 35,000 by 2016 to cater to accommodate an expected 2.5 million tourists.

The increasing trend of tourist arrivals during the past several months has obviously influenced the investors in tourism. Tourist arrival in Sri Lanka has risen by 47.9 percent to 44,730 in June 2010 from an year earlier, with strong growth from South Asia, Western Europe and North America. Holiday makers from North America, a non-traditional market, rose by 85.5% to 3,998, possibly due to Sri Lankan migrants to USA and Canada visiting the country after a lapse of two to three decades. In the four months to June, total tourist arrivals have increased by 48.4 percent to 278,652 from an year earlier.

In addition to building hotels, several other ancillary services connected to the industry are also attracting investors. The Director General of Civil Aviation Authority of Sri Lanka has disclosed that thirteen firms have applied to start domestic air services in Sri Lanka and are awaiting government approvals. In the meantime, Sri Lanka Air force has started a helitour service for tourists. According to Sri Lanka Tourism Development Authority, tenders will be called from the investors to build a marina at Kalpitiya- a new tourist resort being developed on the island's north-western coast. This resort covers a total of 5,000 acres which are available for development to investors. Two resorts have already been approved by the authority and several more are under consideration. In the meantime, Sri Lanka's leisure operators have planned to push up room rates by about 20 percent during the forthcoming winter season.

Outside tourism corporate investment is beginning to focus on the north and east that were virtual no-go areas for investors during the war. Cargills that owns the popular supermarket chain Food City has announced that it will invest Rs 400m to set up a factory in Ampara in the

Eastern Province to produce oil from rice bran. The government is to introduce rubber cultivation to Kilinochchi. The government and United Nations Industrial Development Organization (UNIDO) has signed an agreement to work on a five year "Industrial Plan for Small and Medium Enterprises (SME) s in the North and East" for sustainable industrial development in the region which includes rehabilitation of 2,000 SMEs. Six new bank offices are to be opened in Kilinochchi, Paranthan and Mankulam. The Japan International Cooperation Agency (JICA) is donating agricultural machinery to under-privileged farmers in Kilinochchi.

A variety of expansion moves by some of the large scale businesses were also evident during the period under review. Tunip Agro, a Mumbai based beverage firm has announced plans to set up a joint venture factory in Sri Lanka with Lanka Milk Foods (LMF) to produce fruit juices for export. This Indian rupees 342 million factory which may be located at either Biyagama or Katunayake, will produce fruit juices under its "Onjus" brand for export initially to India and later to other Asian markets. According to Etisalat- a leading mobile phone operator in Sri Lanka- plans are underway to invest 163 million US dollars to expand its network in the war ravaged north of the country and improve its broadband services in urban areas. This expansion will result in 480 new base stations taking the total to 1580, which the firm says will be the largest in the island. Lanka Tiles PLC is looking at developing a comprehensive 5-year strategy for the Group which includes plans to increase manufacturing volumes by 50%. PC House, a leading Sri Lankan Information Technology (IT) firm is in the process of raising Rs 630m in an initial public offering (IPO) to expand its IT businesses. They have planned to invest this amount in an internet data centre and expand BPO (business process outsourcing) and KPO (knowledge process outsourcing) services.

Sri Lanka's state-run Regional Development Banks (RDBs) have merged, improving access to foreign funds while diversifying from agriculture to other areas such as tourism. Their operations will mainly be in the former north-east war zone. This merger is expected to help cost reduction and improve operating efficiency. Finance Asia, one of the most respected financial magazines of this region, has named Commercial Bank of Ceylon as the Best Bank in Sri Lanka and Citi Bank as the Best Foreign Commercial Bank operating in the country.

The MTI Venture Start-up Challenge which brings together young minds from business schools, universities and professionals from corporate organizations to take part in an innovative business competition, was launched in the last week of July in Colombo.

The United Nations Industrial Development Organization (UNIDO) has commended the platinum-rated Green Apparel Factory of Brandix Group at Seeduwa as an example of sustainable production for the manufacturers across industries and geographical boundaries. Top Sri Lankan conglomerate John Keells Group recently received a B+ disclosure level from the Global Reporting Initiative Organization for its Sustainability Report for 2009/2010, an improvement over the C+ received last year. LOLC, a financial solutions provider has won the

Best Annual Report award from the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). LOLC, which is an Associate member of ADFIAP, was also awarded a special Plaque of Merit in the Best Website category. Link Samahan, the producer of Samahan, the popular herbal remedy for colds and related ailments, has satisfied the extremely stringent criteria of the Natural Health Products Directorate in Canada for licensing under its Natural Health Products Regulations. Obtaining this license from Canada is a significant achievement as it opens the Canadian market and can serve as a gateway to other western markets. Heritance Ahungalla and Heritance Kandalama celebrated their jubilant win in the recently concluded 13th annual Sri Lankan Chefs Guild Culinary Art Competition. The FHA Culinary Challenge, held once every two years, is hailed as Asia's largest and world's third largest culinary competition and exhibition.

Strategic moves aiming at ensuring survival and growth of businesses that took place during the period under review include a possible acquisition of Swedish controlled telecommunication company - Suntel- by the mobile phone company- Etisalat- the successor to Celltel and the agreement between the troubled Dankotuwa Porcelain and a consortium comprising Environmental Resources Investments PLC (ERI) and Ceylon Leather Products PLC (CLP) for the latter to invest a sum of Rs 433m in the former thus acquiring 66.7% of the issued ordinary shares.

With large investments in tourism and reconstruction work especially in earlier war-affected areas, the construction industry is gaining momentum. Industry sources claim that almost 500,000 people are employed in this sector which contributes about 6.5 percent of gross domestic product. However, they also express serious concern regarding a possible labour shortage in the sector.