

*Opportunity Sri Lanka*  
A review of Sri Lankan Tourism Sector

November 2018

**OSL Research**





**With the introduction of international hotel brands to the market, it is expected that average rates will increase in line with the new hotel product offering and the changing supply composition.**



Sri Lanka is now in the midst of a promising period of rapid economic growth and social development, driven largely by investments into infrastructure across the country as well as continued growth in the services sector, which now contributes 58% of the country's GDP.

In a remarkably short period, the country has bounced back as a strong contender among tourist destinations in the Indian Ocean, and is on a steady tourism growth path. According to the Travel and Tourism Index 2015, Sri Lanka's travel and tourism competitiveness jumped 18 ranks over the past four years, driven by the strong government focus on the tourism sector, remarkable infrastructure growth and enhanced marketing and promotional efforts for the country as a whole. The country saw close to 2.1 million foreign tourist arrivals in 2017, having registered an average growth rate of 16% over the past five years, and is working towards a target of 2.5 million tourist arrivals in 2018.

With the recent appointment of Mahinda Rajapaksa as the new Prime Minister of Sri Lanka, serving since 26 October 2018, led by President Maithripala Sirisena, the base is now set to drive further growth in a sustainable and inclusive manner. The new administration is now focused on restructuring spending and increasing private sector participation and FDI. With strong structural reforms already underway, Sri Lanka is well positioned for continued growth in 2019 and beyond.

In this report OSL Research, we examine some recent trends in the changing tourism and hotel landscape of the country and a commentary emphasizing critical focus areas moving forward.

# IN INTRODUCTION



While political changes in the recent past have created short-term volatilities in the economy and slowed investment, the change of government has brought expectations of more transparency and more efficient utilisation of resources.



# ECONOMY

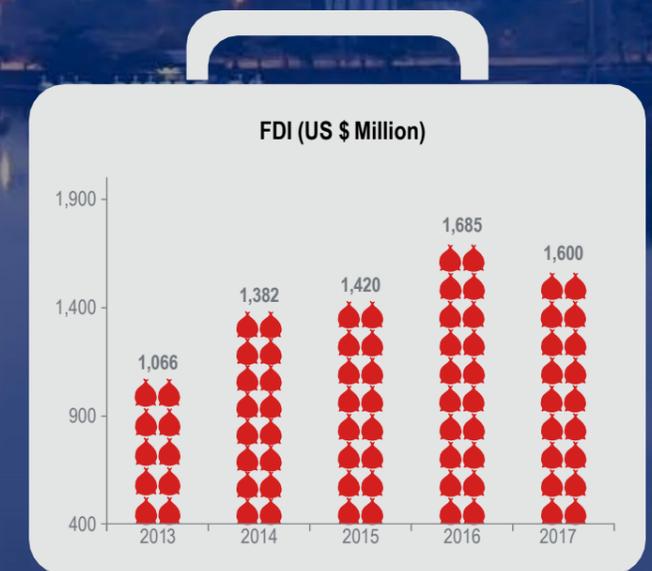
With a domestic market of around 20 million consumers and a still-modest per capita income, Sri Lanka cannot afford to rely on increased domestic spending to stimulate long-term, sustainable growth. Although the country has recorded an average growth rate of 5.8% during the post-war years (2010-2017), and experienced a rapid decline in poverty, its engines of growth have started to show signs of structural decay. The main challenge is on the external side. The country's export-to-GDP ratio has fallen from 35% in 2000 to an alarming 13% in 2017, while our share of global exports also declined from 0.08% in 2000 to 0.05% in 2017. Moreover, the country's inherited debt burden, due to persistent budget deficits, saw the Government paying 87.5% of its revenue on debt-servicing last year. Together, these shifts have also increased pressure on the currency, caused by the recent strengthening of the US dollar. The need, therefore, for Sri Lanka to seek a growth model marked by stronger relationships with countries in the IOR and beyond, is now more critical than ever before.

Sri Lanka ranks among the top 100 countries globally in the World Bank's "Ease of Doing Business" index, much above many other South Asian economies. The country has maintained a proactive approach towards setting policies and procedures to facilitate foreign investment, including the setting up of a "one-stop-shop" under the Board of Investment, which serves to coordinate between the key government agencies for the necessary permits and approvals to facilitate investments into the country.

The country is now focused on long-term strategic and policy development changes to ensure long-term economic growth. Key challenges the country now faces include boosting foreign investment, private sector growth and exports as well as addressing the urgent need to realign public spending with the country's immediate needs. While political changes in the recent past have created short-term volatilities in the economy and slowed investment, the change of government has brought expectations of more transparency and more efficient utilisation of resources. It is crucial that the newly elected government implements necessary reforms to provide an improved investment climate conducive to driving in additional FDI and private sector growth, with a structured framework to drive investment.



Source: Central Bank of Sri Lanka



Source: Central Bank of Sri Lanka



# TOURISM

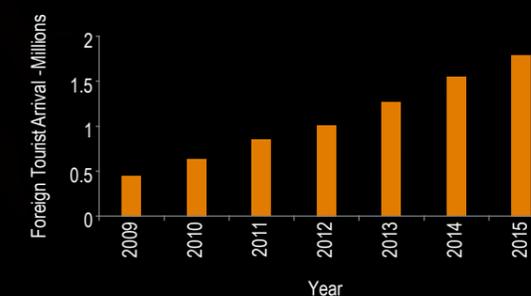


“Sri Lanka ranked as the No. 1 Country for Travel in 2019 by Lonely Planet”

Growth prospects for the country’s tourism sector remain encouraging, with the Government of Sri Lanka now targeting 2.5 million tourist arrivals in 2018.

Sri Lanka has a unique tourism proposition, with beaches, scenic hills, wildlife, cultural and historical attractions - all in one country and accessible within a relatively short period. Tourist arrivals to Sri Lanka continued to demonstrate strong growth, with Sri Lanka seeing 2.0 million tourist arrivals in 2017, with a growth of 17.8% over the previous year. According to the Central Bank of Sri Lanka, receipts from tourism in 2017 grew by 42% to USD 2.4 billion. The Sri Lanka Tourism Development Authority (SLTDA) has established a target of 2.25million tourist arrival in 2018.

Foreign Tourist Arrivals Sri Lanka

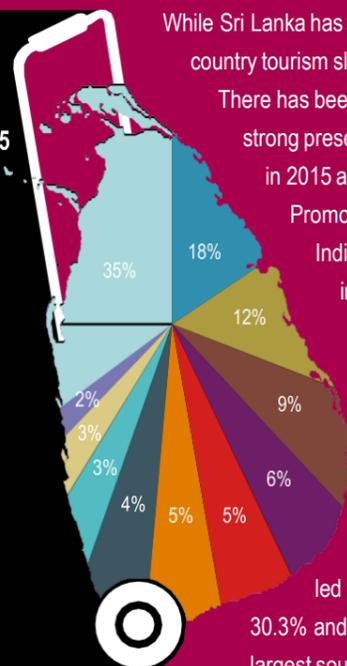


Source: SLTDA



### Arrivals by Top Source Markets - 2015

- India 18%
- China 12%
- UK 9%
- Germany 6%
- Maldives 5%
- France 5%
- Australia 4%
- Russia 3%
- USA 3%
- Canada 2%
- Others 35%



Source: SLTDA

While Sri Lanka has struggled with identifying a defining brand identity for itself with a constant change in its country tourism slogan, it is now branded under the theme “Sri Lanka - One Island, Thousand Treasures”.

There has been an increased focus on targeting key markets through promotional campaigns with a strong presence at major travel marts and exhibitions - the country ranked fourth among 83 countries in 2015 at ITB Berlin, the world’s biggest travel and tourism convention. The Sri Lanka Tourism Promotion Bureau continued to hold major promotional campaign across various Chinese and Indian cities, while the Sri Lanka Convention Board is working in consultation with the MICE industry, including destination management companies, event management companies, tour operators and Sri Lankan airlines, to promote the country’s MICE potential. Sri Lanka’s tourism appeal continued to be recognised, with the country ranked among the “top ten coolest countries” in the world to be visited in 2017, by Forbes magazine.

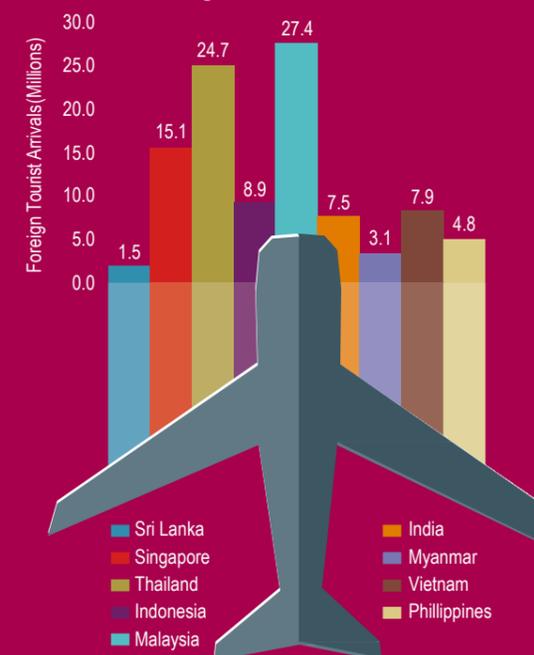
There has been a gradual shift in the source markets for the country’s tourism sector, with arrivals from the traditional source markets of Western Europe declining as a percentage of total arrivals while Asian countries have increased their market share,

led by China and India. Sri Lanka’s main source markets - India and China recorded growth of 30.3% and 67.6% respectively, with China now overtaking the United Kingdom to become the second largest source market for Sri Lanka.

Growth prospects for the country’s tourism sector remain encouraging, with the Government of Sri Lanka now targeting 2.2 million tourist arrivals in 2017. While the slowdown in some of the key European source markets will continue, increased destination marketing initiatives, improved connectivity and focus on driving demand from emerging markets can be expected to drive future tourism growth. While Sri Lanka’s tourist arrivals are comparable to countries such as Myanmar, Vietnam and the Philippines, the country has clear advantages over these countries with a strong and varied tourism offering, fine beach stretches, superior infrastructure and a highly literate workforce, and tourism growth in Sri Lanka can easily outpace that of these countries. We expect Sri Lanka will bridge this gap, with the country now moving towards a more focused and defined marketing strategy and with improving connectivity to existing and emerging source markets.

By analysing the nationality composition of Sri Lanka’s neighbouring countries, it is clear that there is tremendous potential for Sri Lanka to target alternative source markets. Sri Lanka’s cultural triangle is of great significance to the Buddhist population, with the country having a repository of some 6,000 Buddhist monasteries. Approximately 72% of the Buddhist tourists in Asia Pacific reside between China, Japan and Thailand; however, South East Asia is a largely untapped market for Sri Lanka. In addition, the Americas and Australia are new markets for Sri Lanka and marketing efforts must be widened from the traditional European and Indian markets.

### Foreign Tourist Arrivals - 2017



Source: Sri Lanka Tourism Development Authority

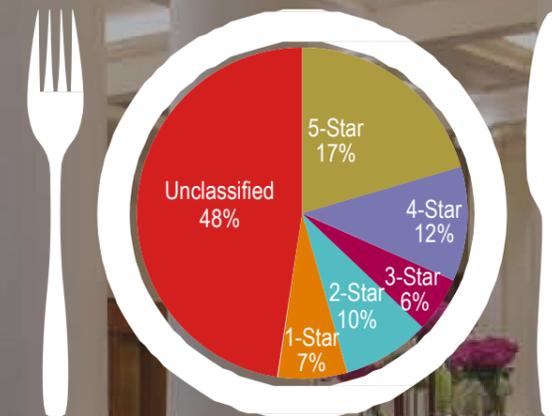


# HOTEL SECTOR ANALYSIS

While the Colombo hotel market has been affected by a short period of political uncertainty in the recent past and limited private sector investments into the country, leisure markets across the country have seen impressive growth fuelled by the increase in tourist arrivals.

According to the SLTDA, Sri Lanka has approximately 28,000 rooms, of which over 60% fall in the informal segment consisting of supplementary establishments and unclassified hotel inventory. The total room inventory across the country increased by 1,850 to reach 18,100 rooms in 2017, excluding supplementary establishments. The hotel environment has grown increasingly competitive with an increase in hotel room supply as several new domestic and international players establish their presence in the country. A large portion of the hotel inventory in Sri Lanka is owned by domestic hotel chains, such as John Keells, Aitken Spence and Jetwing Hotels, which have established hotel circuits across the country, while new domestic and international players have started to enter the market.

Hotel Classification by Segment



Source: SLTDA

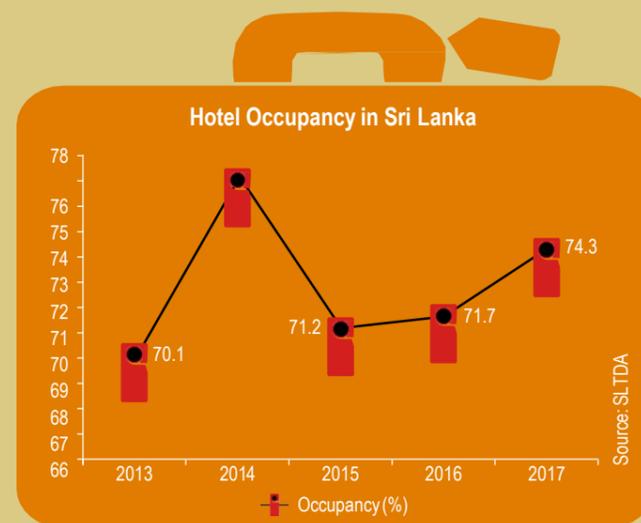
Hotel Classification	Number of Rooms			
Year	2013	2014	2015	2016
5 STAR	3,230	3,230	3,152	3,152
4 STAR	1,784	1,784	2,070	2,084
3 STAR	1,178	1,201	1,061	1,061
2 STAR	2,022	2,022	1,717	1,725
1 STAR	1,171	1,171	1,325	1,333
Unclassified	5,268	6,102	6,898	8,723
Supplementary establishments	5,980	6,577	7,373	9,916
<b>Total</b>	<b>20,633</b>	<b>22,087</b>	<b>23,596</b>	<b>27,994</b>

Source: SLTDA



Supported by the surge in tourist arrivals, occupancy rates at graded hotel establishments increased to 74.3% during the year, with total guest nights increasing by 38.0% in 2017. While this growth is impressive, it should

to the informal segment, with small boutique hotels and independent villas posing a strong threat to the formal hotel sector. In addition, hotel markets in the north-west and south-west regions of the country have over the past years seen strong demand due to their proximity to Colombo, excellent road connectivity and strong existing infrastructure, while markets in the east and north regions of Sri Lanka saw more muted growth, with connectivity to these markets remaining a huge challenge.



Growth in average room rates has been largely contained due to the increased hotel supply additions - the country saw an overall increase in rates of just 3% in the past financial year, while the past four-year period has seen a 7.5% increase in rates. From 2019 onwards, the market will see the entry of internationally branded hotels on a large scale, beginning with the south-west coast, followed by Colombo and eventually other parts of the country. With the introduction of international hotel brands to the market, it is expected that average rates will increase in line with the new hotel product offering and the changing supply composition.

An overview of the key hospitality markets of Colombo, the south-west coast, the central Cultural Triangle and Hill Country regions as well as new, emerging tourism markets is given ahead:



# COLOMBO

While Colombo has a strong and diverse demand base, future growth will be linked largely to the level of corporate growth and foreign investment and the successful marketing and development of Colombo as a leisure destination.

According to the SLTDA, Colombo has a total inventory of approximately 6,200 rooms across 450 accommodation units, including hotels, villas, bungalows and guest houses. The first half of 2016 has seen an extremely competitive hotel environment, unprecedented in the past few years among Colombo's city hotels, with an increase in hotel supply in the 3 and 4-star segments leading to a slight decline in overall occupancy levels. The city has also seen a slight decline in the Average Room Rate, largely due to the changing supply composition and minimal growth in rates in the 5-star segment. Overall demand levels continue to grow, however, with strong tourist arrival growth as well as growth in the commercial and MICE (Meetings, Incentives, Conventions & Exhibitions) segments.

# COLOMBO

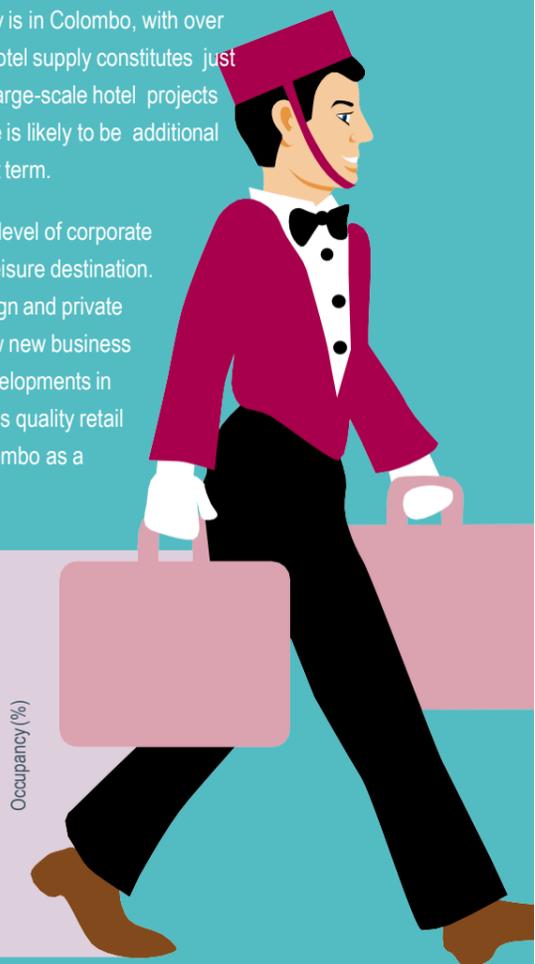
Over the past three year period, five star hotels have seen a slight decline in the leisure segment with the opening of the southern expressway facilitating the transport of leisure travellers directly from the airport to the southern coast beach stretch. The enforced “minimum room rate” in Colombo has served to prop up the Average Room Rate in Colombo and prevent undercutting among hotels; however, rates are perceived to be high for the hotel product offered when compared to other Asian countries. Demand in the economy to mid-scale segments remains strong, however, across both the commercial and leisure segments. While there is a high degree of optimism from investors towards the hotel sector, we note that the city has a strong pipeline, with hotel inventory likely to double over the next five-year period. The city will see substantial hotel supply additions in the Luxury and Upper Upscale segments, including the Sheraton, Shangri-La, ITC Colombo and the John Keells Waterfront Integrated resort, as well as additional hotels as part of mixed-use developments.

Upcoming Hotels in Colombo - Key Projects						
Developer	Brand	Location	Proposed Positioning	Status	Expected Opening	Keys
Fairway Holdings	Zmax Fairway	CBD	Economy	Under construction	2018	196
Jetwing Hotels	Jetwing	Ward Place	Midscale	Under construction	2018	90
Premier Pacific	Sheraton	Galle Road	Upscale	Under construction	2018	306
Damro	Marino Sands	Colombo	Midscale	Under construction	2018	270
Sino Lanka Hotels	Grand Hyatt	Galle Road	Upper upscale	Under construction	2018	559
Shangri-la	Shangri-la	Galleface Green	Luxury	Under construction	2017	500
John Keells Group	Cinnamon Life Integrated Resort	Glennie Street	Luxury	Under construction	2019	800
Colombo City Centre	Next	Beira Lake	Upscale	Under construction	2019	200
Asia Capital PLC	Unconfirmed	Marine Drive	Midscale	Under construction	2019	100
ITC Hotels	ITC Hotels	Galleface Green	Luxury	Under construction	2020	300

Source: OSLResearch

Among the planned 8,000 keys in the country, nearly 65% of the proposed inventory in the country is in Colombo, with over 60% of the proposed hotel supply falling in the Luxury and Upper Upscale segments. Mid-scale hotel supply constitutes just 10% of total proposed hotel supply. While there have been notable project delays in many of the large-scale hotel projects planned, close to 3,500 keys are likely to enter the market over the next five-year period and there is likely to be additional pressure on hotel performance, with hotel supply likely to outpace room night demand in the short term.

While Colombo has a strong and diverse demand base, future growth will be linked largely to the level of corporate growth and foreign investment and the successful marketing and development of Colombo as a leisure destination. Foreign investments into the hotel and infrastructure sectors have been promising; however, foreign and private sector investment into commercial activity and industry have been lower than anticipated, with few new business drivers in the city, and the country has seen limited export diversification. New attractions and developments in the city, including the entry of integrated resorts, entertainment and recreational facilities as well as quality retail space in the long term, are likely to drive future demand, while specific measures to promote Colombo as a MICE and entertainment destination are likely to see benefits in the long term.



# SOUTH-WEST COAST

## SOUTH-WEST COAST

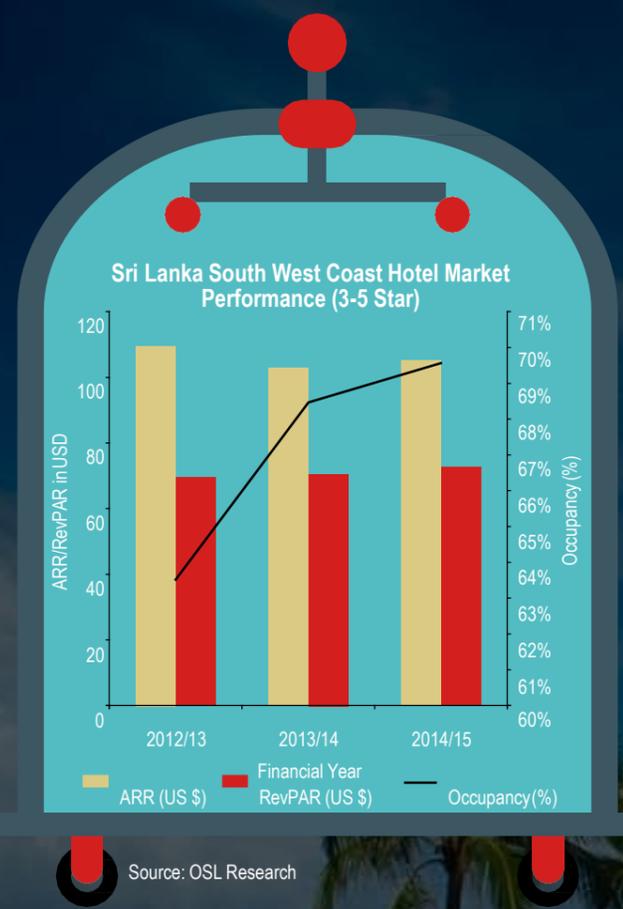
The South-west region has seen strong interest from international brands including Shangri-La, Anantara, Marriott, Sheraton and Riu which will provide a boost to the entire south-west coast region.

### SOUTH-WEST COAST

The south-west coast is considered Sri Lanka's prime leisure stretch, and is home to some of the top resorts in the country, with an overall inventory of close to 6,000 rooms. The region received a major boost to tourism following the completion of the Southern Expressway that enhanced connectivity from Colombo city to the region. While occupancy levels over the past three years have seen a steady increase, the south-west coast has seen a slight reduction in room rates during this period due to increased competition, with a substantial increase in room inventory along this stretch. Moreover, these properties have been affected by the political turmoil in eastern Europe, which resulted in a marked reduction in tourist arrivals from these markets, particularly during the winter months. This was to some extent compensated by the increase in the number of tourists from short-haul Asian markets, with an unprecedented increase in both Chinese and Indian tourist arrivals.

According to OSL research, close to 2,000 rooms are expected to enter the market, largely in the upscale segment. The south-west coast has seen the largest supply additions over the past three-year period, with growth having been primarily in the boutique and informal sectors, including a number of small, high-end boutique properties by groups such as Asia Capital PLC. The region has also seen strong interest from international brands such as Minor International and Centara, and will soon see the advent of large-scale international hotel developments, including the Riu Ahungalla - a joint venture between local chain Aitken Spence and Spain's RIU, the Shangri-La Hambantota, two Anantara resorts in Tangalle and Kalutara and the Marriott Weligama.

OSL expects that the entry of international brands on a large scale will provide a boost to the entire south-west coast region, and will see both occupancy levels and the Average Room Rate lift over time. While the market is expected to be extremely competitive with the hotel supply additions, the new international brands can be expected to drive their own demand with their strong distribution channels and new, contemporary products. The introduction of high inventory hotel developments is expected to revive chartered tourist arrivals - with agreements already signed to bring in new charters to the country.



### Upcoming Hotels along the South West Coast - Key Projects

Developer	Brand	Location	Proposed Positioning	Status	Expected Opening	Keys
Hemas Holdings/ Minor Hotel Group	Anantara	Tangalle	Upper Upscale	Complete	Recently opened	152
Asia Capital PLC	Independent	Galle	Midscale	Under construction	2019	100
Browns Investments PLC	Sheraton	Kosgoda	Upscale	Under construction	2019	172
Hemas Holdings/ Minor Hotel Group	Anantara	Kalutara	Upper Upscale	Under construction	2019	141
East West Corporation	Marriott	Weligama	Upper Upscale	Under construction	2019	200
Shangri-la Hotels	Shangri-la	Hambantota	Luxury	Complete	Recently opened	300
Aitken Spence	Riu	Ahungalla	Upscale	Complete	Recently opened	501
Sino Lanka Hotels Holdings	Amari	Galle	Midscale	Under construction	2019	148
Jie Zhong Jie Lanka	Jetwing	Panadura	Upscale	Under construction	2019	175

Source: OSL Research



## CENTRAL REGION - CULTURAL TRIANGLE AND HILL COUNTRY

Sri Lanka's cultural triangle is an important circuit consisting of Anuradhapura - the former capital - the ancient city of Polonnaruwa, Dambulla and Sigiriya and Kandy. It is also home to eight World Heritage sites, including the Sigiriya rock fortress, the Dambulla cave temples and the Temple of the Tooth at Kandy. Festivals such as the annual Kandy Esala Perahera festival - one of the oldest parades in the world - and the recent Hot Air Balloon festival in Dambulla have seen increased visitation from both domestic and international visitors.

The neighbouring hill country region has some of the finest tea estates in the region and presents scope for tea tourism, with players such as Dilmah paving the way with products such as Ceylon Tea Trails. The region has strong potential to tap into new and emerging tourism concepts such as eco-tourism, agri-tourism and marketing the Buddhist circuit. The region also has scope for activity oriented travel and has an impressive wildlife offering, with the Minneriya elephant gathering in the second half of the year. Additionally, plans for highways from Katunayake to Anuradhapura in the Cultural Triangle and from Colombo to the hill capital Kandy are being finalised and will improve connectivity to this region.



### Upcoming Hotel Supply - Key Projects in the Cultural Triangle and Hill Country

Developer	Brand	Location	Proposed Positioning	Status	Expected Opening	Keys
Anilana	Anilana	Dambulla	Upscale	Planning	Soon	54
Jetwing Hotels	Jetwing	Dambulla	Upscale	Planning	Soon	98
Sofia Hospitality	Radisson	Kandy	Upscale	Planning	Soon	200
John Keells	Cinnamon	Nuwara Eliya	Upscale	Planning	Soon	120

Source: OSL Research

## EMERGING REGIONS

The north, east and other regions are now opening up for investment, with a focused effort to unlock their full tourism potential. Sri Lanka's famed beach stretches of the east have seen some development, with primarily the domestic brands, such as Amaya and Anilana, having established a presence in the region. While the region has limited social infrastructure and connectivity remains a challenge, this is expected to improve in the long term.

Meanwhile, rebuilding and road construction efforts are ongoing in the north and north-east of the country, the areas worst affected by the civil war. With the northern parts of the country also opening up for development, the region will start to see more large-scale developments, beginning with the Jetwing Yarl in Jaffna.

### Upcoming Hotel Supply - Key Projects - North and East Sri Lanka

Developer	Brand	Location	Proposed Positioning	Status	Expected Opening	Keys
Laugfs Leisure	Anantaya	Passikudah	Upscale	Under construction	2016	55
MMBL Group	Jetwing	Jaffna	Upper Midscale	Under construction	2016	70
Jetwing Symphony	Jetwing	Uppuveli	Upper Midscale	Planning	2017	68
Anilana Hotels	Anilana	Panichchankerni	Upscale	Proposed	2018	94
Anilana Hotels	Anilana	Trincomalee	Upscale	Proposed	2018	70
Anilana Hotels	Anilana	Vakarai	Upscale	Proposed	2018	80

Source: OSL Research



## CRITICAL FOCUS AREAS

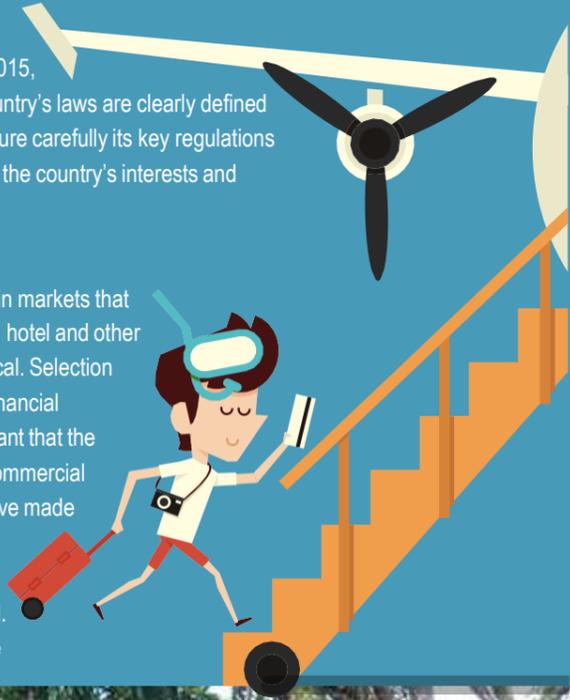
The Sri Lankan tourism market has made remarkable progress since the end of the civil war to epitomise its stature as the “Pearl of the Indian Ocean”. The country has reaped the benefits of consistent economic growth and double-digit tourism growth over the past five-year period. Now on the heels of a landmark election in the country, we believe that Sri Lankan tourism is today at a significant crossroads. It is critical that the newly elected government develops a comprehensive road map for the industry and empowers the key stakeholders in the tourism industry to continue driving growth in an innovative manner, with the active involvement of private enterprises. We believe the following key focus areas will be critical to the growth of the hospitality industry.

### Driving Investment

Sri Lanka ranks among the top 100 countries globally in the World Bank’s “Ease of Doing Business” index, much higher than any other South Asian economy, with the country having taken significant steps towards being investment friendly. The country has, however, been somewhat inconsistent in the process of defining the regulatory framework for investments into the country, with a restriction on foreign land ownership introduced in 2013 and a much-debated reversal on casino projects in 2014. This, coupled with a high level of political uncertainty in 2015, has resulted in some level of nervousness among investors; hence, it is important that the country’s laws are clearly defined and consistent in order to build confidence among foreign investors. Sri Lanka needs to structure carefully its key regulations surrounding foreign investment and ownership in order to strike a balance between protecting the country’s interests and providing an environment that is conducive to investment.

### Infrastructure and Connectivity

The need to develop infrastructure in emerging markets can never be overstated, particularly in markets that are keen to make quick strides in the tourism sector, and further development of the road, rail, hotel and other support tourist infrastructure, particularly in the east coast and other emerging regions, is critical. Selection of infrastructure projects must follow a market-based approach focused on market demand, financial viability and potential utilisation. Sound urban planning will be critical in Colombo - it is important that the city’s road network, public infrastructure and utilities are planned in line with the large-scale commercial developments that are planned. While some of the well-established domestic hotel brands have made pioneering efforts in investing in the underdeveloped regions of the country, there is a need for additional support from the government and private enterprises to address the need for basic infrastructure in such areas, particularly the east coast, to tap their true tourism potential. Connectivity will remain critical - a short-term boost can be brought about by promoting airline



carriers that originate from the large source markets of Sri Lanka, with very few country airlines featuring in the list of top airlines servicing Sri Lanka, while it is equally important to build on the state air carrier, Sri Lankan Airlines. While the new Hambantota International Airport may have been developed prematurely and is now underutilised, it also presents an opportunity to drive tourism development in the south and eastern coast regions, and a clear strategy must be established for utilising this airport.

### Destination Marketing and Alternative Tourism

While the country has seen an increased presence at major travel fairs and exhibitions and is working on destination marketing in individual countries, there is still a need for a focused and clearly positioned strategy to promote Sri Lanka as a destination. Enhanced destination marketing efforts will help widen Sri Lanka’s tourism base and reduce its dependence on certain source markets, while measures promoting Sri Lanka’s cultural importance as a part of the Buddhist circuit as well as tapping into the huge potential for MICE tourism will help reduce seasonality in the market.

The Sri Lankan tourism sector has now started to focus aggressively on promoting Sri Lanka as a destination for international MICE events, with increased participation in MICE specific travel and trade events as well as country specific promotions, particularly in India, China, the Middle East as well as key European markets. The current supply constraints arising from the country not having sufficient capacity to cater to large volumes of MICE business and limited flight connectivity to key source markets will need to be addressed. The country also has the potential to focus on niche segments and provide a unique tourism proposition - with activity such as whale watching, tea tourism and cruise tourism.

### Hotel Product Offering

As Sri Lanka’s hotel market grows, international brands will bring additional visibility to the country - with the ability to drive demand from key source markets, and help in the overall promotion of Sri Lanka as a tourist destination. Hotel management and development companies that are keen on establishing their presence in the country should look to establish a network of leisure hotels located in multiple tourist spots in the country with a view to develop tourism circuits. This will allow hotel companies to not only capture a significant share of tourists to the country, but also offer them a diverse portfolio of tourist locations ranging from the famed beaches of the west and east coasts to the national parks, dense forests and tea trails of the hill country. It is essential that domestic brands, too, start developing a more varied product offering across different segments, as all key leisure tourist destinations globally offer a plethora of differently tiered hotels that cater to a large variety of travellers.

### Human Resources

Sri Lanka’s growth and competitiveness could be constrained by the widening human resources gap that has emerged, which could potentially be the dampener to the tourism growth story, if this gap is not addressed. Focus must be given to attracting new talent, training and improving productivity levels - enhancing the quality of personnel through effective education and skills development will be critical to Sri Lanka’s long-term tourism growth and competitiveness.



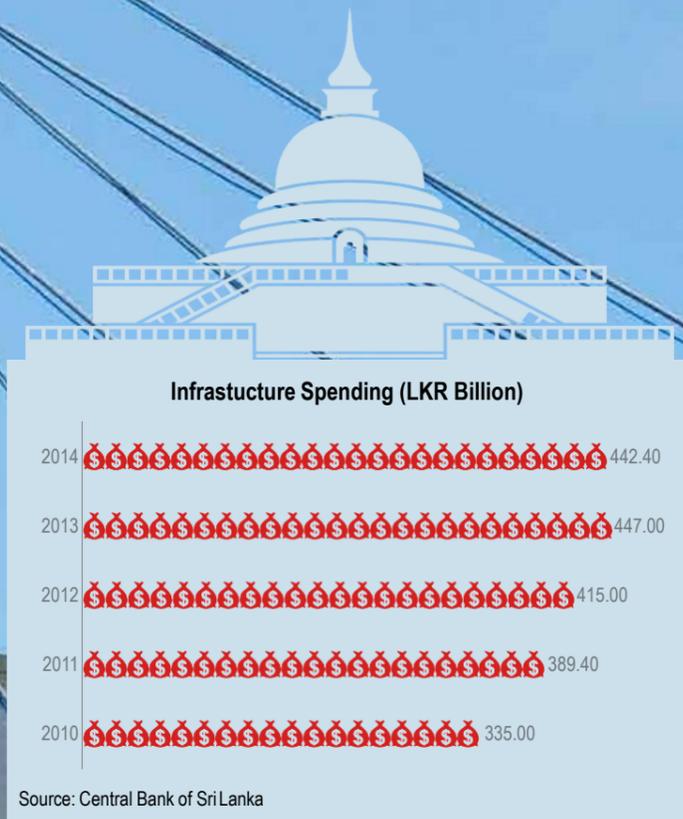


# INFRASTRUCTURE DEVELOPMENT

Sri Lanka is in the middle of an infrastructure drive that could substantially alter the dynamics of the country's economy and has already started to see clear benefits. The road sector has been the primary focus area, with the USD 3 billion Northern Expressway the largest project in the pipeline. Work is also underway on Phase II and III of the Outer Circular Highway (OCH) - a ring road developed around Colombo and Phase III of the Southern Expressway across the popular south-west coast stretch, among other initiatives. According to the government, roughly 61% of the national road network has now been developed. The expanding highway network alone will provide a substantial boost to both domestic and international tourism.

The focus on ports and aviation is expected to intensify, with the focus now shifting to large-scale projects such as Phase II of the development of Bandaranaike International Airport - which is to be constructed with the aid of the Japanese International Cooperation Agency. The government has also focused on developing further public private partnerships, particularly in the areas of housing and transportation, including the recently opened South Container Terminal at the Colombo Port - operated by China Merchants Holdings on a Build-Operate-Transfer basis.

Some of the key infrastructure developments underway are:



Development of an additional terminal at Bandaranaike International Airport - Colombo will see the airport capacity expand to 15 million from the current 6 million capacity



One of the key public transport improvements identified in the Megapolis Transport Master 2018 is the introduction of a LRT system as a new mode of public transport



Completion of Phase II and III of the Outer Circular Highway around Colombo, connecting the Southern Expressway with the Colombo Katunayake Expressway



The proposed North East Expressway (Colombo-Kandy expressway - 99 km in length), which will be further expanded to Jaffna and Trincomalee



Extension of the Southern Expressway from Matara to Hambantota



In the midst of an impressive infrastructure drive, the government is now focused on developing Public-Private Partnerships (PPPs), particularly in the areas of construction, housing and transportation.

## CONCLUSION

Sri Lanka is at an exciting juncture - it is on the brink of a strong reform agenda that can potentially make a transformational change by paving a more inclusive and balanced growth path for the country. For the tourism industry, building on the strong infrastructure base, establishing a structured investor framework and providing the required focus and investment into the promotion and development of the tourism sector will be the immediate needs. Equally critical will be a clear positioning for "Brand Sri Lanka", in order to differentiate the country from other Asian destinations, which will be the key to driving long-term sustainability. Sri Lanka's diverse tourism landscape - stunning beaches, hilly terrains and a rich cultural heritage - will continue to be a huge draw for tourists; however, Sri Lanka's tourism and hotel offering must remain competitive and there is a need to continuously market and position the country in an innovative manner.



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