Table 4.3 Estimate of Domestic Tourists to Southern Area

	1990	1994	2001	2005	2015
Number of domestic tourists (persons)	21,060	30,722	45,000	55,000	85,000
Ratio against foreign visitors (%)	35.6	29.5	23.4	15.9	14.2
Estimated average nights per stay (nights)	2	2	3	4	5

It is essential that more lodging facilities be established for domestic tourists throughout Southern Area, as an increasing number of them to the region is foreseen, with their lengths of stay extended in line with the development of their national economy and improved working environment. However, in consideration of national welfare, the average nights of stay for domestic tourists coupled with their limited traveling period and high room-sharing ratio, the operating effectiveness of lodging facilities presumably will not be high. In order to expand lodging facilities for domestic tourists, it is essential that the Government provide them with support rather than simply relying on private investors and individual operators to meet the need on their own.

The above estimates for incoming foreign tourists to the region seem to indicate steady growth of tourism in Southern Area, even when compared with the scale of Bali, whose tourism industry is in full swing, resources are preserved, and foreign visitors are received without impeding the island's identity. Bali received 1,048,000 foreign visitors in 1993; its land of 3,435 km^2 is inhabited by population of 2,540,000. On the other hand, Southern Area is expected to receive 600,000 foreign visitors in 2015 to a land of 10,951 km^2 with an estimated population of 3,375,000 in 2015.

4.4 Tourism Investment in Southern Area

In Sri Lanka as a whole, 13,823 guest rooms (guest houses included) are now in operation, and 13,655 guest rooms will be completed by 2005 (Table 4.4). Estimates of the current investment in hotel construction and that expected in the future in Southern Area are summarized in Table 4.5.

Table 4.4 Current Situation of Hotel Investment in Sri Lanka and the Number of Rooms Planned for Completion

Application Granted Level	1995	1999	2000	2001	2002	2005
In Operation	13,823					
Under Construction		2,744				
Final Approved			1,781			
Pending Final Approval				3,036		
Preliminary Clearance					5,634	
Pending Preliminary						460
Grand Total	13,823	16,567	18,348	21,384	27,018	27,478

Table 4.5 Current Situation of Hotel Investment in Southern Area and the Number of Rooms Planned for Completion

		1995	1999	2000	2001	2002	2005
In Operation	Graded	2,371					
	Guest House	906					
Under Construction	Graded		492				
	Guest House		98				
Final Approved	Graded			784			
	Guest House			156			
Pending Final Approval	Graded				877		
	Guest House				175		
Preliminary Clearance	Graded					1,717	
	Guest House					343	
Pending Preliminary	Graded						15
	Guest House						3
Total		3,277	590	940	1,052	2,060	18
Total in Operation		3,277	3,867	4,807	5,859	7,919	7,937
Invested Amount (Rs. million)			738	1,176	1,331	2,576	23
(US$ equivalent in million)			14.5	21.8	24.6	47.7	0.5

Notes:

1) Graded accommodations only.
2) According to CTB materials, construction cost per room is Rs. 1.5 million with 3-star class as the standard.
3) Exchange rate of the U.S. dollar to the rupees is: US$1.00 = Rs. 54.
4) As the unit investment needed for the guest house is unknown, guest houses are omitted from the invested amount.

The number of rooms requiring new investment, the amount and the target year are analyzed by district. A sufficient number of guest rooms will be available to satisfy the demand up to 2001, after which new investment will be needed (Table 4.6).

Table 4.6 Number of Guest Rooms Required for the Target Year and the Amount of Investment

District	In Operation	Master Plan		
	1995	2001	2005	2015
Galle	1965 (+1,198)	3,163 (+525)	3,688 (0)	3,688
Matara	137 (+440)	577 (+235)	822 (0)	812
Hambantota	269 (+460)	729 (+727)	1,456 (0)	1,456
Ratnapura	Δ (+ 30)	30 (+110)	140 (0)	140
Moneragala	Δ (+ 25)	25 (+135)	160 (0)	160
Total	2,371	4,524	6,266	6,266
Guest House	906	1,357	1,880	1,880
Grand Total (A)	3,277	5,881	8,146	8,146
Number of rooms required by estimate (B)	3,000	5,500	9,900	17,000
Number of rooms requiring new investment (B - A)			1,800	8,800
Investment under way (Table 4.5)				
Amount (Rs. million)		3,045	2,599	Δ
(US$ equivalent in million)		(56.4)	(48.1)	Δ
New investment required until 2015				
Amount (Rs. million)			2,700	13,200
(US$ equivalent in million)			(50.0)	(244.4)
Total investment required until 2015				
Amount (Rs. million)		3,045	8,344	21,544
(US$ equivalent in million)		(56.4)	(154.5)	(398.9)

Notes:

1) For the estimated number of rooms required, see Table 4.1.
2) Guest houses occupy 38.2% of guest rooms existing in 1995 and 30% from 2001 onward.
3) According to CTB, construction cost per room is Rs. 1.5 million with 3-star class as the standard.
4) Exchange rate of the U.S. dollar to the rupees: US$1.00 = Rs. 54.
5) As the unit investment needed for the guest house is unknown, guest houses are omitted from the invested amount.
6) In parentheses are the numbers of rooms for which investment is in progress.

According to the expected hotel investments shown in Table 4.6, steady advancement of construction up to 2001 is necessary to provide the number of rooms required. Plans already under application to the year 2005 should be implemented before 2000 to make rooms available in 2005. Also, as new investment will be needed from 2001 onward, a more favorable investment environment should be established to attract private investors.

If the number of foreign visitors to Sri Lanka increases favorably in line with the demand estimate, and the investment environment is improved so as to accelerate the influx of public sector fund from both home and abroad to build lodging facilities, investment by the target year of 2015 should have amounted to Rs. 21,544 million, or US$398.9 million. If economic multiplier effects are included, the impact on the economy of Southern Area should be quite significant.

Figures in Tables 4.3, 4.4 and 4.5 are quoted from Table 3.3, which classifies by region and by division the number of guest rooms for which investment in hotel facilities is now in progress or for which investment procedures of some kind are underway as of 1995 according to records of CTB and the Board of Investment (BOI). It is assumed that those under construction will begin operation over the next four years, those which have received final approval will begin to operate in 2000, those whose final approval is pending will open in 2001, and the others will open by 2005. Construction in Sri Lanka, however, can take longer than planned because of factors related to the supply of construction materials and construction practices.

4.5 Employment and Tourism Revenue

4.5.1 Employment

The number of persons directly engaged in the tourism industry shows a steady increase: 28,790 in 1992, 30,710 in 1993 and 35,064 in 1994 (Table 4.7). According to CTB materials, indirect employment is estimated to be 1.4 times the direct employment. For reference, the ratio of indirect employment to direct employment estimated by CTB is 1.35 from 1970 to 1979, 1.41 in 1980 and 1.40 from 1981 to 1994.

When forecasting employment in Southern Area, it was assumed that each graded hotel room would need three direct workers, an assumption based on the CTB data for 1994 given in Table 1.1. Thus, given the number of future hotel rooms in Table 4.5, direct and indirect employment in the tourism sector in Southern Area can be forecast. According to the results, there will be a total of 51,000 direct workers and 71,400 indirect employees in 2015 (Table 4.8).

Table 4.7 Direct Employment in Tourism in Sri Lanka

Category Establishment	1992	1993	1994
Hotels and Restaurants	19,645	20,204	22,246
Travel Agents, Tour Operators	3,069	3,203	3,754
Airlines	3,680	3,786	3,924
Recreational Facilities (Agencies Providing)	196	271	240
Tourist Shops	1,824	1,440	1,890
National Tourist Organizations	376	370	380
State Sector	[illegible]	1,436	2,630
Total	28,790	30,710	35,064

Source: C.T.B.

Table 4.8 Estimate of Direct and Indirect Employment in Southern Area

	1995	2001	2005	2015
Number of hotel rooms (from Table 4.5) (A)	3,277	5,881	9,900	17,000
Number of hotel employees (A x 1.52)	(4,985)	(8,939)	(15,048)	(25,840)
Number of direct employees (A x 3.0) (B)	9,831	17,643	29,700	51,000
Number of indirect employees (B x 1.40)	13,763	24,700	41,580	71,400

Notes:

1) The numbers of guest rooms in 1995 and 2001 include those which are either in operation or for which investment is, in some way, in progress.
2) The numbers of guest rooms in 2005 and 2015 are the numbers of guest rooms needed based on forecasts.
3) The figure of 3.0 persons per graded hotel room cited above is a number based on the figure of 2.55 workers per room in Okinawa, Japan, as cited in the *"Report on a Survey of the Economic Effects of Tourism Income"* edited by the Okinawa Prefecture Tourism and Culture Bureau. Its application to the Sri Lankan case after an upward adjustment is considered appropriate for the following reasons:
    - The Okinawa data include rooms provided by private guest houses and public lodging facilities;
    - The number of employees counted in the above survey excluded employees employed by public bodies; and
    - As a consequence of social customs in Sri Lanka, duties are more finely demarcated here than in Japan.

4.5.2 Tourism revenue/foreign currencies

Foreign currency earnings from tourism in Sri Lanka amounted to $22.4 million in 1975, $110.7 million in 1980, $132.0 million in 1990, and $230.2 million in 1994, increasing in proportion to mounting numbers of tourists visiting the Country and of guest nights, with the exception of the latter half of 1980 (*CTB Annual Statistical Report 94*, Tourism Growth Trends/1966 to 1994). Little change in the number of nights spent per tourist is observed, but the number of tourists and their expenditure per person/day account for the major part of the increases.

In Southern Area, since the majority of foreign visitors are Europeans, the average number of nights of stay are considered as 12, of which about four will be spent for optional tours, leaving an average eight nights stay in the region.

From 2005 on, the average nights of stay will be 13, with about nine in the region and four for optional tours. In 2015 the nights of stay should average 14, of which ten will be spent in the region. The number of foreign visitors to Southern Area was estimated in 1994 as 103,944, but in 1995 the number fell by 1.1% as a whole, indicating that the nights of stay would be the same as the preceding year or a bit fewer. As seen in *CTB Annual Report 94*, overall tourism revenue per person/day tends to expand, and from 1990 it has registered an average increase of $2.60 over the preceding year. Taking these facts into consideration, tourism income should reach $668.4 million in 2015 (Table 4.9).

Table 4.9 Estimate of Tourism Revenue in Southern Area

	1994	1995	2001	2005	2015
Number of foreign visitors	103,944	104,000	192,000	345,000	600,000
Average nights of stay per person (nights)	8	8	9	9	10
Guest night of foreign visitors (1,000 nights)	832	832	1,728	3,105	6,000
Average expenditure per person/day (US$)	54.2	56.8	72.4	85.4	111.4
Tourism revenue in the Area (US$1,000)	44,607	47,258	125,107	265,167	668,400

Notes:

1) Average night of stay is the value obtained by deducting the optional tour of four days from the average length of western European stay in Sri Lanka shown in Table 2.4.

2) The average expenditure per person per day is the value obtained by adding US$2.60 per year.

CHAPTER 5 TOURISM DEVELOPMENT PLAN FOR SOUTHERN AREA

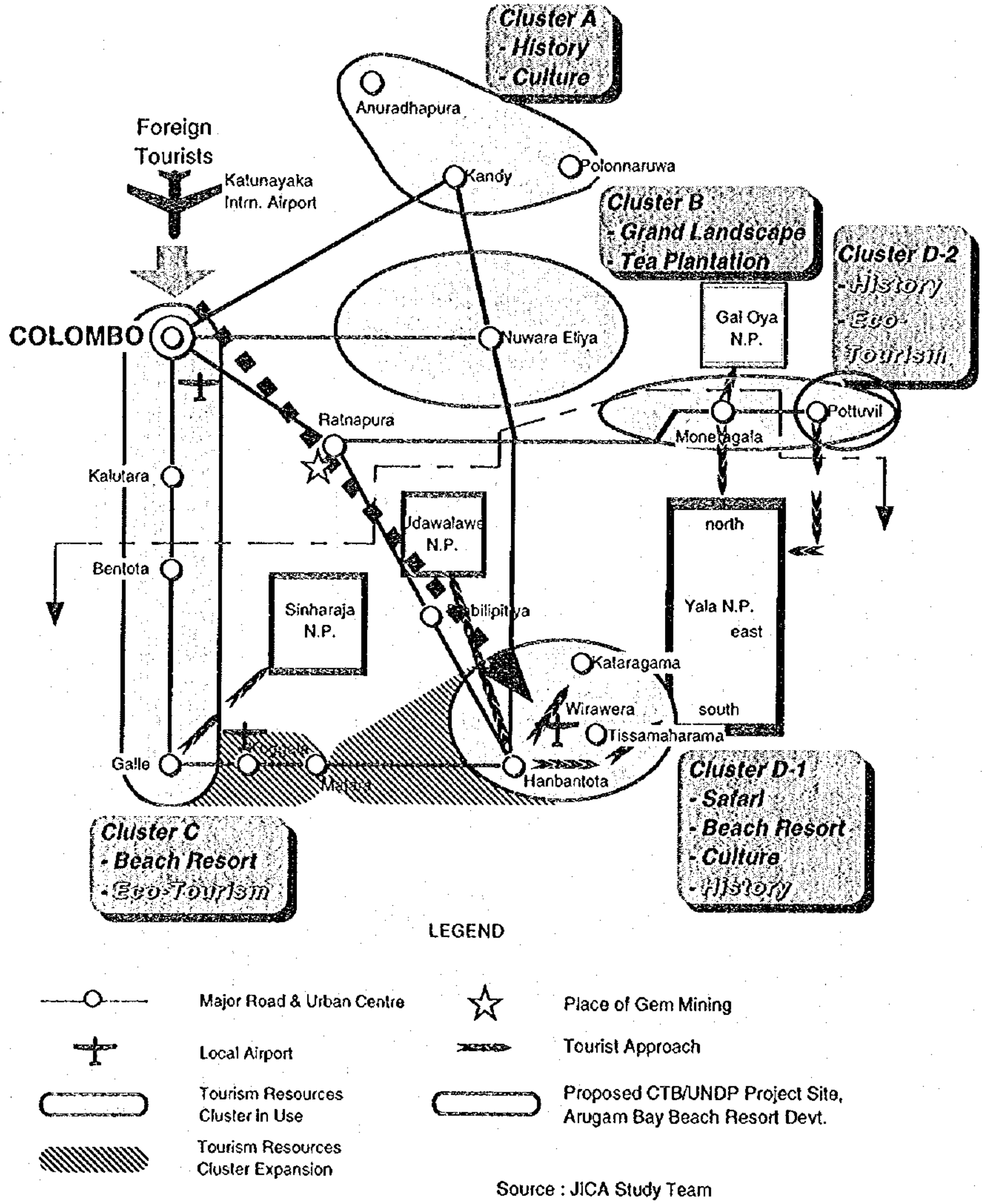
5.1 Tourism Development Scenario

The existing tourism conditions should be combined with additional attractions based on diversified tourism resources for tourism development in Southern Area. Hambantota and Matara seem to offer most charming resorts. Moreover, if the streets in Galle Fort are preserved, while enhancing Matara's handicraft skills by the establishment of a culture center, Cluster C's expansion area from Galle to Matara can be formed. As for Moneragala, the huge image of Buddha in Maligawila repaired with the support of UNESCO, various historic remains scattered throughout the area, and the waterfalls and scenery of the Yala and the Gal Oya National Parks should attract more tourists. Moneragala can also have the function of serving as a base for such activities as safaris after the Arugam Bay resort in Pottuvil is developed as proposed by the CTB and UNDP master plan. However, as it takes too long to get there from the gateway, it will be necessary to improve facilities at the Wirawila airport near Hambantota and shorten access time by using shuttle flights. The upgrading of roads is essential, too (Figures 5.1 and 5.2).

Foreign visitors to Sri Lanka are estimated to reach 1,560,000 in 2015. Out of this total, 600,000 visitors will stay in Southern Area. The tourists are predominantly European: 980,000 of the national total and 590,000 of the regional total are of European origin. Currently, only 36.4% of European visitors are touring around Southern Area. This trend is expected to continue for some time, but it will gradually change after 2001. Many tourists will be diverted from Colombo north and south resorts to Kalutara owing to limited lodging capacity, and Galle will be affected by this relocation. This phenomenon can also be predicted from the number of rooms expected to be operating by 2001, i.e., 550 rooms in Colombo resorts as against 1,050 rooms in Kalutara. In 2005, among the anticipated 680,000 European tourists, 345,000 will stay in Southern Area, indicating a trend that more tourists from 2001 onward will divert to Southern Area.

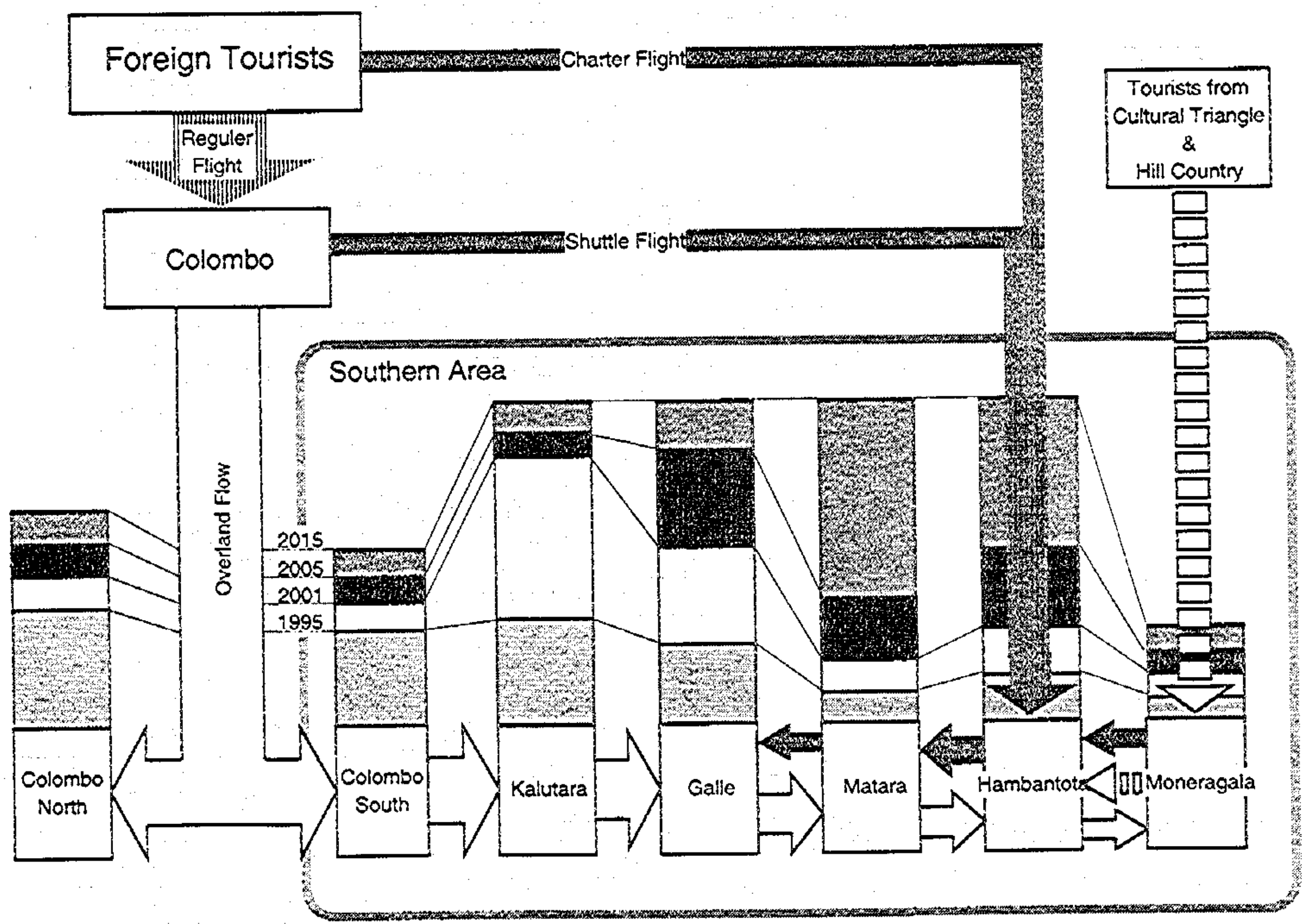
These changes outlined above will take place over time. Their priority is analyzed in view of social demand and effects of each change. Phasing of these changes is summarized in Table 5.1.

Figure 5.1 Tourist Cirquit and Resources Cluster in Future incl. Cluster Expansion and Additional Attraction



Source : JICA Study Team

Figure 5.2 Conceptual Chart of Tourism Development in Southern Area



Source : JICA Study Team

Table 5.1 Structural Elements of Tourism and the Order of Priority for Improvement

Structural elements of tourism	Social fields concerned	Phase I	Phase II	Phase III
* For tourism resources and diversified purposes of travel	• Preservation, security and utilization of natural resources	—	—	—
	• Preservation, restoration and utilization of historic resources, such as historic remains	—	—	—
	• Protection and fostering of culture, and the preservation of streets and their utilization	—	—	—
	• Attraction of functions like international conferences and trade fairs	—	—	—
* For tourist lodging, like hotels, and public tourism facilities	• Financial environment improvement to attract investment		—	—
	• Improvement of water supply and drainage	—	—	—
	• Supply of electricity		—	—
	• Upgrading of communications network		—	—
	• Improvement of lodging facilities for Sri Lankans	—	—	—
* For travel and transport	• Road improvement			
	Colombo - Galle	—	—	—
	Ratnapura - Nomagama		—	—
	Galle - Hambantota			—
	NuwaraEliya - Hambantota			—
	• Improvement of Wirawila Airport			
	Receiving of shuttle flights from Colombo		—	—
	Receiving of charter flights directly from abroad			—
	• Improvement and extension of the railway to Kataragama		—	—
* To provide appropriate service	• Education on tourism and vocational training (upgrading of service skill)	—	—	—
	• Reeducation of tourism industry personnel (OJT)	—	—	—
* For reasonable travel cost				
(Effected after the above four elements are satisfied - a way to stimulate repeaters and new visitors)		—	—	—
* To afford good, safe hospitality	• School education	—	—	—
	• Mass public education on tourism awareness	—	—	—
* To provide tourist information	• Reinforcement of furnishing information to major tourist markets	—	—	—
	• Spply of information at major lodging facilities	—	—	—

5.2 Support Measures for Tourism Development

To realize the tourism development in Southern Area as envisaged, the following measures are particularly important.

5.2.1 Education on tourism and vocational training

By reinforcing the existing hotel school, training service skill can be enhanced. At the same time, tourists should be convinced that "travel costs in Sri Lanka are very reasonable," thus creating repeaters and fresh visitors by word-of-mouth publicity from persons who have been there. Word-of-mouth publicity is more effective than ordinary advertising.

5.2.2 Mass education for Sri Lankan citizens on tourism awareness

A place should be set up for Sri Lankan citizens to fully understand tourism's effects on employment and economies through organizations like NGOs bringing out the warm hospitality native to the Sri Lankan people. At the same time the social status of those engaged in the industry should be enhanced to facilitate the supply of manpower required for tourism investment.

5.2.3 Environmental improvement for attraction of investment

The development of new resorts should be facilitated by strengthening CTB's support to private investors in such fields as resort construction so as to secure the required number of hotel rooms and increase job opportunities for those who have received training at the hotel school. This measure will also help expand job opportunities for women, many of whom are engaged in tourism, furthering economic effects over people in the communities directly and indirectly.

5.2.4 Improvement of lodging facilities for Sri Lankan tourists

To cope with an increase of domestic tourists, upgrading and new opening of lodging facilities owned by such organizations as hotel firms should be accomplished. This will accelerate the allocation of income to local areas.

5.2.5 Attraction of international conferences, trade fairs, etc.

Along with the improvement of lodging facilities in Southern Area, tourism information on Sri Lanka can be spread throughout the world by, for instance, holding international conferences on the environment featuring the National Parks like Yala, Sinharaja Forest and Uda Walawe or lagoons scattered in Southern Area.

5.2.6 Reinforcement of information to major tourism markets

Sri Lanka's wonderful image should be disseminated by taking part in tourism fairs, tourism trade fairs and international trade fairs now carried out by CTB, and further strengthening Sri Lanka's familiarization movements by participating in similar promotional events. As a result, these activities will furnish information to potential tourists and bring new visitors to Sri Lanka. Naturally, it will be necessary to compile more information on Southern Area.

5.2.7 Supply of information on major lodging facilities

Administrative guidance should be extended to hotel entrepreneurs and construction companies to help provide information on hotels to potential guests in the form of leaflets, lists, etc. Foreign tourists can get detailed information on tourist spots from these brochures that will help arouse their interest. Consequently, a greater allocation of revenue to local areas can be expected, and a keener awareness of the people concerning tourism will result.

5.3 Tourism Development Projects and Programs

In order to realize the tourism development scenario described in the previous section, projects and programs have been formulated in line with the scenario. The following are proposed to make use of tourism resources to diversify tourism sites and improve their attractiveness to tourists, provide spaces to receive visitors, and at the same time improve the service offered.

1) Touristic Herbal Garden
2) Galle Fortified City Conservation
3) Hambantota Hotel Construction
4) Hotel School

5) Unawatuna Bay Resort Development CTB/UNDP-M/P
6) Arugam Bay North/South Resort Development CTB/UNDP-M/P
7) Tissamaharama Archeological Excavation with Gateway Facilities Complex
8) Marine Archeological Museum
9) Sinharaja Forest Visitor Center
10) Arts and Handicraft Center
11) National Oceanarium and Indian Ocean Institute
12) Walawe Spa Resort Development
13) Bird Research Institute
14) Tourism Promotion Program
15) Internet Tourism Information Center

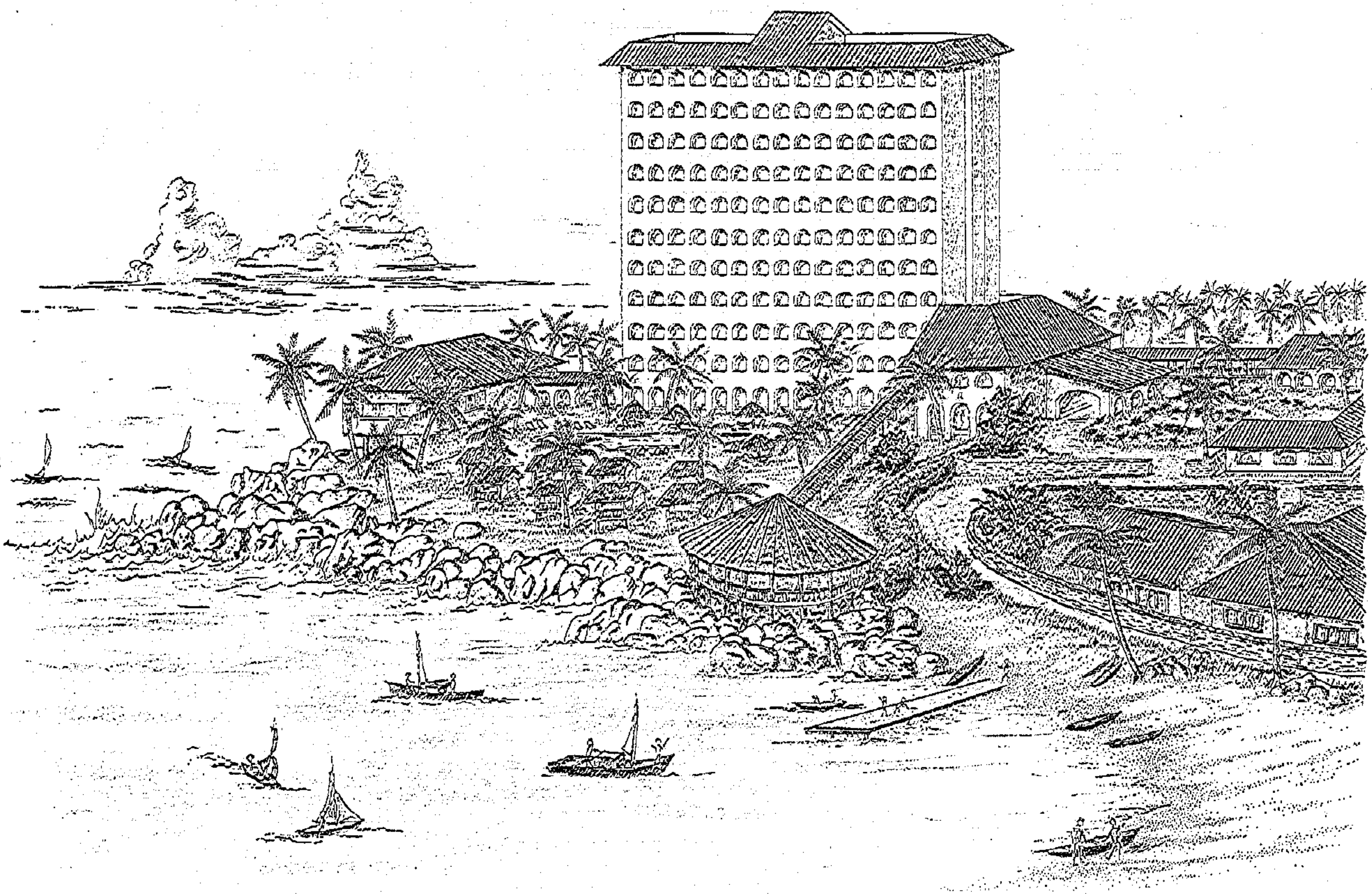
The Touristic Herbal Garden project will establish a touristic herbal garden in some location in the intermediate zone or at Hambantota for multiple objectives. Visitors can stay in cozy accommodations surrounded by a garden with various herbal and other plants, receive treatment by herbal medicine, take short courses on the use of herbal medicine and preparation of natural foods, and buy some of the products produced in and around the garden.

The Galle Fortified City Conservation project, which will improve the living environment of the area's residents and serve for an educational role by deepening people's understanding of their history, and provide an attractive tourism site. Transforming streets into promenade routes will increase shopping opportunities, which will in turn have a beneficial effect on the region's handicraft industry.

The Hambantota Hotel Construction project will provide major lodging facilities for visitors at the future eastern gateway to Southern Area and at the same time serve as a tourism base. It can contribute to the development of the surrounding region's handicraft industries and the expansion of employment in the tourist industry with economic multiplier effects throughout the region (Figure 5.3).

At present, all graduates from the Hotel School find employment, which means its facilities are now insufficient. This project can, by expanding the school, offer new employment opportunities to the local people and at the same time guarantees hotel investors a supply of good quality personnel, thus improving the investment environment.

Figure 5.3 Image View of Hambantota Resort Hotel



The Unawatuna Bay resort development will provide a place to host tourists now forced towards Galle, resulting in substantial employment and economic effects in the region.

The Arugam Bay North/South resort development is outside the Area, but if it is implemented, it will certainly contribute to the effective use of the tourism resources in Cluster D-2, which is centered on Moneragala, permit Moneragala to serve as a safari base for the Yala (North) and the Gal Aga National Parks, and economically benefit the region.

The Tissamaharama archeological excavation with gateway facilities complex project will not only have archeological value, but will help diversify tourism resources. If, at the same time, the Wirawila airport is upgraded to its full use, local communities will enjoy diversified economic benefits.

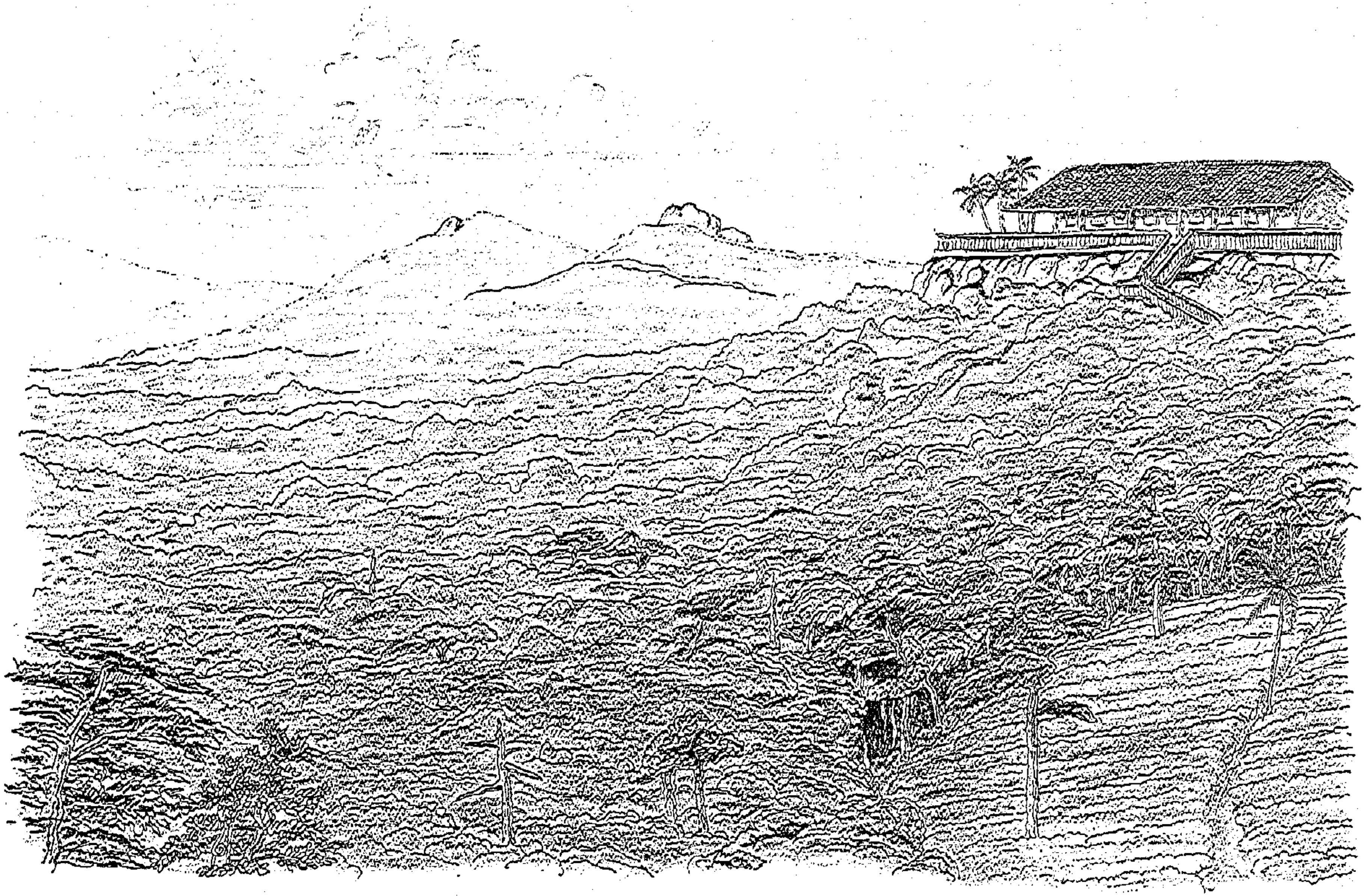
The Marine Archeological Museum will display salvaged sunken ships and their cargo to show the people of Sri Lanka that their Country was once actively engaged in flourishing trade activities, thus playing a role in support of history education given in schools. It will also increase the attractiveness of Southern Area in the eyes of foreign visitors.

The Sinharaja Forest Visitor Center will, by letting visitors personally experience the vegetation and the dazzling natural features of this rare surviving tropical rain forest, remind them of the importance of conserving nature, and serve as a valuable resource for environmental education. Furthermore, this natural region's appeal to tourists will be exploited as a tourism resource (Figure 5.4).

The Arts and Handicraft Center will improve the quality of the region's handicrafts and stimulate local industry as it encourages sales by allowing tourists to see the production process and increases the attractiveness of the region to tourists. This will also improve the local culture.

The National Oceanarium and Indian Ocean Institute will help people understand the natural systems in the Indian Ocean, which surrounds Sri Lanka. Its research activities, on the lines of the Indian Ocean Center in Perth, will guarantee that correct information is available for visitors to the Institute and contribute to the preservation of the surrounding marine environment. It will also benefit formal education as well as offer an attractive tourist site to visitors to Southern Area.

Figure 5.4 Image View of Sinharaja Forest Visiter Center



The Walawe Spa resort development will respond to the worldwide interest in personal health by using the hot spring water at the site as an effective tourism resource. It will be beneficial to the health of the local people and provide one more tourist site which will be attractive to visitors to the region.

The Bird Research Institute will conduct research, collect information concerning migratory birds and other birds unique to Sri Lanka and offer this information to bird-watchers from around the world. The provision of accurate information will make Sri Lanka an attractive destination for these bird enthusiasts.

The Tourism Promotion Program is a package of three subprograms which focus on so-called soft factors of tourism development. Exit surveys will be regularly conducted at the Colombo international airport to collect more detailed information on foreign tourists. Another subprogram is to enhance popular awareness of tourism, with main targets being teachers and local NGOs. Improving service techniques is the third subprogram in which foreign experts are called in to train CTB instructors. They then conduct on-the-job training for employees in the tourism industry.

In addition to the above projects, tourism promotion is supported by other sectors and is influenced by projects in other sectors. Examples include eco-tourism development in the environmental field, the Touristic Herbal Garden and Health Center project of the social sector, and the tourist information system proposed in the telecommunications sector. Consequently, it is important for CTB to support and continue to actively participate in these projects.

Annex

Annex 1 Tourism Opinion Survey of 26 Knowledgeable Persons

Annex 2 Results of Tourism Survey on Public Awareness by District

Annex 3 Results of Tourism Survey on Public Awareness by Division

Annex 1 Tourism Opinion Survey of Twentysix Knowledgeable Persons

1 Do you think that tourism is an important industry in Sri Lanka?

Very important	◆◆◆◆◆◆◆◆◆◆
Important	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆◆
Not so important	

2 Do you feel that general Sri Lankan people think that the tourism industry is beneficial?

Yes	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆
No	◆

3 Do you think that, in general, the Sri Lankan people think that the tourism industry affects their lives?

Yes	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆
No	◆◆

4 Do you feel that the Sri Lankan people think that the tourism industry benefits them?

Yes	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆
No	

5 How do you feel about foreign tourists who visit Sri Lanka?

Positive	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆
Somewhat positive	◆◆◆◆◆◆◆◆◆
Somewhat negative	
negative	

6 Please evaluate the quality of the following services in Sri Lanka

*Hotel

Very god	◆◆◆
Good	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆◆◆◆ ◆◆◆
Rather dissatisfied	
Poor	

*Restaurant

Very god	
Good	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆◆◆◆ ◆◆◆
Rather dissatisfied	◆◆◆
Poor	

*Shopping

Very god	
Good	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆
Rather dissatisfied	◆◆
Poor	

*Taxis

Very god	
Good	◆◆◆◆◆◆◆
Rather dissatisfied	◆◆◆◆◆◆◆◆◆◆ ◆
Poor	◆◆◆◆◆◆◆◆

*Buses	
Very god	
Good	◆
Rather dissatisfied	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆
Poor	◆◆◆◆◆◆◆◆◆◆
*Airport facilities	
Very god	◆
Good	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆◆◆◆ ◆◆
Rather dissatisfied	◆◆◆
Poor	

7 Do you believe that the tourism industry affects your jobs?

Yes	◆◆◆◆◆◆◆◆◆◆
A little	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆
No	◆◆

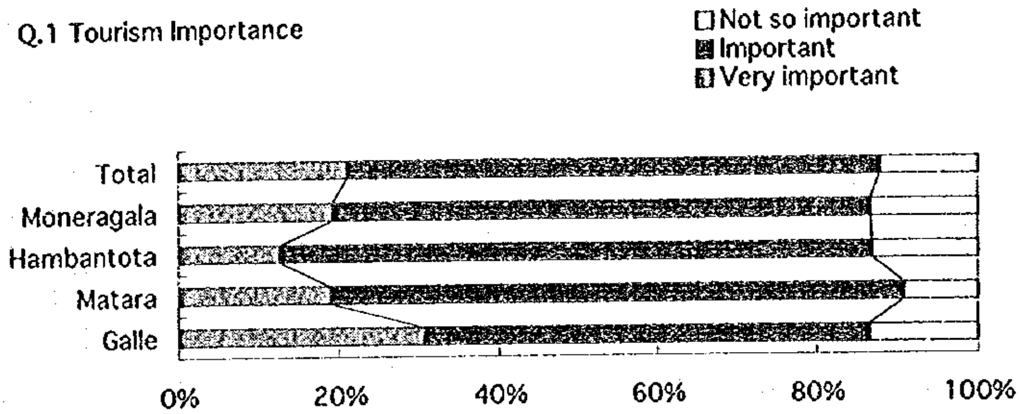
8 Please evaluate the seriousness of the following problems for tourism of Sri Lanka

*Unkind passport Controllers	
Serious	◆◆◆◆
A little	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆◆◆◆
Not serious	◆◆
*Unclear taxi charges	
Serious	
A little	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆
Not serious	◆
*Insufficient services offered in hotels and restaurants	
Serious	◆◆
A little	◆◆◆◆◆◆◆◆◆◆ ◆◆◆
Not serious	◆◆◆◆◆◆◆◆◆◆ ◆
*Panhandlers and pushy merchants	
Serious	◆◆◆◆◆◆◆◆◆◆
A little	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆
Not serious	◆
*Pollution caused by trash, personal waste	
Serious	◆◆◆◆◆◆◆◆◆◆
A little	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆◆
Not serious	◆
*Crimes involving tourists	
Serious	◆
A little	◆◆◆◆◆◆◆◆◆◆ ◆
Not serious	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆
*Tourists' ignorance of Sri Lankan customs and sosial morals	
Serious	◆◆
A little	◆◆◆◆◆◆◆◆◆◆ ◆◆◆
Not serious	◆◆◆◆◆◆◆◆◆◆ ◆
*Tourists' intolerance regarding of Sri Lankan customs social morals	
Serious	◆◆
A little	◆◆◆◆◆◆◆◆◆◆ ◆◆◆◆
Not serious	◆◆◆◆◆◆◆◆◆◆

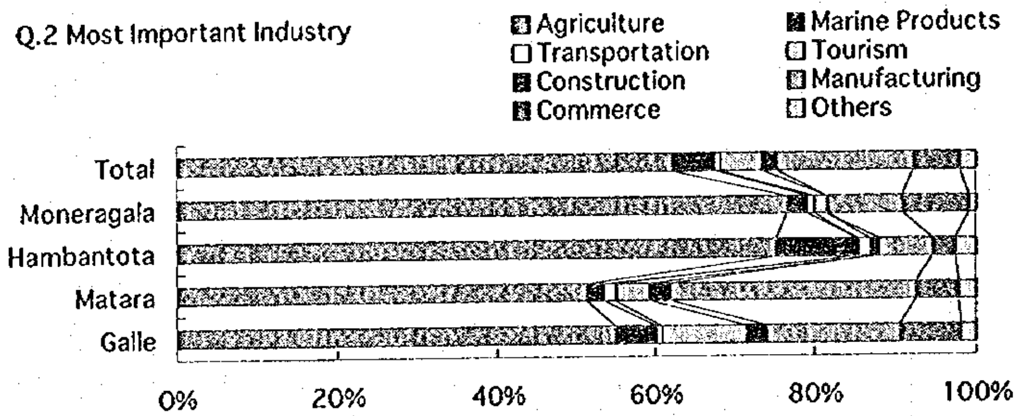
Source : JICA Study Team

Annex 2 Result of Tourism Survey on Public Awareness by District

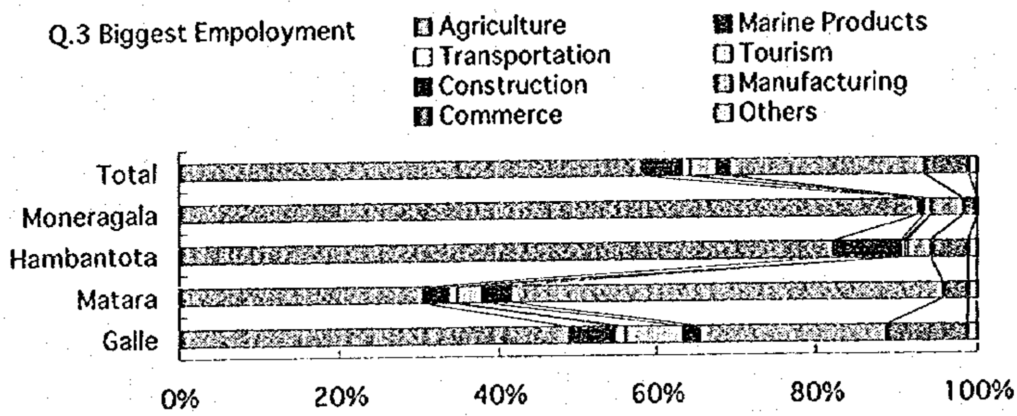
Q.1 Tourism Importance



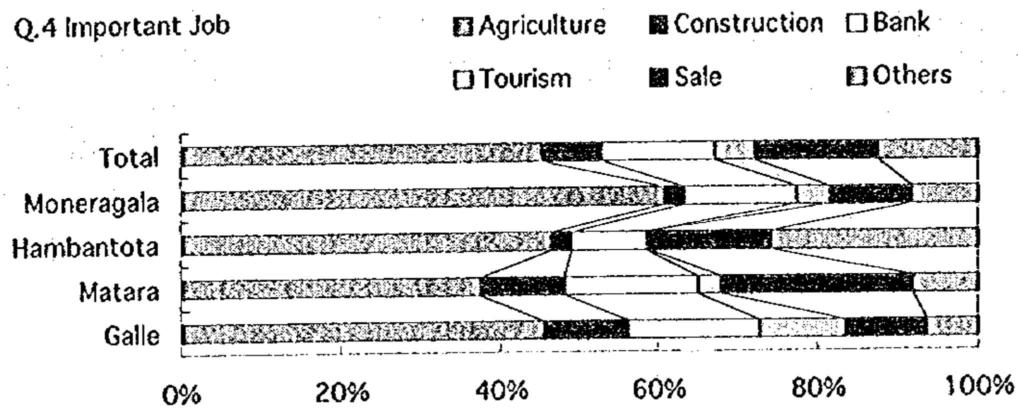
Q.2 Most Important Industry



Q.3 Biggest Empoloyment

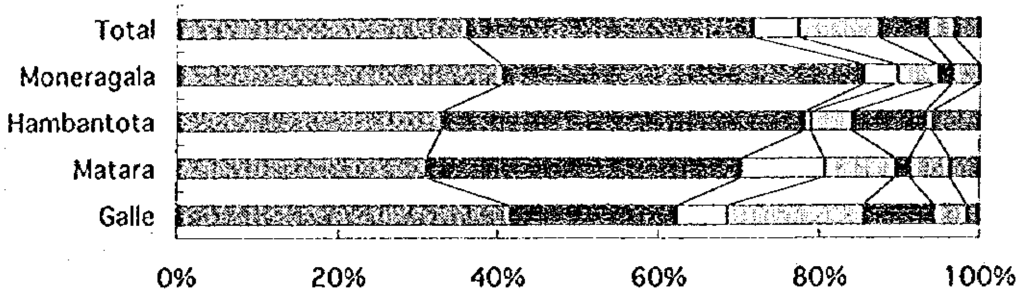


Q.4 Important Job



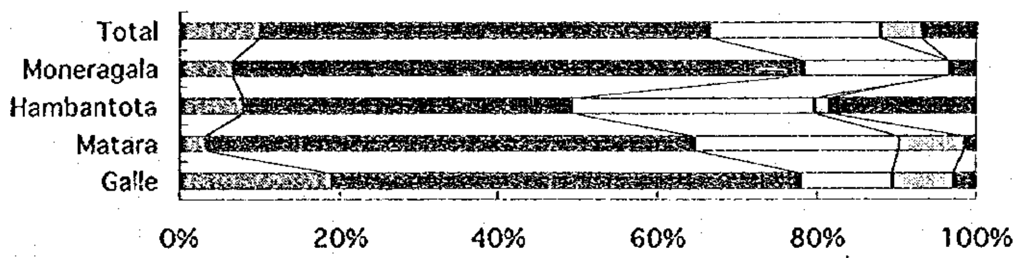
Q.5 Most Important Factor for Foreign Visitors

Historic ruins / Scenery / Hospitality / Beach / National park / Shopping / Others



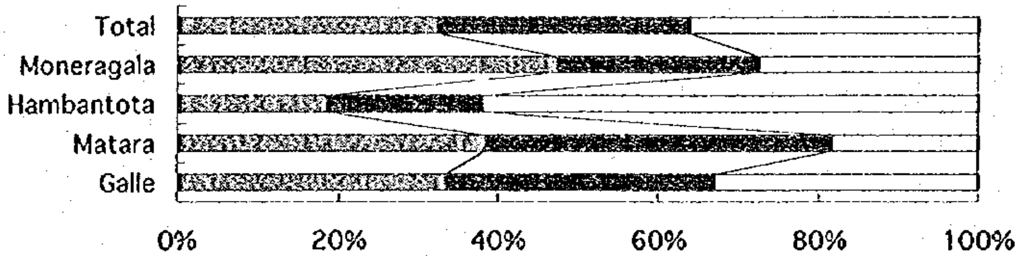
Q.6 Source of Environmental Pollution

Agriculture / Manufacturing / Transport / Tourism / Others



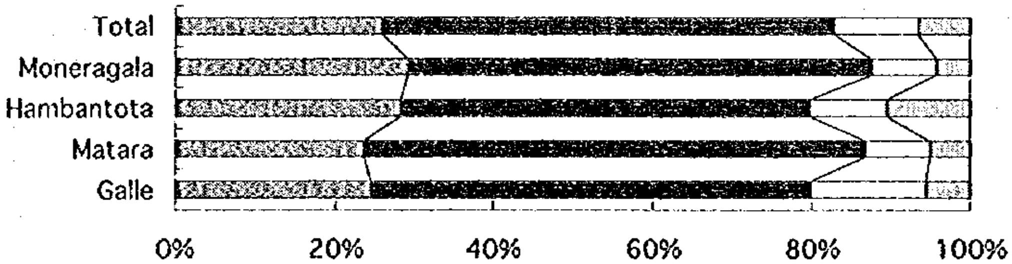
Q.7 Image of Tourists

Rich / Friendly / I do feel they are tourists



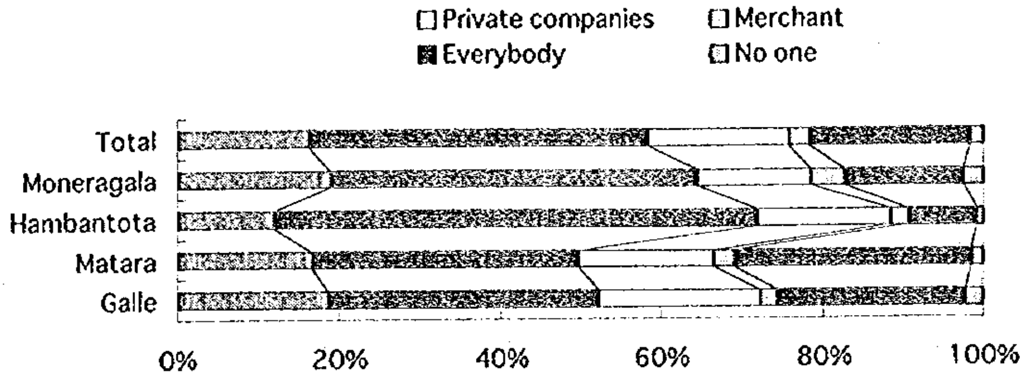
Q.8 Impression of Tourists' Visiting

Positive / Somewhat Positive / Somewhat negative / Negative



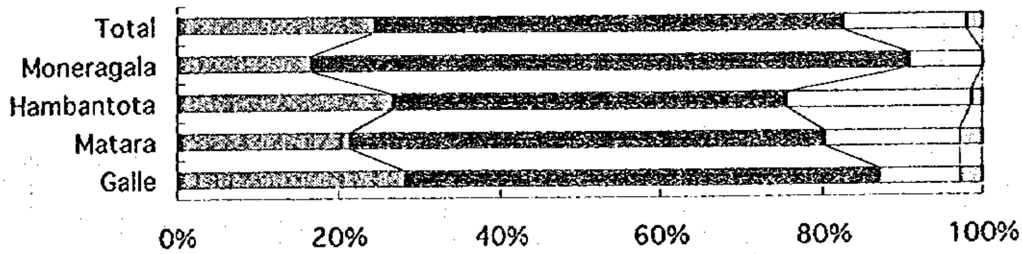
Q.9 Beneficiaries from Tourism

Government / Hotels / Private companies / Merchant



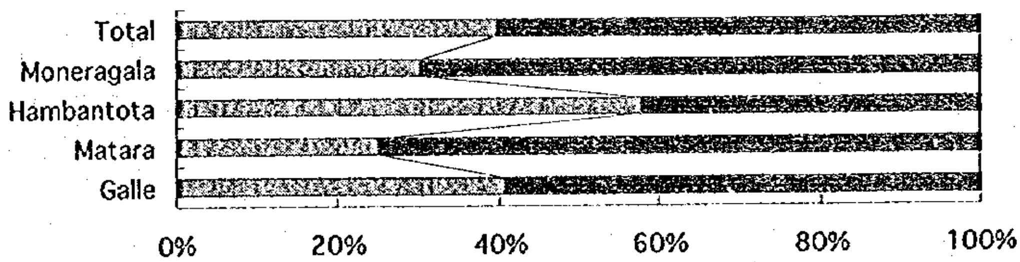
Q.10 Receiving Benefitfrom
Tourism or Not

Yes No
Doubtful Others



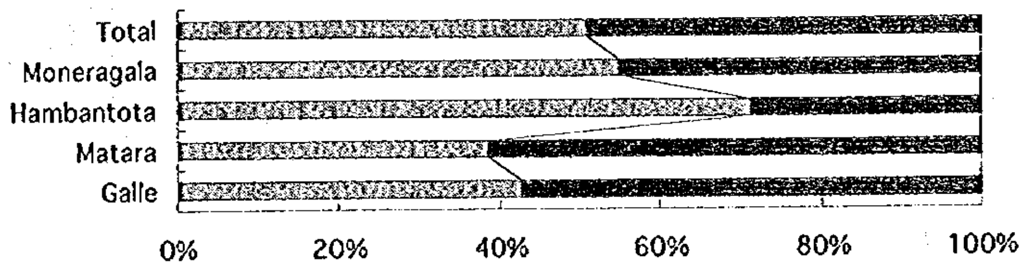
Q.11 Willingness to Join Tourism

Yes No



Q.12 Willingness to Tourism Development

Yes No



Annex 3 Result of Tourism Survey on Public Awareness by Division

Galle

District	Galle																Total	
Division	Bentota	Elpitiya	Niyagama	Tawalama	Neluwa	Nagoda	Karandeniya	Ambalangoda	Balapitiya	Hikkaduwa	Baddegama	Yakkalamulla	Akmimana	Bope-Poddala	Galle	Habaraduwa		
Total No. of Answer	20	20	20	20	20	20	22	20	20	22	20	20	23	20	20	20	327	100
Male	16	13	12	12	15	9	14	10	15	14	15	10	18	7	8	11	199	60.9
Female	4	7	8	8	5	11	8	10	5	8	5	10	5	13	12	9	128	39.1
Average Age	32.6	41.1	36.7	32.0	32.7	29.0	41.7	31.9	41.9	29.7	49.2	37.9	34.3	32.0	33.8	32.1		
1. Do you think that tourism is important industry in Sri Lanka?																		
Very important	5	5	5	6	7	13	6	2	8	15	8	2	2	6	7	3	100	30.6
Important	12	14	13	9	10	6	9	16	10	4	10	17	18	14	9	12	183	56.0
Not so important	3	1	2	5	3	1	7	2	2	3	2	1	3	0	4	5	44	13.5
2. Which do you think is the most important industry																		
Agriculture	14	11	13	11	8	3	17	11	11	3	14	17	11	17	10	9	180	55.0
Marine Products	0	2	1	2	2	2	1	1	2	1	0	1	1	0	0	1	17	5.2
Transportation	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1	0.3
Tourism	2	0	0	4	6	1	0	1	1	14	2	0	0	0	3	1	35	10.7
Construction	0	1	0	1	0	0	1	1	0	0	1	0	2	0	0	1	8	2.4
Manufacturing	4	5	5	1	3	5	3	3	3	1	3	1	4	3	7	3	54	16.5
Commerce	0	1	0	1	1	8	0	3	1	3	0	0	4	0	0	3	25	7.6
Others	0	1	0	0	0	1	0	0	2	0	0	1	0	0	0	2	7	2.1
3. Which do you think employs the most people?																		
Agriculture	15	12	15	15	9	1	13	8	7	3	13	16	7	16	4	6	160	48.9
Marine Products	0	1	3	0	1	3	0	2	1	2	0	1	0	0	0	5	19	5.8
Transportation	1	0	0	0	0	1	0	0	0	0	0	0	1	0	0	1	4	1.2
Tourism	2	0	0	0	3	1	0	0	0	11	1	1	0	0	3	2	24	7.3
Construction	0	2	0	1	1	0	0	0	2	0	1	0	0	0	0	0	7	2.1
Manufacturing	2	4	2	3	3	3	7	8	6	0	5	2	15	4	9	3	76	23.2
Commerce	0	1	0	1	3	11	2	1	2	6	0	0	0	0	4	2	33	10.1
Others	0	0	0	0	0	0	0	1	2	0	0	0	0	0	0	1	4	1.2
4. What kind of jobs do you think are important ?																		
Agriculture	13	13	9	13	5	1	11	8	7	3	13	15	6	18	6	8	149	45.6
Construction	0	3	8	0	1	5	3	2	3	0	5	3	0	0	0	2	35	10.7
Bank	1	2	0	2	4	7	3	7	2	0	1	2	12	0	7	4	54	16.5
Tourism	2	0	0	4	6	4	0	2	1	12	1	0	0	0	3	0	35	10.7
Sale	4	0	3	1	0	3	5	1	0	7	0	0	4	1	2	2	33	10.1
Others	0	2	0	0	4	0	0	0	7	0	0	0	1	1	2	4	21	6.4
5. Which factor is the most important to foreigners who visit Sri Lanka?																		
Historic ruins (exp. Buddhistic)	6	11	12	6	10	2	8	10	10	6	13	8	4	14	7	9	136	41.6
Scenery	6	2	1	3	2	0	5	5	2	8	3	2	15	4	8	2	68	20.8
Hospitality	1	2	1	2	0	2	3	0	3	0	1	1	0	1	2	1	20	6.1
Beach	3	5	2	7	8	1	3	1	3	4	3	5	2	1	1	7	56	17.1
National park	3	0	3	2	0	8	1	2	0	4	0	4	1	0	0	1	29	8.9
Shopping	1	0	1	0	0	7	0	2	0	0	0	0	1	0	1	0	13	4.0
Others	0	0	0	0	0	0	2	0	2	0	0	0	0	0	1	0	5	1.5
6. Which industry causes the most environmental polution in Sri Lanka?																		
Agriculture	1	5	6	9	2	2	0	6	7	0	7	11	1	3	1	1	62	19.0
Manufacturing	15	12	13	5	13	6	16	12	8	18	9	7	16	16	14	13	193	59.0
Transport	2	1	1	0	2	10	3	0	3	1	1	1	5	1	4	3	38	11.6
Tourism	0	0	0	5	3	2	3	2	1	3	1	0	1	0	1	3	25	7.6
Others	2	2	0	1	0	0	0	0	1	0	2	1	0	0	0	0	9	2.8
7. What image do you have of tourists who visit Sri Lanka?																		
Rich	4	6	4	5	10	4	4	1	4	14	6	3	21	15	5	4	110	33.6
Friendly	12	9	3	8	7	10	6	10	8	3	10	5	0	5	8	5	109	33.3
I do feel they are tourists	4	5	13	7	3	6	12	9	8	5	4	12	2	0	7	11	108	33.0
8. How do you feel about foreign tourist's visiting?																		
Positive	12	8	0	5	6	5	0	2	7	10	7	0	5	1	8	4	80	24.5
Somewhat Positive	7	10	18	10	12	12	15	12	6	6	11	16	11	17	9	9	181	55.4
Somewhat negative	0	2	2	2	1	2	5	5	4	4	2	4	6	1	1	7	48	14.7
Negative	1	0	0	3	1	1	2	1	3	2	0	0	1	1	2	0	18	5.5
9. Who do you think gets benefits in the tourism industry?																		
Government	5	6	4	5	1	2	1	0	2	14	6	3	2	3	4	3	61	18.7
Hotels	3	5	8	8	7	6	8	9	9	5	6	10	7	3	6	10	110	33.6
Private companies	2	4	5	2	3	6	9	3	6	2	5	0	12	0	4	2	65	19.9
Merchant	2	0	0	0	0	1	0	1	0	0	0	0	0	1	1	1	7	2.1
Everybody	8	5	2	5	9	4	4	5	3	0	3	7	2	13	4	3	77	23.5
No one	0	0	1	0	0	1	0	2	0	1	0	0	0	0	1	1	7	2.1

Galle (Continued)

District		Galle																Total	
Division		Bentota	Elpitiya	Niyagama	Tawalama	Neluwa	Nagoda	Karandeniya	Ambalangoda	Balapitiya	Hikkaduwa	Baddegama	Yakkalamulla	Akmimana	Bope-Poddala	Galle	Habaraduwa		
10. Do you receive benefits from the tourism industry?	Yes	4	5	12	4	7	1	4	8	9	11	5	1	5	4	6	6	92	28.1
	No	14	15	6	12	10	17	15	11	6	6	14	13	17	15	11	10	193	59.0
	Doubtful	2	0	0	4	1	2	3	0	4	5	1	6	0	0	2	3	33	10.1
	Others	0	0	2	0	2	0	0	1	1	0	0	0	1	0	1	1	9	2.8
11. Do you want to be engaged in the tourism industry?	Yes	12	7	12	11	13	18	1	7	10	14	8	0	6	5	6	3	133	40.7
	No	8	13	8	9	7	2	21	13	10	8	12	20	17	15	14	17	194	59.3
12. Do you want the tousim industry, for example hotels, to develop this area?	Yes	0	11	12	11	15	18	0	9	15	4	10	2	16	4	7	6	140	42.8
	No	20	9	8	9	5	2	22	11	5	18	10	18	7	10	13	14	181	55.4

Source : JICA Stusy Team

Malara

District	Matara														Total	
Division	Kotapola	Pasgoda	Mulatiyana	Akuressa	Malimboda	Kamburupitiya	Hakmana	Dikwella	Thihagoda	Weligama	Matara	Devinuwara	Pitabeddara	Welipitiya		
Total No. of Answer	20	20	20	20	20	20	20	20	20	20	20	20	20	20	280	100.0
Male	14	11	11	10	16	10	7	9	11	14	13	12	11	16	165	58.9
Female	6	9	9	10	4	10	13	11	9	6	7	8	9	4	115	41.1
Average Age	32.0	35.5	36.1	41.8	37.7	32.8	32.4	36.9	30.3	35.1	40.4	38.1	35.4	36.2		
1. Do you think that tourism is important industry in Sri Lanka?																
Very important	7	3	2	5	2	6	4	3	1	2	3	7	5	3	53	18.9
Important	11	17	16	15	16	10	13	16	16	14	17	13	11	16	201	71.8
Not so important	2	0	2	0	2	4	3	1	3	4	0	0	4	1	26	9.3
2. Which do you think is the most important industry																
Agriculture	11	13	12	10	6	8	8	9	11	12	11	8	12	13	144	51.4
Marine Products	0	0	0	1	0	0	0	2	0	0	2	0	1	0	6	2.1
Transportation	0	0	0	1	0	0	1	0	0	0	0	0	0	2	4	1.4
Tourism	1	0	0	1	0	3	2	0	3	0	0	1	1	0	12	4.3
Construction	0	1	0	0	0	2	0	1	1	1	0	1	0	0	7	2.5
Manufacturing	8	5	4	4	14	5	5	8	5	5	6	6	4	5	86	30.7
Commerce	0	1	3	2	0	1	3	0	0	1	1	1	2	0	15	5.4
Others	0	0	1	0	0	0	1	0	0	1	0	0	0	0	3	1.1
3. Which do you think employs the most people?																
Agriculture	9	6	14	6	2	7	5	4	8	6	5	4	5	4	85	30.4
Marine Products	1	1	0	0	0	0	1	2	1	0	2	1	0	0	9	3.2
Transportation	0	0	0	1	0	1	0	1	0	0	0	0	0	0	3	1.1
Tourism	0	0	0	0	0	3	2	0	2	0	1	1	0	0	9	3.2
Construction	1	0	0	0	0	1	2	0	1	0	1	1	0	3	10	3.6
Manufacturing	9	13	4	12	18	7	6	12	8	13	11	13	14	12	152	54.3
Commerce	0	0	2	0	0	1	3	1	0	1	0	0	1	0	9	3.2
Others	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
4. What kind of jobs do you think are important?																
Agriculture	9	8	12	8	5	8	4	9	10	10	6	4	7	5	105	37.5
Construction	2	1	2	1	4	7	3	1	2	2	1	0	3	1	30	10.7
Bank	2	2	2	5	4	2	5	3	3	2	6	3	6	2	47	16.8
Tourism	0	0	0	0	0	2	1	1	0	0	1	2	1	0	8	2.9
Sale	5	9	2	3	3	1	7	5	4	5	3	6	2	12	67	23.9
Others	2	0	2	3	4	0	0	1	1	1	3	5	0	0	22	7.9
5. Which factor is the most important to foreigners who visit Sri Lanka?																
Historic ruins (exp. Buddhistic)	5	9	9	4	5	5	6	3	6	4	7	5	10	9	87	31.1
Scenery	9	5	7	11	9	14	7	5	12	9	6	4	5	6	109	38.9
Hospitality	0	1	2	2	0	0	1	10	1	2	3	6	0	1	29	10.4
Beach	1	4	2	1	0	1	0	2	1	4	2	1	3	3	25	8.9
National park	0	0	0	1	0	0	3	0	0	1	0	0	0	0	5	1.8
Shopping	1	1	0	0	3	0	2	0	0	0	2	4	1	0	14	5.0
Others	4	0	0	0	2	0	0	0	0	0	0	0	1	1	8	2.9
6. Which industry causes the most environmental polution in Sri Lanka?																
Agriculture	0	0	1	2	0	1	2	0	1	0	1	0	1	0	9	3.2
Manufacturing	16	13	14	8	10	12	12	14	15	11	11	11	9	16	172	61.4
Transport	2	5	3	8	9	5	5	5	3	8	5	7	5	2	72	25.7
Tourism	1	1	2	2	1	1	1	1	0	1	3	2	5	2	23	8.2
Others	1	0	0	0	0	1	0	0	0	0	0	0	0	0	2	0.7
7. What image do you have of tourists who visit Sri Lanka?																
Rich	8	7	9	9	6	10	8	6	7	11	7	5	8	7	108	38.6
Friendly	6	9	10	7	10	7	4	12	10	8	12	13	4	9	121	43.2
I do feel they are tourists	3	4	1	3	4	2	8	1	0	1	1	2	6	4	40	14.3
8. How do you feel about foreign tourist's visiting?																
Positive	5	3	4	4	7	4	5	5	5	4	3	3	6	8	66	23.6
Somewhat Positive	13	16	15	15	11	12	11	13	14	12	12	14	10	9	177	63.2
Somewhat negative	2	1	1	0	2	2	3	1	0	3	3	3	2	0	23	8.2
Negative	0	0	0	0	0	1	1	1	0	1	2	0	2	2	10	3.6

Matara (Continued)

District		Matara														Total	
	Division	Kotapola	Pasgoda	Mulatiyana	Akuressa	Malimboda	Kamburupitiya	Hakmana	Dikwella	Thihagoda	Welingama	Matara	Devinuwara	Pitabeddara	Welipitiya		
9. Who do you think gets benefits in the tourism industry?																	
	Government	7	4	2	2	2	3	2	4	4	4	3	2	1	1	41	14.6
	Hotels	3	8	4	4	4	4	14	8	10	6	8	6	6	6	91	32.5
	Private companies	3	1	4	4	4	11	4	0	4	2	3	1	4	4	49	17.5
	Merchant	0	0	0	0	2	0	0	1	1	0	0	3	0	0	7	2.5
	Everybody	0	7	10	10	8	2	0	7	1	7	4	8	9	9	82	29.3
	No one	7	1	0	0	0	0	0	0	0	1	1	0	0	0	10	3.6
10. Do you receive benefits from the tourism industry?																	
	Yes	2	3	3	6	7	2	3	5	2	3	8	6	4	6	60	21.4
	No	13	14	12	11	7	18	14	12	15	15	6	11	10	7	165	58.9
	Doubtful	4	3	5	3	6	0	1	2	3	2	5	2	4	7	47	16.8
	Others	1	0	0	0	0	0	2	1	0	0	1	1	2	0	8	2.9
11. Do you want to be engaged in the tourism industry?																	
	Yes	5	11	2	10	6	3	5	7	3	2	7	3	5	1	70	25.0
	No	15	9	18	10	14	17	15	13	17	18	13	17	15	19	210	75.0
12. Do you want the tousim industry, for example hotels, to develop this area?																	
	Yes	7	13	3	11	8	8	8	12	8	7	8	5	4	6	108	38.6
	No	13	7	17	9	12	12	12	8	12	13	12	15	16	14	172	61.4

Source : JICA Stusy Team

Hambantota

District	Hambantota											Total	
Division	Weeraketiya	Angunakolapelessa	Ambalantota	Hambantota	Sooriyawewa	Lunugamwehera	Tissamaharama	Tangalla	Beliatta	Okewela	Katuwana		
Total No. of Answer	25	25	25	25	25	25	25	25	25	25	25	275	100.0
Male	20	16	16	15	14	20	16	11	17	15	16	176	64.0
Female	5	9	9	10	11	5	9	14	8	10	9	99	36.0
Average Age	36.8	37.9	36.1	32.1	33.0	34.0	35.2	36.4	32.3	39.7	31.4		
1. Do you think that tourism is important industry in Sri Lanka?													
Very important	3	3	4	7	2	4	4	1	5	2	0	35	12.7
Important	18	18	19	16	23	16	18	18	16	19	23	204	74.2
Not so important	4	4	2	2	0	5	3	6	4	4	2	36	13.1
2. Which do you think is the most important industry?													
Agriculture	20	21	20	8	23	20	21	15	17	21	21	207	75.3
Marine Products	1	2	2	14	0	1	1	7	0	0	0	28	10.2
Transportation	0	0	0	0	0	0	0	0	0	0	0	0	0.0
Tourism	0	0	0	0	0	0	1	2	0	1	0	4	1.5
Construction	0	0	0	0	0	1	0	1	1	0	0	3	1.1
Manufacturing	2	1	2	3	1	1	1	0	4	2	1	18	6.5
Commerce	0	1	1	0	1	0	0	0	2	1	2	8	2.9
Others	2	0	0	0	0	2	1	0	1	0	1	7	2.5
3. Which do you think employs the most people?													
Agriculture	20	23	23	8	25	24	24	16	20	22	21	226	82.2
Marine Products	0	0	0	16	0	0	0	7	0	0	0	23	8.4
Transportation	0	0	0	0	0	0	0	0	1	0	0	1	0.4
Tourism	0	0	0	0	0	0	0	1	0	0	0	1	0.4
Construction	0	0	0	0	0	0	0	0	0	0	0	0	0.0
Manufacturing	0	0	1	1	0	1	0	1	0	2	2	8	2.9
Commerce	5	1	1	0	0	0	1	0	2	1	2	13	4.7
Others	0	1	0	0	0	0	0	0	2	0	0	3	1.1
4. What kind of jobs do you think are important?													
Agriculture	13	17	9	1	15	13	15	13	10	10	12	128	46.5
Construction	0	0	1	0	0	1	1	0	0	2	2	7	2.5
Bank	6	1	2	1	3	0	4	3	1	3	2	26	9.5
Tourism	0	0	0	0	0	0	0	1	0	0	0	1	0.4
Sale	3	3	4	7	3	3	1	4	6	4	4	42	15.3
Others	3	4	9	16	4	8	4	4	8	6	5	71	25.8
5. Which factor is the most important to foreigners who visit Sri Lanka?													
Historic ruins (exp. Buddhistic)	13	11	6	4	7	7	10	3	11	10	9	91	33.1
Scenery	9	10	14	14	14	9	9	9	10	11	12	121	44.0
Hospitality	1	0	0	0	0	0	0	0	1	0	1	3	1.1
Beach	0	0	1	0	1	1	0	9	0	0	1	13	4.7
National park	2	0	3	4	0	4	5	3	3	1	1	26	9.5
Shopping	0	0	0	0	0	1	1	0	0	0	0	2	0.7
Others	0	4	1	3	3	3	0	1	0	3	1	19	6.9
6. Which industry causes the most environmental pollution in Sri Lanka?													
Agriculture	2	8	2	0	0	0	1	0	4	3	2	22	8.0
Manufacturing	10	7	11	13	12	15	9	7	11	8	11	114	41.5
Transport	9	5	10	2	8	5	8	11	9	7	9	83	30.2
Tourism	0	0	0	0	0	2	1	2	0	0	0	5	1.8
Others	4	5	2	10	5	3	6	5	1	7	3	51	18.5
7. What image do you have of tourists who visit Sri Lanka?	25	25	25	25	25	25	25	25	25	25	25	275	100.0
Rich	9	7	1	5	3	10	3	4	3	3	3	51	18.5
Friendly	3	5	7	7	4	5	9	4	6	2	2	54	19.6
I do feel they are tourists	13	13	17	13	18	10	13	17	16	20	20	170	61.8
8. How do you feel about foreign tourists visiting?													
Positive	6	11	6	6	3	12	14	2	7	5	6	78	28.4
Somewhat Positive	14	11	15	12	12	11	8	16	13	16	13	141	51.3
Somewhat negative	1	2	2	4	7	1	1	2	2	2	3	27	9.8
Negative	4	1	2	3	3	1	2	3	3	1	3	26	9.5

Hambantota (Continued)

District	Hambantota											Total	
Division	Weeraketiya	Angunakolapelessa	Ambalantota	Hambantota	Sooriyawewa	Lunugamwehera	Tissamaharama	Tangalla	Beliatta	Okewela	Katuwana		
9. Who do you think gets benefits in the tourism industry?													
Government	3	2	6	2	5	3	2	1	4	3	2	33	12.0
Hotels	13	17	8	21	14	14	16	15	12	15	18	165	60.0
Private companies	4	3	8	2	2	4	4	4	6	5	3	45	16.4
Merchant	1	0	0	0	2	0	0	1	2	0	0	6	2.2
Everybody	2	3	3	0	2	3	3	4	1	1	2	24	8.7
No one	0	0	0	0	0	1	0	0	0	1	0	2	0.7
10. Do you receive benefits from the tourism industry?													
Yes	4	7	5	6	6	13	12	10	2	3	5	73	26.5
No	16	14	10	10	16	11	11	6	13	14	14	135	49.1
Doubtful	3	3	10	9	3	1	2	9	10	7	6	63	22.9
Others	0	0	0	0	0	0	0	0	0	0	0	0	0.0
11. Do you want to be engaged in the tourism industry?													
Yes	15	16	16	14	14	19	14	11	12	14	14	159	57.8
No	10	9	9	11	11	6	11	14	13	11	11	116	42.2
12. Do you want the tousim industry, for example hotels, to develop this area?													
Yes	19	16	18	22	19	18	22	11	18	17	15	195	70.9
No	6	9	7	3	6	7	3	14	7	8	10	80	29.1

Source : JICA Stusy Team

Moneragala

District	Moneragala							Total
Division	Moneragala	Siyambalanduwa	Buttala	Wellawaya	Tanamalwila	Kataragama		
Total No. of Answer	20	20	20	20	20	20	120	100.0
Male	15	15	15	15	15	14	89	74.2
Female	5	5	5	5	5	6	31	25.8
Average Age	37.0	35.7	38.2	33.0	35.5	34.9		
1. Do you think that tourism is important industry in Sri Lanka?								
Very important	9	4	0	4	2	4	23	19.2
Important	7	14	17	16	13	14	81	67.5
Not so important	4	2	3	0	5	2	16	13.3
2. Which do you think is the most important industry?								
Agriculture	17	14	19	9	16	17	92	76.7
Marine Products	1	2	0	0	0	0	3	2.5
Transportation	0	0	0	1	0	0	1	0.8
Tourism	0	0	0	2	0	0	2	1.7
Construction	0	0	0	0	0	0	0	0.0
Manufacturing	2	1	0	2	4	2	11	9.2
Commerce	0	3	1	5	0	1	10	8.3
Others	0	0	0	1	0	0	1	0.8
3. Which do you think employs the most people?								
Agriculture	19	18	20	18	19	17	111	92.5
Marine Products	0	1	0	0	0	0	1	0.8
Transportation	0	0	0	0	0	1	1	0.8
Tourism	0	0	0	0	0	0	0	0.0
Construction	0	0	0	0	0	0	0	0.0
Manufacturing	1	0	0	1	1	2	5	4.2
Commerce	0	1	0	1	0	0	2	1.7
Others	0	0	0	0	0	0	0	0.0
4. What kind of jobs do you think are important?								
Agriculture	12	13	15	5	13	15	73	60.8
Construction	1	1	0	1	0	0	3	2.5
Bank	1	0	1	9	4	2	17	14.2
Tourism	1	0	1	2	0	1	5	4.2
Sale	3	2	3	3	0	1	12	10.0
Others	2	4	0	0	3	1	10	8.3
5. Which factor is the most important to foreigners who visit Sri Lanka?								
Historic ruins (exp. Buddhistic)	5	7	5	4	12	15	48	40.0
Scenery	14	9	12	13	4	1	53	44.2
Hospitality	1	2	0	0	0	2	5	4.2
Beach	0	1	2	1	1	1	6	5.0
National park	0	0	0	0	1	1	2	1.7
Shopping	0	1	0	0	1	0	2	1.7
Others	0	0	1	2	1	0	4	3.3
6. Which industry causes the most environmental pollution in Sri Lanka?								
Agriculture	3	1	1	3	0	0	8	6.7
Manufacturing	11	16	15	13	18	13	86	71.7
Transport	4	2	4	4	2	6	22	18.3
Tourism	0	0	0	0	0	0	0	0.0
Others	2	1	0	0	0	1	4	3.3
7. What image do you have of tourists who visit Sri Lanka?								
Rich	9	14	13	10	10	1	57	47.5
Friendly	1	4	4	3	2	16	30	25.0
I do feel they are tourists	10	2	3	7	8	3	33	27.5
8. How do you feel about foreign tourists visiting?								
Positive	10	6	5	8	3	3	35	29.2
Somewhat Positive	8	13	10	9	13	17	70	58.3
Somewhat negative	1	1	4	3	1	0	10	8.3
Negative	1	0	1	0	3	0	5	4.2
9. Who do you think gets benefits in the tourism industry?								
Government	7	1	5	1	3	6	23	19.2
Hotels	6	14	13	9	5	8	55	45.8
Private companies	2	1	1	3	6	4	17	14.2
Merchant	3	0	1	0	0	1	5	4.2
Everybody	2	4	0	7	4	1	18	15.0
No one	0	0	0	0	2	0	2	1.7

Moneragala (Continued)

District	Moneragala						Total	
Division	Moneragala	Siyambalanduwa	Buttala	Wellawaya	Tanamalwila	Kataragama		
10. Do you receive benefits from the tourism industry?								
Yes	5	3	3	3	2	4	20	15.7
No	12	14	17	13	18	15	89	74.2
Doubtful	3	3	0	4	0	1	11	9.2
Others	0	0	0	0	0	0	0	0.0
11. Do you want to be engaged in the tourism industry?								
Yes	6	10	4	8	1	7	36	30.0
No	14	10	16	12	19	13	84	70.0
12. Do you want the tousim industry, for example hotels, to develop this area?								
Yes	12	15	10	15	4	10	66	55.0
No	8	5	10	5	16	10	54	45.0

Source : JICA Stusy Team

Services

SECTOR REPORT 2 INDUSTRY, TOURISM AND SERVICES

PART 3 TRADE AND OTHER SERVICES

This Part deals with the whole range of commercial activities related to the distribution of commodities (i.e., wholesale and retail trade) and the provision of various services. The scope is fairly wide but particular attention is given to a few selected aspects. They are the distribution of food commodities, especially vegetables, fruits, meat and fresh fish, transportation (trucking) services, and financial services.

CHAPTER 1 EXISTING SERVICES

1.1 Overview

The divisional socio-economic database compiled by the Study Team provides the number of trade establishments and banks and their employment by division as shown in Table 1.1. Detailed figures of trade and service units are also available for 45 selected urban centers in Southern Area (MFPEANI, *Southern Area Development Programme: Study of Urban Centers*, Final Report, December 1995). Table 1.2 summarizes some of the data. Based on the above data, coupled with field observations, one can generally describe the sector as follows.

Consumer commodities can be grouped into three major categories:

1) perishable food items (vegetables, fruits, fish, meat);
2) less perishable food items (rice, pulses, potatoes, onions, dried spice, dried fish); and
3) other items (manufactured goods).

Wholesale and retail trade is distinctively organized along with these categories. Retail outlets are fairly ubiquitous in the Southern Area. Essential food commodities as well as basic manufactured goods are readily available even in remote villages.

One unique feature of Sri Lanka's distribution system is *pola* (periodic market). Two types of *pola* exist. One is consumers' *pola* where consumers meet retail merchants. The other is producers' *pola* where producers (farmers) meet wholesale buyers. Generally, each division has at least one consumers' *pola* in a major town. Most of them are weekly, but

Table 1.1 Trade Establishments and Banks by Division

No. Division	Retail Establishment		Wholesale Establishment		State-Owned Bank		Private Bank	
	Unit	Employ-ment	Unit	Employ-ment	Unit	Employ-ment	Unit	Employ-ment
1 Bentota	247	250	4	16	7	78	0	0
2 Elpitiya	180	200	5	144	4	73	0	0
3 Niyagama	133	135	1	7	3	47	0	0
4 Tawalama	246	249	1	49	4	62	0	0
5 Neluwa	256	270	2	16	1	12	0	0
6 Nagoda	571	602	12	108	3	48	2	7
7 Karandeniya	664	680	2	16	2	34	8	13
8 Ambalangoda	510	720	29	238	4	61	3	12
9 Balapitiya	272	346	1	16	2	44	0	0
10 Hikkaduwa	927	1,100	4	60	2	31	1	6
11 Baddegama	680	720	12	120	4	62	0	0
12 Yakkalamulla	364	372	1	10	2	19	0	0
13 Akmimana	294	302	2	12	0	0	0	0
14 Bope-Poddala	594	620	2	25	3	48	2	10
15 Galle	5,529	8,295	68	816	7	280	3	79
16 Habaraduwa	886	1,772	8	29	4	140	4	60
Galle District	12,353	16,633	154	1,682	52	1,039	23	187
17 Kotapola	178	440	7	82	4	80	1	30
18 Pasgoda	62	97	2	6	2	48	0	0
19 Mulatiyana	579	954	6	46	1	25	0	0
20 Akuressa	830	866	8	51	4	120	1	28
21 Malimboda	401	504	2	17	0	0	0	0
22 Kamburupitiya	316	397	6	29	3	80	0	0
23 Hakmana	812	876	1	4	3	130	0	0
24 Dikwella	386	425	7	13	4	140	0	0
25 Thihagoda	364	446	3	6	2	85	0	0
26 Weligama	810	3,240	22	215	3	130	0	0
27 Matara	1,403	3,360	144	1,490	10	380	6	308
28 Devinuwara	265	495	0	0	3	110	0	0
29 Pitabeddara	148	262	2	9	2	66	0	0
30 Welipitiya	346	502	0	0	1	36	0	0
Matara District	6,900	12,864	210	1,968	42	1,430	8	366
31 Weeraketiya	359	597	8	n.a.	4	21	0	0
32 Angunakolapelessa	211	369	0	0	2	23	0	0
33 Ambalantota	393	706	8	n.a.	4	24	1	n.a.
34 Hambantota	691	2,123	8	69	2	61	1	14
35 Sooriyawewa	286	413	0	0	2	35	0	0
36 Lunugamwehera	44	87	0	0	1	8	0	0
37 Tissamaharama	500	718	0	0	2	28	2	n.a.
38 Tangalla	471	527	0	0	2	46	0	0
39 Beliatta	186	n.a.	0	0	5	25	1	14
40 Okewela	57	n.a.	0	0	1	2	0	0
41 Katuwana	153	364	0	0	2	15	0	0
Hambantota District	3,351	5,904	24	69	27	288	5	28
42 Moneragala	289	410	2	21	4	62	1	18
43 Siyambalanduwa	21	45	1	5	3	12	0	0
44 Buttala	235	410	1	n.a.	3	59	1	6
45 Wellawaya	18	62	2	9	5	32	0	0
46 Tanamalwila	337	710	5	12	3	21	0	0
47 Kataraganya	130	310	1	8	2	27	0	0
Moneragala District	1,030	1,947	12	59	20	213	2	24
48 Embilipitiya	112	331	15	44	5	67	3	43
49 Kolonna	50	100	0	0	0	0	0	0
Ratnapura District	162	431	15	44	5	67	3	43
50 Lahugala	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ampara District	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: District totals execlude figures which are not available.

Source: Divisional Database compiled by the Team (originally from Provincial Secretaries Office and Divisional Secretariat).

Table 1.2 Trade and Service Establishments for Selected Urban Centers

No Division	Urban Center	Reatail shop	Tea boutique	Cooperative outlet	Vegetable shop	Fish / meat stall	Stationary &book	Pharmacy	CWE outlet	Petrol station	Motor garage	Salon / beauty parlor	Laundry	Tailor	Watch, TV & radio repair	Video center	Cinema	Coop credit society	Financial institution	Pola
1 Bentota	Bentota	28	4	1			1	2	1		2	1			1			1	3	
2 Elpitiya	Elpitiya	113	16	1				8	1	1	3			4				1	5	1
5 Neluwa	Neluwa	75	4	1				1		1	5	2	1						2	1
7 Karandeniya	Uragasmanhandiya	19	6	1		2	2			1	2	1		3	1		1		2	1
8 Ambalangoda	Ambalangoda	63	6	3		3				2	3	1					1		1	1
9 Balapitiya	Balapitiya	21	11	3					1		2	1							1	
	Kosgoda	19	7	2		2						2		2	1				1	
	Watugedara	207	2	6		2	5				8	5		17	2			3	2	
10 Hikkaduwa	Hikkaduwa	56	27	2				3	1	1	1	2		1					4	
	Dodanduwa	66	9	6				1		2	6			1	2	1		1		
11 Buddegama	Baddegama	109	2	1						1	1	5	1	4					2	1
13 Akmimana	Akmimana	32	14	3		4					4	1		2						
15 Galle	Galle	864	184	31		7	4	17	4	4	78	17	7	17	10	1		2	26	
16 Habaraduwa	Habaraduwa/ Ahangama	114	43	3		3	1	1	1	1	13	5		8	2	1			4	1
17 Kotapola	Deniyaya	252	25	1		3		4	1	1	4	4		3			1		4	1
18 Pasgoda	Urubokka	37	4					1		1	4			1					3	1
20 Akuressa	Akuressa	250	8	3		2	2	8	1	3	10	8		6	1		1		6	1
22 Kamburupitiya	Kamburupitiya	104	19	1		6	3			2	11	2	4	7	3	3	1	1	5	1
23 Hakmana	Hakmana	82	18	1				4	1	2	4	2		1				1	4	
24 Dikwella	Dikwella	176	7	1		1	1	2	1	1	8	5	3	8		1	1	3	6	1
26 Weligama	Weligama	319	17	2		1	3	4	1	2	14	4	8	2	2		1	1	9	2
27 Matara	Matara	1,521	156	12		8	5	15	3	7	68	21		18	7		4	1	33	1
29 Pitabeddara	Morawaka	88	13	2			2	2		1	5	5	3	5					4	1
31 Weeraketiya	Weeraketiya	93	23					5	1	1	11	4		10	3				2	1
32 Angunakolapelessa	Augunakolapelessa	45	12	1		1		1		1	10	4	3	3	2		1		4	1
33 Ambalantota	Ambalantota	171	14	1		1		5		2	11	2		4	1	2	3	1	7	2
	Hungama	51	5	2		6				1	7	3	1	1					1	1
34 Hambantota	Hambantota	124	24			64	2	3	2	1	7	3	1	6	6	1	1	1	4	1
35 Sooriyawewa	Sooriyawewa	107	30	4		6	2			1	16	5	1	10	1				5	1
36 Lunugamwehera	Lunugamwehera	38	11						2	1	3	1		2				1	1	1
37 Tissamaharama	Tissamaharama	153	47	4				2		2	25	2		5			1		8	1
38 Tangalla	Tangalla	131	27	2		2	2	1	1	1	9	5		6	2	1		1	4	1
	Ranna	26	6								2	3		7	1				1	1
39 Beliatta	Beliatta	89	19			16				2	8	5	1	5	1		2		10	1
40 Okewela	Walasmulla	130	20	3				5	2	1	2	6	8	2	1	1	2		2	1
41 Katuwana	Katuwana	91	21	2		1		1	2		5	5		3	1				4	1
	Kirama	55	4								2	1	1						2	1
	Middeniya	110	16	1		2		1		1	6	2	1	8					3	2
42 Moneragala	Moneragala	161	37	1		1	2	5			25	8	2	15	7	1	1		9	2
43 Siyambalanduwa	Siyambalanduwa	45	11			5				1	4	2	1	1	1				3	1
44 Buttala	Buttala	102	23					1	1	2	3	2	1	1					2	
45 Wellawaya	Wellawaya	125	41	2		22		2	2	2	13	8		12	6	2	1	2	4	1
46 Tanamalwila	Tanamalwila	82	14	1		6				1	3		1	2				1	2	1
47 Kataragama	Kataragama	450	78						1	1									3	
48 Embilipitiya	Embilipitiya	255	73	3			1			2	30	6		14	4		2		10	2

Source: Compiled from Ministry of Finance, Planning, Ethnic Affairs and National Integration,
Southern Area Development Programme: Study of Urban Centers. Final Report. December 1995.

those in large urban centers are open two or three times a week or even daily. Producers' *pola* are located in major production areas. *Pola*, on the one hand, is a good way to achieve scale economies in rural retail trade and, on the other, to provide vital market access to smallholder farmers.

The services sector is largely underdeveloped in Southern Area. A limited scope of services are available only in major urban centers. However, trucking and banking are exceptions. Lorries are in high demand across the region for transporting a variety of cargoes. The network of financial institutions is fairly fine. Typically, a major town has more than one bank branch while cooperative credit societies and other rural financial institutions keep offices in smaller towns as well.

1.2 Commercial Trade

1.2.1 Manufactured goods

Most manufactured goods available in Southern Area are either produced in and around Colombo or imported via the Colombo port. One notable exception is a food-processing company in Matara whose products like rice flour and coconut oil are sold nationwide.

Major manufacturers keep their own distribution networks. Typically, regional distributors are set up in regional cities (like Matara) and they deliver the commodities to retailers either on demand or, more commonly, on a regularly scheduled replenishment basis.

For other commodities, retailers themselves go to Pettah, Colombo's wholesale district, and purchase the needed lots. They then use a lorry to transport them.

1.2.2 Rice and subsidiary food crops

The distribution of rice in Sri Lanka is now largely in the private hands. As far as Southern Area is concerned, major rice supply areas are Hambantota district (to Galle and Matara districts) and Kalmunai, Ampara district (to Moneragala district, particularly areas along the A4 road). Some portion is supplied through the Colombo market as well, notably the high-priced samba variety grown in the northwest.

Subsidiary food crops here include pulses (dhal, greengram, etc.), potato, onion (big and red) and dried chilies. These items are almost exclusively distributed by large wholesalers (commission agents, import licensees, Cooperative Wholesale Establishment) located in Colombo. Local wholesalers either come to Colombo regularly to purchase them or replenish their stock from the lorries commissioned by the Colombo wholesalers to cater to local wholesalers. The latter is a much preferred way for the small-scale local wholesalers (most of whom are retailers as well), because it is relatively carefree.

1.2.3 Vegetables and fruits

Of all the commodities traded in Southern Area (or perhaps in Sri Lanka, too), vegetables and fruits are the ones that show the most complicated distribution patterns. In fact, a very fine, multi-tier ramification exists connecting a number of production areas to numerous retail outlets scattered throughout the region. As items essential to everyday life, those commodities are traded and consumed in a large volume. Accordingly, a considerable portion of economic activity being carried out in the region is devoted one way or another to this aspect.

Two factors determine how one particular crop is traded: perishability and ubiquity. Distribution patterns vary as outlined below according to these two attributes.

(1) Highly perishable, highly ubiquitous

Greens (leafy vegetables) and coconuts are typical examples in this group. For those crops marketing area is limited. Local agents usually collect the produce from the farmers and sell to the local retailers.

(2) Highly perishable, less ubiquitous

Most vegetables and fruits belong to this group. Their production is under a strong influence of climatic conditions. In Sri Lanka it is customary to classify the vegetables into two groups: up-country and low-country varieties. Up-country vegetables include carrot, tomato, bean, cabbage, beet root and leek. Those are crops basically introduced during the colonial period (and hence "English" vegetables, as they are also called). Their single dominant supply area for the South is Bandarawela (Badulla district) and its vicinity. Low-country vegetables, by contrast, are mostly indigenous varieties like snake gourd, drumstick, cucumber, brinjal, ladies fingers (okra), pumpkin and green chili. Their production is concentrated in Hambantota and Moneragala districts, where a sizable amount is grown on *chena* (slush-and-burn cultivation) land.

Distribution channels of those vegetables are fairly diverse. It is *not* the case that a few regional wholesalers dominate the whole trade, and distribution is organized hierarchically. Rather, a number of local wholesalers are operating in each large city or medium-scale town catering for the local retailers in and around their home town. It is also very common that retailers themselves go to the supply areas regularly. To minimize transport cost, they usually hire a lorry jointly to send their purchases back home.

(3) Less perishable, highly ubiquitous

Manioc (cassava) and various yam are examples. Generally, such crops are of low market value and produced mainly for self-consumption.

(4) Less perishable, less ubiquitous

Potato, big onion and red onion represent this group. Main production centers are Bandarawela and Nuwara Eliya for potatoes and Dambulla (Matale district) for onions. Since long-term storage is possible, those crops are traded in bulk by large wholesalers. Their distribution channels are thus totally separate from those of other vegetables. In fact, vegetable vendors usually do not carry potatoes or onions; those are available only at grocery stores along with rice, pulses, spices, dried fish, etc.

A few more general characteristics may be pointed out about the vegetable and fruit trade. First, it is very rare for the farmer to sell (retail) his produce for himself at consumers' *pola*. Practically all vegetable vendors seen at consumers' *pola* are merchants. Second, no vegetables or fruits are put up to auction at producers' *pola*. All deals are struck personally between the farmer and the collector/agent/middleman. Third, there can be unnecessarily many middlemen involved between the producer and the consumer. Fourth, retail price differentials are surprisingly small throughout Southern Area (except for the main production areas, naturally) in spite of the above facts (Table 1.3). This attests the market's ability to function reasonably well. Fifth and lastly, it is also surprising to note that vegetable prices are very high relative to wage levels. A daily wage of Rs. 100 is common whereas most vegetables sell at Rs. 20-30 per kilogram. Despite the relatively high prices, vegetables nonetheless sell briskly supporting a number of vendors' and shopkeepers' modest earning even in a small town. This is rather a puzzling fact but suggests a possibility of greatly benefiting both the producer and the consumer by streamlining the market function.

Table 1.3 Prices of Selected Food Items

Item	Southern Area 29 Oct.--9 Nov. 95 Retail (Rs/kg) Range	Average	No.	Colombo 3 Nov.--9 Nov. 95 Retail (Rs/kg)	Wholesale (Rs/kg)
Samba rice	22.50-26.00	24.50	7	23.33-25.43	21.07-24.18
Raw (red) rice	15.00-18.00	16.25	6	19.73	17.85
Raw (white) rice	13.50-16.50	14.50	10	17.24	15.53
Dhal	42-56	36.75	8	43.70	36.33
Big onion	30-38	31.21	14	38.93	29.74
Potato	28-52	46.53	17	51.68-58.10	40.54-46.00
Beans	20-30	27.33	15	33.56	15.70
Beetroot	24-30	28.00	8	36.22	13.94
Cabbage	20-26	21.86	14	29.20	7.05
Carrot	20-40	27.65	17	31.23	11.30
Leek	20-28	26.00	8	32.16	9.30
Tomato	24-36	30.69	16	37.77	15.47
Brinjal	16-28	21.23	13	32.44	9.90
Cucumber	12-16	13.20	5	21.60	7.68
Green chillie	20-50	34.43	14	54.61	24.75
Green pepper (Malu)	12-40	28.67	12	n.a.	n.a.
Lady's fingers (Okra)	14-28	21.00	10	28.28	8.65
Pumpkin	10-16	12.69	13	17.90	5.60
Snake gourd	10-16	13.00	8	24.34	6.81
Sweet potato	12-18	13.83	6	16.72	7.79
Beef	75-90	82.50	6	85-100	n.a
Chicken	100-120	106.67	3	90-100	n.a
Egg	2.75-3.25	2.87	10	2.33	n.a
Tuna	100-120	116.67	6	145.21	75.00
Bonito	80-100	95.00	4	111.96	58.89

Sources: For Southern Area, interviews with retailers;
For Colombo, Agrarian Research and Training Institute, Food Commodities Bulletin Vol.17, No.45.

1.2.4 Plantation crops

Tea, coconuts and rubber are the three major plantation crops grown in Sri Lanka. As commodities traded for centuries in the world markets, they have their own, firmly established systems of trading and distribution. Auction markets are regularly held for tea, fresh coconuts, copra and rubber, respectively, in Colombo. Transactions are in bulk; the sellers are large-scale corporate estates and brokers whereas manufacturers and exporters are the buyers. Quoted prices are immediately made public and referred to nationwide as the indicative prices.

Smallholder growers are not directly involved in the auctions. Instead they usually sell their harvest to collectors at the farm gate or, in the case of tea leaf, to tea factories nearby. The Colombo auction prices do not regulate the farm gate prices but nonetheless have direct influence on them. For instance, tea factories as a rule set the tea leaf price at 32% of the respective average tea price recorded in the previous month. Also, even though only a tiny fraction of fresh coconuts produced nationally are auctioned in Colombo, local markets readily take their cue from the quotations. Thus, compared with consumer perishables, those plantation crops have fairly transparent mechanisms of price formation.

1.2.5 Meat and poultry

Beef, mutton and goats are mostly provided from local slaughterhouses to retailers. For some unknown reasons, the number of shops is deliberately limited to one or two even in large cities like Galle and Matara. Common practice is that meat stalls in the market place are annually put in a tender and rented out to the highest bidder. The tender prices are substantial: Rs. 15,000 per month in Galle, Rs. 550,000 per year in Matara, and Rs. 1,800 per day in Embilipitiya, for instance.

Chicken is available for retail either from national poultry producers or from local chicken farms. One national firm is establishing its own retail outlet chain, but their location is so far limited to large urban centers. Unlike meat and poultry which are sold only in cities and medium-scale towns, eggs are available in smaller towns, too. There exist a number of local chicken farms supplying retailers (usually grocers) under their own distribution networks. The prices of meat, poultry and eggs are fairly uniform in Southern Area.

1.2.6 Fish

Fresh sea fish is a very popular food item in Sri Lanka. However, lack of cold storage facilities confines its distribution to localities along the coast and to large markets in the interior. A significant part of the catches in Southern Area's waters is daily supplied to the Colombo market through the local agents working at respective fishing harbors. The rest is sold directly to local retailers. Retailers are mostly shopkeepers at the market place and vendors at *pola*, but, unlike vegetables or meat, peddlers also cater to urban as well as rural consumers. Prices are again quite uniform even in the interior. However, if quality is taken into account, fish prices in the interior markets are substantially higher than those in the coastal markets.

Inland freshwater fish are usually caught and sold by the same fisherman/vendor. Their market area is small since supply is ubiquitous and abundant from numerous rivers and tanks.

Even though demand is high for a variety of dried fish, its production is negligible in Southern Area. Virtually all the supply comes to the Area through the Colombo wholesalers.

1.3 Support Services

One important category of services include those catering to business establishments: office security, office cleaning, transportation, courier or messenger service, printing and photocopying, advertising agent, etc. By and large those types of services remain underdeveloped in Southern Area, reflecting the low levels and the limited scales of business activity there.

One notable exception is trucking service. No official data are readily available, but apparently a large number of lorries, owned and operated by local concerns, are daily crisscrossing over the region. Except for a few medium-size firms which carry bulk of consignments for tea estates and major manufacturers, most trucking business is small scale, run by the owner cum driver and taking orders from local wholesalers, agents, retailers, etc. Since it is not yet common for those local businesses to own their lorry or van, trucking service is in high demand. Fares are not regulated, and a rough calculation reveals that prevailing rates may be excessive even when depreciation is duly taken into account.

1.4 Consumer Services

Other services directly cater to individual consumers: restaurant, tea boutique, hair dresser, tailor, photo studio, car repair, cinema theater, etc. The same observation applies here too as made about support services. Even in Galle or Matara, available services are limited both in scope and in quantity or quality. Those services quickly disappear as the size of town decreases (Table 1.2).

1.5 Financial Services

There are both formal and semiformal financial institutions operating in Sri Lanka. Formal sources include the National Development Bank, Development Finance Corporation of Ceylon (DFCC), two state-owned banks (Bank of Ceylon and People's Bank), and four private commercial banks. Semiformal sources comprise Rural Regional Development Banks, Cooperative Rural Banks, and a number of independent NGOs that engage in financial intermediation. Among such NGOs, the Thrift and Credit Cooperative Society (SANASA) is a primary one, operating with a nationwide network. The Hambantota-based Janasakthi Bank is another typical grassroots financial institution whose success has drawn much attention from the Government as well as NGO circles.

Among the financial institutions operating in Southern Area, the two state-owned banks have particularly extensive branch networks: the Bank of Ceylon with 38 branches and the People's Bank with 44 branches. By contrast, private commercial banks' operation is generally confined to a few major urban or tourism centers. Smaller towns are typically served either by the Cooperative Rural Bank, which is operated by cooperative societies under the management of the People's Bank, or by SANASA. On balance, at least one financial institution keeps office even in a relatively small urban center.

The going interest rates are as follows (People's Bank, as of November 1995).

		(Annual %)
Loans	Commercial	24
	Agricultural/manufacturing/tourism/fisheries, etc.	17.5
	Housing	19-20
	Special schemes	various
	(e.g. Perennial crops	14)
Deposits	Saving	10
	Fixed deposit (1 year)	15

Seen from the regional development point of view, three serious shortcomings exist with financial services. First, obviously, interest rates on loans are very high. A number of interrelated reasons are cited for this, among which the huge budget deficit is the primary one. This high level of interest practically prohibits any serious investment. A second problem is the lack of long-term credit facilities for local entrepreneurs. Given the very high interest rates on loans and prevailing uncertainties, banks are extremely reluctant to provide long-term credits to enterprising investors, which carry high risks of default. Development banking is thus virtually nonexistent and this badly cripples the prospects of locally induced economic growth.

The other shortcoming is with agricultural credits for smallholders. As a matter of fact in Sri Lanka agricultural credits now constitute an indispensable input to agricultural production. However, formal bank credits are often unavailable to farmers either because of insufficient collateral or because of the complicated application procedure which tends to make farmers shy away. They instead resort to informal sources either paying exorbitant interest (around 20% a month) or undergoing advance arrangements with the trader to supply their produce exclusively at lower farm prices. It should be noted, however, that the farmers themselves must bear some blame: they tend to think of bank loans as a form of government subsidy and do not repay. The past record shows that various agricultural credit schemes invariably suffered quite a high default rate. To aggravate the situation, the Government has successively written off the bad loans thus reinforcing the farmers' wrong conviction further. One exceptional case in this respect is the credits provided through the farmers' organizations. Their default rates have been markedly lower.

1.6 Some Specific Features of the Service Sector

1.6.1 *Pola*

The origin of the *pola* system is not clearly known, but some argue that it is primarily of the twentieth century development. *Pola* in itself is nothing more than an open space located conveniently in a settlement. Some have permanent concrete stalls, but makeshift stalls and tents are more common. As far as Southern Area is concerned, *pola* usually belongs to the respective local authority but the right to hold periodic fairs there is given to an individual on an annual tender basis. The right holder is then entitled to collect fees from the sellers, that is, merchants/vendors or producers.

All *pola* existing in the region are basically consumers' *pola*; some of them also function as producers' *pola* either on the same or separate days. The system has developed gradually so that nearby fairs dovetail to each other on their weekly schedules.

Consumers' *pola* is a clever invention benefiting the consumer as well as the merchant. By visiting a group of fairs on different days of a week, a trader can achieve the minimum sales needed to remain in business in rural areas. This in turn benefits rural consumers with more choices available at competitive prices.

Producers' *pola* also plays a key role in the agricultural marketing system of Sri Lanka. If the farm gate is the first point where marketing starts, producers' *pola* comes next. At this market, the seller can be either the farmer, the collector who collects the produce at the farm gates, or the intermediary (broker) who simply buys and sells on the spot. The buyers include local agents for Colombo wholesalers, local wholesalers and local retailers. No auction is held at *pola*, but prices are loosely pegged to the Colombo wholesale prices and move accordingly.

To market vegetables and fruits, a farmer has two basic options: take them to a nearby producers' *pola* for himself, or sell them at the farm gate to agents or collectors. Generally, *pola* prices are better than agent's or collector's. However, farmers do not have their own means of transportation. Therefore, if the volume of the produce is small (e.g., less than one gunny bag) farmers take it to *pola*; if the volume is large, they sell it to the agent or collector who visits the farm. In any case, producers' *pola* provides a vital market access to small farmers, helping them earn however small cash income from various subsidiary crops.

1.6.2 Pricing of the produce

Since there is no auction system institutionalized in Sri Lanka, prices of vegetables and fruits are determined by a few leading wholesalers in Colombo. Farmgate prices, wholesale prices and retail prices throughout the Country are then set according to the Colombo prices.

It is remarkable that even though such a monopsonic or oligopsonic condition prevails not only in the Pettah market but in all producers' *pola*, pricing is not so arbitrary as may be anticipated. Commodities are clearing the market at those prices. After all, the Pettah prices set by the wholesalers may not be so different from the auction prices, purely market-determined ones. As a World Bank report concluded, agricultural markets are working well in Sri Lanka–generally and so far.

To illustrate the pricing system, take beans produced in the Bandarawela area and sold in Matara district through a typical channel. The prices will be set as follows:

Farmgate selling	Rs. 14/kg
Collector selling	Rs. 16/kg
Wholesaler selling	Rs. 20/kg
Retailer selling	Rs. 24/kg

It should be noted that mark-up is usually Rs. 2 per kg for the collector, Rs. 4 per kg for the wholesaler and the retailer, irrespective of their buying prices. The fixed mark-up makes sense because each trader's sales volume is more or less constant. The mark-up consists of transportation cost (roughly, Rs. 1 per kg), loading/unloading cost, loss and profit. The profit margin is actually thin because a substantial portion (10% to, say, 30%) is routinely damaged and lost during transportation and storage. Farmgate prices are roughly half of the Colombo retail prices. Considering the huge wastage, those producer price levels are not so unduly low.

1.6.3 Transportation and spatial economy

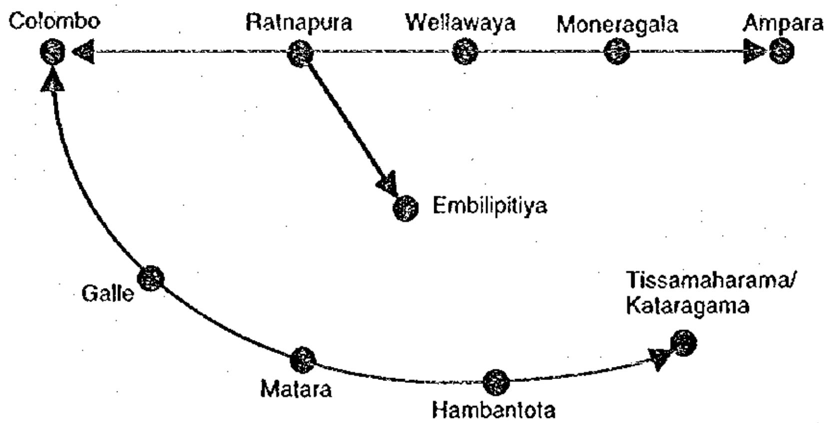
Two distinct patterns of commodity transportation/distribution are observed in Southern Area (Figure 1.1). One pattern is linear. A lorry plies between Colombo and a certain destination, serving towns and cities on the way as well. Two arteries and one auxiliary route of this pattern exist:

1) Colombo–Galle–Matara–Hambantota–Tissamaharama/Kataragama (route A2)
2) Colombo–Ratnapura–Wellawaya–Moneragala–Ampara (route A4-A25)
3) Colombo–Ratnapura–Embilipitiya (route A4-A18)

The other pattern is radial. Lorries start from a center to various destinations. In-between towns are usually not served. Vegetable trade shows this pattern, with Bandarawela and Hambantota/Moneragala areas being two major production centers.

Transportation profoundly defines the structure of Southern Area's spatial economy. It is because in Sri Lanka transportation is costly. All lorries are foreign made (mostly Indian).

Linear Pattern



Radial Pattern

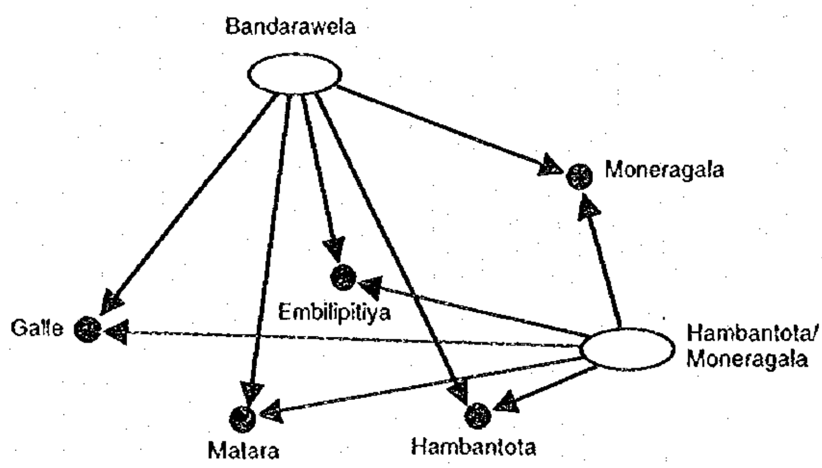


Figure 1.1 Two Patterns of Commodity Transportation/Distribution

Fuel is 100% import. Thus a substantial portion of transportation cost consists of foreign currency components. With the rupee steadily depreciating against the dollar, transportation inevitably remains one expensive kind of input. Costly transportation affects the regional economy in various ways. To begin with, most local businesses cannot afford a lorry or van for their own use. They instead hire lorries, but this somewhat restricts the extent of business transactions. Cost minimization becomes the foremost consideration of all parties. For instance, vegetable retailers jointly hire one lorry; lorry owners try hard to avoid a lorry coming back empty; Colombo wholesalers commission lorries to regularly replenish local retailers with commodities, rather than deliver them on order. This picture will remain the same for some time to come.

1.6.4 Cooperative Wholesale Establishment (CWE)

One major player in the wholesale and retail trade sector is the Cooperative Wholesale Establishment (CWE). This is a state corporation enacted by Act of Parliament in 1949, currently coming under the purview of the Ministry of Internal and External Trade, Commerce and Food. It is engaged in general trading (wholesale and retail) with emphasis on food items. As its name suggests, CWE in the past concentrated on wholesale trading, but in recent years, retail trade accounted for more than half of its sales turnover.

Out of total 138 supermarket-style outlets nationwide, 32 are located in Southern Area. To enhance its market coverage, CWE has also appointed a number of private retail shops as "franchise agents" selling CWE's essential commodities. CWE's national market shares in retail trade are substantial for a few basic food items: flour 100%, dhal 50%, and sugar 20%, for instance. For other commodities a rough estimate is around 10-15%.

Such a public enterprise was amply justified right after World War II when commodity supply was unstable and distribution was in disarray. Now, particularly in the light of the smoothly functioning market economy led by the private sector, there seems to be little reason for CWE to stay public. As a private enterprise competing with others on the same ground, CWE can better fulfill one of its purposes: to educate the consumer as well as the trader about the standard marketing practice&guaranteed quality, weight and fair prices. Professionalism is its unique strength.

1.6.5 Cooperative societies

In Sri Lanka there are various types of cooperative societies, among which the multi-purpose cooperative society (MPCS) is the most prominent in trading activities. In 1993 there were 300 MPCSs incorporated (34 in Southern province) with 2.6 million membership (403 thousands in Southern province). They together operated 638 wholesale stores, 7,374 retail outlets, and 696 other sales outlets nationwide. Those shops are open to non-members, too. Total sales turnover in 1993 amounted to Rs. 17 billion.

MPCSs carry a line of commodities similar to CWE's: basic food items, kitchen utensils, hardware, textile, stationary, etc. Again like CWE, no fresh vegetables, meat or fish (except potatoes and big onions) are sold at MPCS outlets.

One important fact about MPCS is that the government food stamp program (Samurdhi, or formerly Janasaviya) has been implemented exclusively through MPCSs. The program beneficiary comes to an MPCS retail outlet and buys food with the stamps (Rs. 200 per month, for a year); the Government later reimburses the MPCS for the purchase. The problem with this scheme is that the reimbursement does not come timely. This results in serious financial problems to the cooperatives. In fact, they had to pay Rs. 12.5 million in 1993 as interest on additional overdraft facilities obtained from the People's Bank. This has become a particularly heavy burden to the MPCSs in rural areas, where beneficiaries concentrate and total turnover is limited.

1.6.6 Employment capacity

In industrialized economies, trade and service sectors employ a substantial portion of work force. In Sri Lanka and, particularly, in Southern Area, this is not the case yet. As indicated in Table 1.1 above, the number of people employed in those sectors is limited mainly because most units are self-employed, family businesses.

This overall picture can change quickly especially in major urban centers when economic development accelerates. There will be opportunities for small entrepreneurs to set up novel businesses while large-scale retail outlets (e.g., western-style supermarkets) will arrive in due course. Demand for business-supporting services is nil at present but this category can expand very fast once nationally- or internationally-oriented business concerns start operation there. By and large a reasonable rise in employment from the trade and service sector can be expected.

CHAPTER 2 ISSUES IN THE TRADE AND OTHER SERVICES SECTOR

One fundamental characteristic of the trade and other services sector is that it is purely demand-driven. If this sector does not prosper because there is little demand, then this is not the problem. The real problem arises when the sector cannot properly respond to whatever demand it has. In view of this, there exist five major problems associated with the sector in Southern Area: 1) absence of wholesale auctioning of agricultural produce; 2) rudimentary packaging; 3) poor quality of transportation and telecommunication services; 4) lack of long-term development financing; and 5) weak Chambers of Commerce.

2.1 Wholesale Auction

When marketing of vegetables and fruits is concerned, the farmer complains of low prices while the consumer resents high prices. Everybody seems to put the blame on the traders— commission agents, wholesalers, collectors, middlemen, truckers, retailers, vendors, etc.— for their exploitative nature of transactions. Field observations indicate, however, that prices seem rather reasonable considering various factors to be accounted for. The real question is more with the fair prices than with the price levels.

Auctioning is the simple and only solution to this problem. Wholesale markets should be established where a lot of vegetables is sold by auction to the highest bidding wholesaler. To participate in the auction, the bidder must first register with the market authority. By contrast, any farmer can bring in his produce to be put on the auction. For administrative reasons, however, it is more efficient to organize the farmers into a cooperative and have this cooperative handle all the process (collection, transportation and financial transaction) on behalf of the members. By organizing themselves into a cooperative, the farmers can collectively gain a bargaining power vis-à-vis the wholesalers.

This solution is ideal but, in reality, hard to materialize because the current system, with all its flaws and shortcomings, is firmly established and functioning smoothly. As long as farmers are financially tied up with commission agents or wholesalers through cash or fertilizer advances, they actually have no produce to bring in the market for auction. Furthermore, this auctioning system must go hand in hand with the development of farmers' cooperatives in order to be fully operational. In Sri Lanka farmers' organizations are still in the seminal stage at best. Auctioning at the wholesale markets, then, has to be regarded as a very long-term solution.

Given this consideration, a second best solution to the unfair prices is the extensive dissemination of market information. Once price levels and trade volumes at major markets, particularly Colombo, are known, farmers and fishermen can gain a certain power to deal with traders. If very basic knowledge about how market functions is also disseminated, it will be more instrumental in eliminating exploitative practices.

At present, price information on vegetables and fruits is systematically collected in major markets nationwide by the Hector Kobbekaduwa Agrarian Research and Training Institute (formerly, the Agrarian Research and Training Institute). The information is released in a daily radio program and, to a very small group of subscribers, in a weekly publication. Limitations remain, however, that data on traded volumes are insufficient, that no analysis or forecast is given, and that the time slot currently allocated for the radio program may not be so convenient for the listeners.

2.2 Packaging

Packaging is another serious problem, particularly with vegetables and fruits. As noted earlier, a considerable portion of agricultural produce is routinely damaged and lost during transportation because of rudimentary packaging and careless handling. The rate of wastage is reportedly as high as 40% in case of tomato. At present the means of packaging most commonly used for produce are gunny bags and wooden crates. Overstuffing gunny bags is a very common practice while lorry crew do not care much if bags are loaded at the bottom of the entire cargo. Wooden crates, widely used for tomatoes, are heavy, not strong enough to resist rough shipment and, without any standardized size or make, inconvenient to handle.

To solve this problem, plastic crates were introduced some time ago but failed to replace gunny bags and wooden crates. This was so because lorries refused to transport the crates back to the starting point without being paid the fare comparable to that of the same volume of load. It has since been suggested to subsidize the use of plastic crates or to introduce collapsible crates.

Perhaps more appropriate in the long run would be the use of corrugated fiberboard boxes, the means most commonly adopted in the industrialized countries. Corrugated paper boxes of high quality are sufficiently smash proof, lighter than plastic, collapsible, and can be reused several times. One drawback is that they are susceptible to moisture. High quality corrugated boxes are readily available in Sri Lanka: there already are several companies manufacturing them. However, the cost may not be so low because the paper materials are all imported. For instance, one brown box of the size and make typically used for produce costs around Rs. 40-50.

In spite of their ready availability and apparent advantages, corrugated paper boxes are completely absent from the domestic scenes of vegetables marketing. Apparently, various considerations prevent their use. Judging from the current level of economic development, it indeed seems premature in Sri Lanka to switch immediately to this method that entails a substantial additional cost on producers initially. Nonetheless, it is certain that as economy develops corrugated paper boxes will become the standard means to package perishables even in tropical countries like Sri Lanka. A policy question then is how to facilitate the transition in right direction. Introducing corrugated paper boxes is a medium- to long-term option to be kept high on the national agenda.

2.3 Transportation and Telecommunication

In Sri Lanka road transportation is by far the most dominant mode of transport both for cargoes and passengers. Since privately owned vehicles are still limited, trucking service plays a large and essential part of commodity distribution. This service significantly affects the pricing of agricultural produce in two ways: first, fares are excessive; second, careless handling causes substantial losses. As a result, for instance, it is possible that 20% of the retail price is incurred by the above two factors. One way to cope with this problem is introducing a better packaging method as described above. Another way is to make the trucking industry more competitive. This will be gradually achieved as the economy grows and more and more businesses own their private vehicles. Mechanization of loading and unloading will also help, but this should be balanced against the concern of employment generation.

Transportation poses another serious, fundamental problem to smallholders. Even though Sri Lanka has dense and relatively well developed road networks, there are still some remote areas which lack car access. Also, conditions of lower-grade feeder roads are generally poor. To aggravate the situation, many hamlets have no bus services even if they are equipped with passable roads. Thus, smallholders in the periphery have to pay extra cost just to keep access to the market. It is necessary to provide them with better roads on the one hand and secured means of transportation on the other.

Telecommunications are also quite inadequate in Southern Area. In large cities, a huge backlog exists of telephone applications. In rural areas, a number of villages have no telephone lines. The antiquated system breaks down when heavy rainfalls occur. One international hotel in the region has only two telephone lines working. One major company in Galle has been waiting four years for a second telephone line installed. Inconvenience to any serious business is apparent. An immediate improvement of this situation is necessary before investment projects start in earnest in Southern Area. If priority is given to the Area and the quality of telecommunication services accessible there exceeds that of other regions, this can prove one strong incentive for nationally- or internationally-oriented service businesses to locate in the region.

2.4 Development Financing

As pointed out earlier, banks usually do not provide long-term credits to prospective investors under the current high interest rates. In view of the local entrepreneurs, this is a particular deterrent to any private initiative of significant scale. Furthermore, non-bank financing practically does not exist. Development financing is exactly the kind of essential service which is in need but not available.

2.5 Chamber of Commerce

Private business organizations can greatly expedite the development of any sector — manufacturing, bus transport, export trading, hotel, commerce, etc. — both as a lobby representing the interest of the member businesses on the one hand and, on the other, as an instrument to materialize government policies concerning the sector. Such an organization relevant to trade and other services is the Chamber of Commerce. In Southern Area, the District Chamber of Commerce has been organized for some time in respective districts and, recently, Southern province saw the formation of the Provincial Chamber of Commerce. Reflecting the small size of the business communities in the region, however, those Chambers of Commerce have been active only to a limited extent.

They could and should be important players in the Southern Area development. One of the parts for them to play is to stimulate and foster dynamic private sector growth from within. It should also be their crucial responsibility to rectify the general skepticism held by the local people toward private business. Close collaboration between them and public agencies would be extremely conducive to the implementation of investment projects. In view of their unique roles in development, the regional Chambers of Commerce thus deserve due recognition and support from the Government and the aid community.

CHAPTER 3 OBJECTIVES AND STRATEGY

3.1 Objectives of the Trade and Other Services Sector

3.1.1 Commercial trade

This sector's ultimate objective is to deliver commodities from the producer to the consumer as effectively and speedily as possible at a minimal cost. All available supplies should be brought into the markets (no waste of resources) and all consumer demand should be met if the goods are somewhere in supply. Delivery should be timely. At the same time, its cost should be kept as low as possible. These requirements will be automatically satisfied if the markets are sufficiently competitive. In Southern Area, this objective has yet to be fully achieved even though the markets by and large are functioning well.

3.1.2 Support and consumer services

A whole variety of support and consumer services cater directly to customers' needs. This is a purely demand-driven sector and its objective is simply to provide services as demanded in the market. Services available in Southern Area are still limited both in scope and quality because current levels of demand do not warrant their further development.

3.1.3 Financial services

From the regional development points of view, the financial sector bears a paramount responsibility to be instrumental to the whole range of investments. Its objective is to make financial resources available as needed by prospective investors (large to micro) in Southern Area at as low costs as possible.

The above objective equally applies to the formal and the semiformal financial institutions. While the formal sector primarily aims at commercial lending, the semiformal institutions, particularly NGOs, are oriented toward the empowerment of the underprivileged people and, as such, financial services are more their means than objective itself. Nonetheless, they represent a significant alternative source of credit to many small and micro entrepreneurs.

3.2 Strategy for the Trade and Other Services Sector

3.2.1 Development scenario

As a sector which is purely demand-driven, trade and other services will follow a pattern of development which closely traces that of production sectors and that of major urban centers. It is pointless to make efforts at growing the sector *per se*.

Pursuant to the development scenario for Southern Area described in the Main Report, the trade and other services sector will gradually widen scope and accelerate growth as broadly put in the following.

Phases 1 and 2 (1995--2000--2010)	Consolidate and diversify the base with impetus given, first, by agriculture and fisheries and, then, by manufacturing and tourism; growth of major urban centers will also give a strong stimulus: the springboard to boost the sector into Phase 3.
Phase 3 (2010--2015)	Achieve and sustain very high growth, maturing the structure of the regional economy; new types of services will arrive which serve local, national and international customers.

3.2.2 Overall strategy for the sector's development

To materialize the scenario sketched above while accomplishing each subsector's objectives, six-point strategy is called for.

(1) Comprehensive improvement of the distribution systems of consumer perishables

Consumer perishables like vegetables, fruits and fish constitute the largest commodity group produced and consumed in the region. Their distribution systems are functioning but serious drawbacks exist with them: not-so-transparent price formation and huge post-harvest losses, to name a few. Improving the systems will greatly benefit the region's population either as the producer or as the consumer or both. The improvements are also imperative to efficiently capitalize the increase in agricultural and fishery production envisaged in the region. Since the distribution networks in Southern Area are just part of the national systems, this strategy necessitates national initiatives and pertains to the whole Nation.

(2) Urban center-based development

Trade and services are inherently associated with urban areas. The sector's development will first begin in urban centers and their population growth will further induce the sector's expansion. To materialize the above scenario, priority should be consistently given to a few urban centers as the nursing ground for the sector.

(3) Better availability of financial resources

One impediment to the sector's development in Southern Area, which is being widely experienced, is a dearth of funds. Various factors account for this particular difficultyh from the huge national budget deficit to banks' indifference towards Southern customers to underdeveloped non-bank financing. Room for fiscal and monetary maneuvers appears fairly limited, but a variety of measures can still be devised and employed to ensure better access to financial resources for the region's investors. Regionally differentiated measures in favor of Southern Area are highly relevant here and should be actively pursued.

(4) Long-range promotion of new types of services

This Master Plan envisages that in Phase III (2010--2015) regional economic development will be led by supporting industries and services. Services expected to develop in that phase include specialized health services (e.g., ayurvedic medicine), specialized or higher educational services (e.g., environmental education center, tourism school and university) and research institute of international scope. In line with the national policy of increased participation of the private sector, such unconventional services will be run mostly by private concerns. Since these services are virtually nonexistent in the region at present and a keen, nationwide competition will arise among localities in luring such enterprises in the future, a clear-minded and steadfast approach is necessary from Phase I on to successfully call in those new private services to the region. Measures in favor of Southern Area will be of great help with this regard.

(5) Understanding how market economy works

For some historical reasons, the majority of Sri Lankan people do not appear fully familiar with the nature and the working of market-driven economy. Examples abound. Strong skepticism prevails against private business. People think they should do away with all the middlemen and, in turn, lots of them indeed cheat and abuse producers and consumers. Government intervention is always anticipated and welcomed to the food commodity markets, particularly when prices plunge due to oversupply. Some people do not feel obliged to repay their bank loans. Lack of basic understanding and discipline is evident. This condition can seriously undermine any effort to promote private sector-led, market-oriented economic development as envisaged in this Plan. A strategic prerequisite not only for the trade and other services sector but for the whole economy as well, therefore, is to enlighten people on how market works and how they are supposed to act in it.

(6) Involvement of the Chambers of Commerce

The Chambers of Commerce are the business associations most appropriately representing the trade and other services sector. Their active involvement in the regional development process should be sought on the two strategic fronts: on the one, they should expedite the sector's development by channeling outside-national and international-resources into the region; on the other front, they should spearhead an awareness program to correct the popular negative perception of private business. The Chambers' future roles are definitely vital.

3.2.3 Subsector-specific strategy

(1) Commercial trade

The dictum is: Leave it to the market and in the private hands. What the Government should do is to help the market operate properly. For manufactured goods, the current distribution systems are well established and functioning. They can be much improved by:

- streamlining their hierarchical structure (headquarters/warehouses-local wholesale agent-retailer); and
- better stock management.

For fresh food items (grains, vegetables, fish, meat, etc.) the basic strategy is to:

- make the market function better/more efficiently and more transparently.

Specifically:

- at the national policy level, 1) deregulate food prices completely (no ceiling or floor price schemes) and 2) privatize parastatal organizations involved in marketing activities (e.g., CWE, CFC);
- also at the national level, build a new Colombo wholesale market in a new location with better facilities and larger space allowing new entry of wholesale traders; this will have a far reaching positive impact on food commodity distribution and Southern Area will also benefit greatly;
- enlighten the general public on how commodity market functions and prices are formed;
- disseminate market information (price, traded volume, market trend) daily for the public in general and the producers in particular;
- modernize the whole system of packaging and transportation;
- recognizing the unique merits of the *pola* system in the Sri Lankan economy, give full support to its better management and functioning;
- make every effort to ensure market access for small-scale farmers in peripheral areas--farmers' organization, better roads, their own means of transport, *pola* development in their vicinity, etc.; and
- most importantly, change the common negative perception that intermediaries are all exploitative and dispensable, to a positive one that they are providing indispensable services to society; their malpractices should not attest the wrong notion that the producer and the consumer alike would be better off without them.

Auctioning at the wholesale markets does not appear a viable option for Sri Lanka at least for the time being. Its institutionalization therefore is not recommended as an immediate action. In the long run, however, wholesale auctioning should no doubt become the integral part of the national marketing system for fresh food items.

(2) Support and consumer services

This subsector's strategy is to:

- respond to the market demand correctly--leave no demand unmet and avoid oversupply.

Without any policy intervention, business supporting and consumer services will exactly follow this strategy. One possible impediment, however, is finance. This issue is the main concern for the financial services subsector.

Separate strategy is necessary concerning this subsector about how to attract the specialized services into the region as envisaged in this Master Plan. Since such services are largely private undertakings and more or less dependent on localized resources, giving regionally differentiated BOI incentives in those selected services would be the most effective instrument to push them into the south. On top of this, quality telecommunications and urban infrastructure that are superior to other regions' can also induce some specialized, outward-oriented services to locate there.

(3) Financial services

To achieve this subsector's objective requires that two aspects be addressed separately: availability and cost.

The prevailing interest rates on loans are prohibitively high. This very high cost of finance effectively discourages serious investors to make any long-term investment. This situation must be corrected. Strategy for this is necessarily national but still highly relevant to the Southern Area development:

- reduce the national budget deficit;
- privatize the two state-owned banks, which together control a market share of about 60% of borrowing and lending under inefficient management;
- rationalize various concessional credit programs which are ineffective and yet a substantial budgetary burden; and
- for banks, reduce the default rates by strengthening loan appraisal capacity as well as debt recovery discipline.

Credits are often unavailable to regional investors even when they can afford the high financial costs. One reason for this is banks' general indifference toward the customers outside the Colombo metropolitan area. They have no incentive to make extra effort to provide credits to first-timers in far away regions when their fund sources are limited. Strategy to improve credit availability in Southern Area is again a matter of national policy:

- give the banks incentive to lend money to the Southern customers by reducing the statutory reserve ratio (15% currently) by 0.2-0.5% and earmarking the freed funds entirely for Southern Area.

As a standard exercise to regulate the monetary flow, each commercial bank is required to deposit a certain portion of its deposit liabilities in the Central Bank, on which no interest is paid. If part of this reserve is freed for commercial lending, it can directly increase the bank's revenue. Thus, if strictly earmarked for Southern Area, the funds will give a strong incentive for the banks to look for creditworthy Southern customers. This small measure alone will raise a total of Rs. 350 to 900 million a year which becomes exclusively available for the region. This is a substantial amount in relation to the region's financial requirement but still a small enough increase in currency circulation not to effect inflationary pressure.

Semiformal financial institutions mainly serve rural customers. In many localities they are the only institutions that provide banking services but their lending sources are limited and not all of them are up to professional standards. A separate strategy is necessary for them:

- provide low-cost funds through concessional facilities;
- monitor the health of the rural financial institutions closely and regularly; and
- strengthen the management of those institutions and of the Cooperative Rural Banks in particular because of its most extensive operation coverage.

Rural residents generally prefer semiformal financial sources to formal or informal ones because of easy access and reasonable costs. Especially popular are the Rural Regional Development Banks, the Cooperative Rural Banks, the Thrift and Credit Cooperative Society (SANASA) and farmers' organizations. More rural credits including agricultural credits can and should be channeled effectively through those institutions.

Some people advocate establishing the Southern Regional Development Bank or a venture capital company whose targets are exclusively Southern entrepreneurs. Considering the current banking practices, the motivation is quite understandable to promote such new financial institutions with a clear regional focus. Those ideas, however, need a careful evaluation before launching.

As for the Bank, the first consideration must be: Is it wise to have another small bank on top of the existing banks, precluding scale economies or the benefit of cross subsidy? Isn't it more effective to reorient the existing institutions toward the region by restructuring their administration or giving new incentives? Since there are already various financial institutions operating in the region, priority should be placed on concerted efforts to streamline and strengthen their operations.

The venture capital company for equity finance also raises serious questions of viability and effectiveness: In Sri Lanka where stock market is still in its infant stage, can the company sell, as it likes, its holding shares of investee ventures when time to exit has come? The company is supposed to hold the shares for two to five years, but is this duration long enough for the prospective entrepreneurs, particularly industrialists? Since equity financing is a quite new business area in Sri Lanka, shortage in needed expertise is clearly anticipated. Those reservations notwithstanding, a creation of non-bank facilities is certainly a welcome addition to the region's financial sources. If its feasibility and sustainability are positively proved, the venture capital company is a worthy venture in itself and will make a great deal of contribution to the Southern Area development.

CHAPTER 4 MEASURES

4.1 Projects

4.1.1 Comprehensive Radio Program for Market Information

Since prices of agricultural commodities are largely determined in the Colombo markets, Colombo price levels and their trends are important information for the small-scale producers throughout Southern Area (e.g., tea farmers, vegetable farmers, coconut growers, fisherfolks and chicken farmers). With the latest information of Colombo wholesale prices at hand, for example, they can better bargain with collectors, choose among alternative agents, calculate their fair shares of fish catch, or adjust their supply volume. Market trends and forecasts will be useful for vegetable farmers to plan their next cropping. In any case, efficient and transparent market transactions depend much on such information being freely and readily available.

Radio is the most appropriate medium to disseminate such market-related information. It can cover a wide audience with relatively little cost. In fact, three such programs are already being aired daily by the Sri Lanka Broadcasting Corporation (SLBC): an evening program for vegetable prices (sponsored by a fertilizer manufacturer), another evening program for fish prices (sponsored by FAO), and part of the Business Program covers coconuts and related products. Information provided in those programs, however, is limited to price levels.

This project basically extends and integrates those existing programs. Combining them into one comprehensive program, it is aired in a time slot most convenient for the targeted listeners. The new program has three features: wholesale (or auction) and retail prices and traded volumes in the Colombo markets covering a wider range of commodities; market trend analysis and supply-demand forecasts; and basic knowledge about market, price mechanism, distribution system, etc. for educational purposes.

4.1.2 Research on Introduction of Corrugated Paper Boxes for Agricultural Packaging

In Sri Lanka no corrugated paper boxes are currently used to package agricultural produce. If introduced, they will very effectively reduce wastage caused during transportation. Various considerations prevent their usage, however, even though boxes are domestically produced and readily available. Judging from the current level of economic development, their eventual introduction will remain a medium- to long-range possibility. Nonetheless, it is a relevant policy question how to facilitate the transition process in the right direction. This research is a pre-feasibility study on the subject intended to assist the formulation of an appropriate policy. Extensive field surveys of producers, traders and transporters should identify the obstacles to and the implications of the introduction of corrugated paper boxes. A preliminary appraisal of financial and economic feasibility of establishing this industry in Southern Area should follow.

4.1.3 Producers' *Pola* Improvement

The *pola* (periodic market) system is a unique and clever invention of the Sri Lankan people. *Pola* now occupies a pivotal place particularly in Sri Lankan rural economies. Nonetheless, little attention has been paid by the Government to its management and betterment.

Problems associated with *pola* are two: its particular system of ownership and management does not conduce to the market's proper functioning and maintenance; and its physical conditions are invariably poor.

From the regional development points of view, priority should be given to producers' *pola* (where producers meet buyers) because it provides smallholders with a vital market access to earn income. Current poor conditions, however, are quite detrimental both to sellers and buyers, thus restricting their attendance and often lowering the prices farmers get.

Under this project, respective municipalities should own and manage *pola* Up-grading and maintenance of the market place becomes a clear responsibility of them. On that condition, some basic physical facilities will be provided or improved.

4.1.4 Venture Capital Company for Southern Enterprises

A venture capital company will be established to provide medium- to long-term equity finance exclusively to investors in Southern Area. Generally, the company holds 20 to 49% stake of an investee company in the form of ordinary shares. The holding period is typically five to 10 years, but can be extended longer (possibly up to 20 years) as necessary. As a stake-holder of the investee company, the company also participates in its management assisting with technical as well as managerial support services. The company will exit from the venture at an appropriate time, off-loading its shares in the market for capital gain and to recycle the fund.

A feasibility study must be carried out to establish the company's viability. It has to probe into, among other things, the potential pool of clientele, its needs, and the practicability of the exit mechanism as well as justification of the company for Southern Area.

Since such a business area is still new in Sri Lanka, shortage in expertise needed to launch and manage the company is clearly foreseen. A package of technical assistance should be included as a project component.

4.2 Policy Directions

4.2.1 Commercial trade

Price deregulation: Price control schemes for agricultural crops that now nominally exist on paper should be all abolished.

Privatization: All parastatal organizations involved in marketing and trade activities should be privatized.

New Colombo wholesale market: The existing Pettah market in the heart of Colombo is antiquated and extremely congested. Its limitation in space prevents new entry of wholesale traders, thereby restricting market competition. A ring of unauthorized "collectors" routinely collect illicit parking charges from lorries entering the place. Sanitary conditions are appalling. The market should be relocated somewhere in the suburbs together with a wide range of supporting facilities including a new bus terminal nearby. This will have a far-flung impact on the distribution and price formation of agricultural produce.

4.2.2 Support and consumer services

Regionally differentiated BOI incentives for selected services: The present incentive schemes provided by BOI have no element of regional differentiation. However, it may prove very effective to institute a set of incentives in favor of Southern Area targeting only some selected services. The prime beneficiaries may be specialized services in health, education and research.

4.2.3 Financial services

Reduction of statutory reserve and earmarking the freed funds for the south: The current 15% level of the statutory reserve requirement should be lowered by a fraction (0.2-0.5%) to release funds to be utilized in Southern Area applying certain criteria strictly so that a competitive environment would not be unduly undermined. This measure will give a strong incentive for the banks to cater to the Southern customers.

Privatization of the state-owned commercial banks: The two state-owned banks dominate the field while setting unduly wide interest spreads owing largely to inefficient management and, particularly, to government-imposed overstaffing. Private commercial banks take advantage of these large spreads to increase profits. Privatizing the state-owned banks will thus lead to a competitive field with lower interest rates. Caution should be exercised, however, not to curtail their operation networks in Southern Area in favor of more profitable regions.

Cessation of concessional credit programs: Various concessional credit programs have turned out ineffective and yet a substantial budgetary burden. They should be terminated by selling the commercially oriented programs to the private banks and tightly targeting the others at the intended beneficiaries.

Strengthening loan appraisal capacity and debt recovery discipline: In order to properly identify creditworthy projects in Southern Area and to recover as much credit as possible in case of default, banks (particularly regional branches) need to acquire the capacity of loan appraisal (and, better, of long-term development financing) and the discipline of loss minimization.

Providing more rural credits through semiformal financial institutions: Appropriate schemes should be devised and arranged to channel more funds for rural credits through semiformal financial institutions. In parallel with this, the existing schemes need a thorough review and complete streamlining.

Monitoring the rural financial institutions: Despite the indispensable services they provide in rural areas, not all rural financial institutions are up to professional standards. Their financial health should be monitored closely and regularly. If needed, managerial expertise should be injected.

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