



Long-term impact of Easter Sunday Attacks on SMEs

The impact of the Easter Sunday attacks on the overall tourism sector has been documented widely, and larger hotel chains in particular have been vocal about the massive losses they have suffered and continue to suffer as a result of long-range cancellations and the general lack of security. However, there is a dearth of information on the event's effects on small and medium enterprises (SMEs) and the informal sector.

Based on discussions with associations representing these smaller enterprises, as well as individual businesses, we outline below some of the key negative effects of the terror attacks on this section of the industry:

DOWNSIZING AND SUBSEQUENT LABOUR SHORTAGE

According to the Association of Small and Medium Enterprises in Tourism Sri Lanka (ASMET) - comprising about 100 small hotels, travel agencies, restaurants, and activity providers like bullock-cart riders - many businesses are downsizing by either discontinuing staff or sending them on compulsory leave (as providing food and accommodation is costly). Other service providers like safari businesses have also had to scale down, with one safari business noting that all 15 of its safari jeeps have stopped operating since the attacks. Several homestay owners and workers who are part of ASMET have started to look for work in the Middle East.

This is expected to result in a severe labour shortage once the industry begins to recover. The absence of skilled labour, as well as a reluctance to join tourism as it is viewed as a risky industry, would present a challenge to a wholesome sectoral recovery. This

"This is worse than the tsunami. I have 20 rooms in Colombo City Beds. I had 9 staff members - already I have had to send 3 of them home. I also have an inbound tour operation since 1978. This operation too has come to a standstill. We had many bookings for Summer (July-August) - all of this has been cancelled. My agents in Europe say they don't get any queries for Sri Lanka anymore. We may have to close our operation if we don't receive any funds for six months."

Rohan Abeywickrema, ASMET President

would compound the labour challenges the industry was facing even before the attacks: tourism has long suffered from negative social perceptions, which in turn have inhibited young people and women from joining. Already, certain tourism training schools are seeing fewer admission applications. Given the current industry situation, industry players fear that better-skilled tourism workers are likely to go abroad looking for opportunities.

BREAKDOWN OF TOURISM SUPPLY CHAINS

ASMET members are facing cancellation of bookings as far ahead as February 2020. With small players leaving the industry, suppliers (who are able to) are likely to turn to other industries. This breakdown in tourism supply chains would hinder a sectoral recovery, as re-entrants to tourism would have to look at re-structuring supply chains, which could be costly and time consuming.

Chauffeur guides too have been affected. Many operate as freelancers for travel agents/tour operators and hence have no fixed contracts. The lack of orders has resulted in a loss of tips, fees, the daily "batta" payment, as well as high monthly lease payments for their vehicles (many of which are new, hence the high lease amounts).

TRICKLE-DOWN EFFECTS ON POOR AND POTENTIAL SOCIETAL IMPACT

At the very end of these supply chains are low-income groups such as farmers, fruit/vegetable vendors and craft manufacturers, many of whom are struggling to find new buyers for their products. In the long run, they are likely to see a worsening of life circumstances given the struggle to find new buyers and negotiate fair prices.

Moreover, the overall loss of employment and livelihoods across the tourism spectrum risks the emergence of several social issues such as petty crime and theft as people become desperate for money, particularly in areas dependent on tourism.

"Even the betel- leaf seller at the (Yala) park entrance has no business. Because the jeep drivers don't buy betel to chew since they have no bookings!"

Samitha, Daya Safaris



FUTURE CASH CRUNCH

As we explain later, the Government of Sri Lanka has outlined several relief measures for the industry. However, a future cash crunch is inevitable, brought on by the many immediate liabilities that individuals and businesses have to meet (e.g. lease payments, utility bills, loans). Many of the small and medium enterprise owners contacted also said that they had not been able to access the Government relief measures.

An Udawalawe safari provider with 15 jeeps faces a lease payment of LKR350,000 per

month on jeeps. A business with 5 jeeps in Minneriya has a monthly lease payment of LKR150,000. The national parks, which attracted over 40% of all tourists visiting Sri Lanka before the attacks, have since then seen an approximately 60% drop in visitation according to the Department of Wildlife Conservation.

According to activity providers in Unawatuna, some banks are offering a secondary loan at 16% interest, to pay off existing loans. While this solves the immediate debt crisis, borrowers end up paying two loans at high interest rates.



GOVERNMENT RELIEF MEASURES

Following requests and lobbying by small tourist enterprises and the informal sector, the Government has extended some of the relief measures it had previously only offered to registered businesses, to the informal sector as well - waiving off the registration fee required for a provisional registration.

- Announced a one-year moratorium on loans taken by tourism businesses as well as by employees of tourism businesses who are now experiencing dwindling incomes as a result of the decline in tourist arrivals. Interest-free/low-interest working capital loans are also being made available to tourism businesses, according to the government.
- Slashed the Value Added Tax (VAT) rate for tourism-related industries by more than half - from 15% to 7%.
- The Regional Development Bank (RDB) will offer "Sancharaka Podda" loans for a maximum of LKR500,000, interest free, with a one-year moratorium.
- The Government is allowing tourism businesses to obtain working capital loans of up to LKR250 million at a preferential interest rate of 3.4%, to be repaid within two years.
- At a more macro level, the Sri Lanka Tourism Promotion Bureau (SLTPB) plans to launch promotional campaigns which seek to present Sri Lanka as a safe destination.

BUSINESSES DOWN SOUTH STRUGGLING TO KEEP AFLOAT - A HOTELIER SPEAKS

Anusha Frydman, ASMET member and Vice President of Hikkaduwa Hoteliers Association

Anusha De Alwis Frydman runs a 60-room resort in Hikkaduwa. Since her husband passed away, she has run the business on her own, balancing a successful hotel alongside bringing up her three children. Until the Easter Sunday attacks, her hotel was attracting a steady stream of foreign clients and she was able to run a strong venture with the help of her trained staff.

"On Easter Sunday, we had 100% occupancy and we were fully booked until the third week of May. As soon as the attacks happened, all bookings until December were cancelled."

Now, her hotel is among the hundreds of small and medium tourist establishments that have been badly hit by the attacks and their aftermath. Her main challenge now is staying afloat, with payments on mortgage, overheads and staff salaries mounting every day.

"I have not closed my doors - how can I? I pay them [staff] what I can but it's not their full salary. They tell me, 'Madame, we are happy to take whatever you give us - we just want to hold on to our jobs.'"

Of the 80 people employed by the hotel, around 15 have already left, looking for opportunities in the Maldives and Middle East. The majority of the staff is also male and are the primary breadwinners of their families. Compounding the burden of

caring for dependents, many of them have purchased three-wheelers and motorbikes on lease, basing their re-payment on the substantial service charge they were receiving. This is no longer an option.

"Going around Hikkaduwa you can see that all the shops are shut - the clothing shops, the diving shops. The main positive is the local business we have been getting, but this is at rock-bottom prices so how can we stay afloat."

Anusha sees a slight recovery in the sector in the long term but believes that businesses like hers may not survive to see it. In addition to difficulties in paying mortgage and loan payments and staff salaries, she sees an imminent shortage of skilled labour brought on by an outflow of trained hospitality sector workers.

Pre-Easter, the hotel's best-seller was its standard room, going at USD85 on average. When the tourist season comes in July-August, Anusha will probably give it out at a slashed USD50-65 in a bid to attract customers. If business picks up, she will keep the hotel going as best she can, if not she will shut down.

"I'm not doing this for profit anymore. We set this up in Hikkaduwa in 2013 and have been happy here. All my staff and my suppliers are from Hikkaduwa. Now I'm doing it for the community."

In Sri Lanka, Market Development Facility (MDF) works in tourism and related sectors. In the wake of the Easter Sunday terror attacks, MDF has been working with the private sector and the Sri Lanka Tourism Alliance on the country's tourism recovery. As part of this, MDF's Senior Tourism Adviser Mr. Srilal Miththapala (former president of The Hotel Association of Sri Lanka) spearheaded a series of discussions with key stakeholders in the small and medium tourism space, to understand the impact on business and livelihoods following the attacks.

Market Development Facility (MDF) is Australia's flagship private sector development program. In Sri Lanka, MDF's focus is on diversifying tourism with new products and services and supporting authentic Sri Lankan products. MDF is implemented by Palladium in partnership with Swisscontact.

