

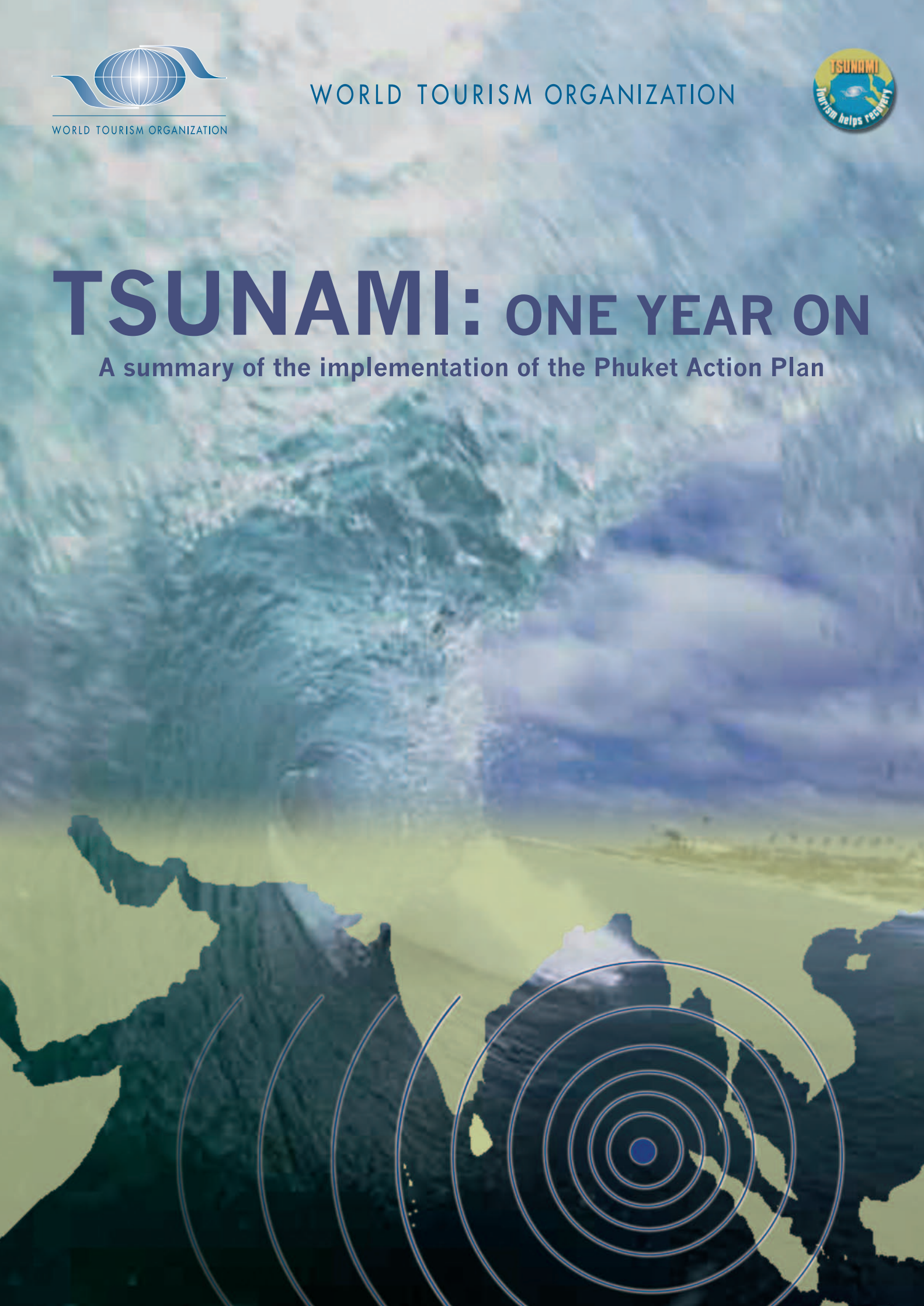


WORLD TOURISM ORGANIZATION



# TSUNAMI: ONE YEAR ON

A summary of the implementation of the Phuket Action Plan



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Calle Capitán Haya, 42  
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**Tsunami: One Year On - A Summary of the Implementation of the Phuket Action Plan**

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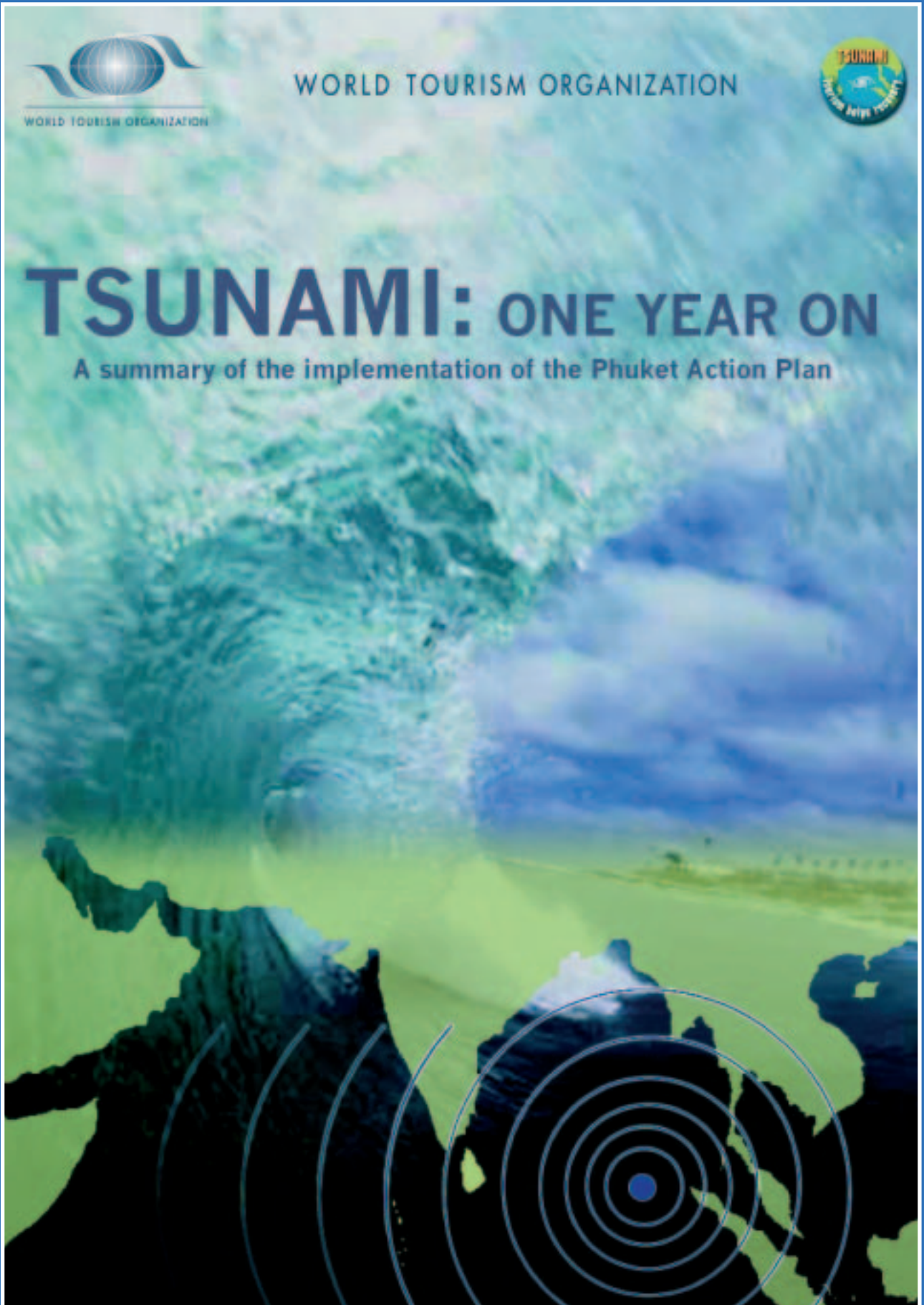


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# Acknowledgements

The World Tourism Organization wishes to express its thanks and deep appreciation to all the participants, including the Ministers of tourism, the Emergency Task Force Members, tourism decision makers, researchers, and private sector stakeholders for their valuable support and contribution to the implementation of the Phuket Action Plan. WTO would also like to thank all the departments of the WTO Secretariat for putting tsunami recovery on top of their work agenda. WTO would like to express a special thanks to its departments of Press and Communications, Affiliate Members, Market Intelligence and Promotion, the Cabinet Office, Education and Knowledge Management, Sustainable Tourism Development, Technical Cooperation and Information Technology. Last but not least, WTO is equally grateful to Mr. Germán Porrás and Mr. Ralf Corsten for their valuable inputs on tsunami affairs.

This report was edited and produced by the Emergency Tsunami Task Force Unit, under the supervision of the Regional Representation for Asia and the Pacific of the World Tourism Organization.



## Foreword

I thank the WTO members for the immediate response to my call for support to assist the tsunami affected countries of Thailand, Indonesia, Sri Lanka and the Maldives at the beginning of the year. As you are no doubt aware, an extraordinary session of the Executive Council was convened, for the first time in the history of the Organization, on the 31st January of 2005 in Phuket and a task force subsequently constituted. The ensuing action plan, appropriately called, the Phuket Action Plan outlined a series of measures for post tsunami tourism recovery of the destinations. WTO earmarked over 40 projects of which a majority has been completed and the present publication is a testimony to the work carried out and those in progress in tourism recovery.



It is to the credit to the international community that it rallied in earnest to assist the affected destinations. Tourism is, in these countries, an important element in their national economies, with many dependent on the industry for employment and livelihood. A year has almost past since this tragic event but I am happy to inform you that the recovery both in terms of arrivals as well as product development in all four countries has been very satisfactory, which shows that the tourism sector is extremely resilient to stress and strain. The United Nations has been kept informed regularly of the progress of the work of the tsunami unit of WTO. There has also been close coordination between WTO and the department of the Special Envoy of tsunami recovery of the United Nations.

This is not the first, and alas, may not be the last time, that tourism is affected by unforeseen events. Asia has had a fair share of natural and human disasters in the past decade, but each time, tourism has risen from the embers, stronger and richer. The countries themselves have no doubt profited from the measures undertaken through the Phuket Action Plan, in communications, training, community relief, crisis management and sustainable redevelopment, which I hope will all stand in good stead in the future.

I wish Thailand, Indonesia, Sri Lanka and the Maldives all the very best in their recovery efforts.

A handwritten signature in white ink, consisting of the letters 'F' and 'M' in a stylized, cursive font.

Francesco Frangilli  
*Secretary General*  
*World Tourism Organization*





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# Introduction

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In the early hours of 26<sup>th</sup> December 2004, a powerful earthquake rocked the earth along its seabed off the coast of northwest Sumatra. A tsunami of devastating force was subsequently unleashed, travelling thousands of miles from its epicentre across the Indian Ocean affecting countries as far apart as the Maldives, Sri Lanka and Somalia. The disaster brought significant amounts of destruction to populations of cities, towns and villages in the Indian Ocean region. In the immediate aftermath of the disaster, the reaction of the international community was one of shock but also of resolute solidarity. Almost a year on from the tragic events, this report presents a synopsis of the active role adopted by the World Tourism Organization (WTO) to provide assistance to the affected countries in the aftermath of the disaster.

In remembrance of  
the dead



In the past ten years, the global tourism industry has witnessed no shortage of threats to its stability; the Asian Financial Crisis, repeated terrorist attacks, war and the SARS epidemic have each made their impact felt on the performance of international tourism. The Indian Ocean tsunami, however, was the worst disaster in the history of world tourism, claiming the biggest loss of lives of tourists and workers in the tourism industry.

In the immediate aftermath of the disaster the World Tourism Organization undertook a series of far-reaching measures; on 29<sup>th</sup> December, three days after the tsunami, WTO Secretary-General Francesco Frangialli announced that an Emergency Session of the Executive Council would convene at the end of January 2005 to assess the situation in the affected areas. As the 'tourism epicentre' of the tragedy, the popular tourist beach resort of Phuket in Southern Thailand was chosen as the venue for the Emergency Session meeting. At the turn of the new year, three further decisions were made. WTO nominated two high-level tourism experts, Ralf Corsten, President of Messer Berlin, and Germán Porrás, former Secretary-General of Tourism of Spain, to conduct a fact-finding mission to those countries hardest hit by the tsunami – Thailand, Indonesia, Sri Lanka and the Maldives.

Secondly, an Emergency Task Force was established, comprising all 29 members of the Executive Council, high-level international and regional tourism experts, technical officials from the countries affected by the tsunami and regional organizations including PATA, ASEAN and UNESCAP. Chaired by the Minister of Tourism of India, H.E. Renuka Chowdhury, the Task Force was asked to submit proposals to the Executive Council that would form the basis of a global tourism recovery action plan. Thirdly, the Secretary-General and the Regional Representative for Asia and the Pacific paid a visit to the affected sites in Indonesia, Thailand, Sri Lanka and the Maldives, to show their solidarity to the governments concerned and express the willingness of the Organization to assist in the recovery process.

On 1<sup>st</sup> February, government officials from 42 countries gathered in Phuket, Thailand for the Emergency Session of the Executive Council. In seeking to rally broad international support for the recovery of the tourism industry, WTO also invited industry leaders, regional organizations and financial institutions to participate in the high-level meeting. The Prime Minister of Thailand, His Excellency Mr. Thaksin Shinawatra also attended the meeting and addressed the delegates.

Left: An access bridge  
to hotel complex,  
destroyed by tsunami



Right: An entire hotel  
swept away by the  
tsunami





His excellency, Mr. Thaksin Shinawatra, addressing the delegation at the Emergency Session of the Executive Council, in Phuket, Thailand

**Excerpt of the statement of the Hon. Prime Minister of Thailand,**

**Mr. Thaksin SHINAWATRA, at the Special Session of the WTO Executive Council Meeting on the 1<sup>st</sup> February 2005**

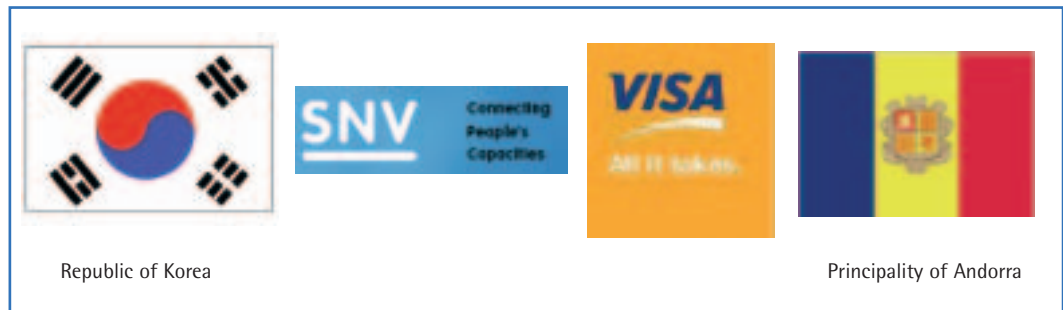
While thanking WTO for choosing Phuket as the venue for the special session of the Executive Council Mr. Thaksin Shinawatra, Prime Minister of Thailand stated “the livelihood of hundred of thousands of people living in the affected areas from South East Asia, South Asia and to the East coast of Africa depends on tourism”. However, he warned that “safety reassurance, trust and confidence of tourists must be matched with deeds rather than words” Therefore, he added that the first tsunami detection outpost had been established in the Similian Islands in the Andaman Sea by the Royal Thai Navy and “monitoring and warning towers will be built among the coastline in the next 6-12 months”. Thailand had also pledged 10 million US \$ for the Voluntary Trust Fund to establish regional tsunami early warning systems.

Mr. Shinawatra also requested Governments to issue travel advisories that are based on balanced and accurate reporting saying “ here in Phuket, you will be able to discover for yourselves that, as one of 6 provinces in the South of Thailand hit by the tsunami, the resort is almost back to one hundred per cent normal. What has made it abnormal is the absence of the tourists despite this being the peak season”

The Emergency Task Force submitted the draft action plan to the Executive Council and was subsequently adopted as the Phuket Action Plan. The Action Plan focuses on aiding the human recovery in the tourism industry in five key areas – marketing and communication, community relief, professional training of the tourism workforce, re-development and repositioning of the tourism product with greater emphasis on sustainability and risk management – a framework for assistance within which WTO would contribute to tourism recovery. The Action Plan was well received by the international tourism community, demonstrated both by the generous donations that were pledged to facilitate the plan’s implementation, and the efforts on the part of stakeholders to align their own work programmes more closely with the Action Plan.

In his address to delegates in Phuket, Mr. Frangialli stressed that the tsunami would not sink Asian tourism, but merely 'deal nothing but a glancing blow to world tourism'. 'The Phuket Action Plan', he said, 'would provide an urgent response to an urgent situation' by protecting jobs, small and middle-sized businesses. In seeking to implement the Action Plan, WTO would endeavour to work in partnership with regional Asian organizations, beginning with Pacific Asia Travel Association (PATA) and APEC, as well as multilateral financial institutions and private sector companies to provide effective and coherent action. Finally, Mr. Frangialli appealed for the swift return of tourists to the tsunami-affected countries, and to governments of generating markets to respect the Global Code of Ethics in issuing travel advisories.

Having widely solicited international support for the tourism recovery effort, WTO received numerous financial contributions both in the wake of the tsunami disaster and following the adoption of the Phuket Action Plan. Generous offers of assistance were received from the Governments of the Republic of Korea, Spain and Andorra, SNV (the Netherlands), GTZ (Germany), the International Finance Corporation (IFC), Resort Condominiums International (RCI), Visa International and Thai Airways International.



WTO thanks the following countries and organizations for their substantial financial contribution to WTO

Following the Emergency Session meeting, WTO introduced measures to put in place, mechanisms to facilitate effective assistance for tourism recovery. Upon the adoption of the Phuket Action Plan in February 2005, tsunami recovery was made a top priority in the programme of work of the entire WTO Secretariat, particularly in the areas of effective communications and raising awareness of recovery efforts in the affected destinations. Additionally, a Special Coordination Unit was established within the Secretariat devoted exclusively to overseeing and monitoring the implementation of activities related to the Phuket Action Plan. A report was also sent to the United Nations Secretary-General detailing the outcomes of the Phuket meeting and the ongoing measures being undertaken by WTO and the international tourism community.

At the beginning of March, WTO published a progress report on the evolution of tourism in the tsunami-affected destinations. The report pointed to the progress made in the vast majority of affected tourist resorts to become fully operational again and open to the public. Whilst the report highlighted the considerable fall in the number of tourist arrivals in the immediate aftermath of the tsunami, the research indicated that destinations were gradually experiencing returns to their customary levels of demand and that the medium term outlook remained positive.

At the ITB Berlin Travel Trade fair in March, a second meeting of the Emergency Task Force was convened to review the progress made towards implementing the Phuket Action Plan. It was announced that little over three months since the tsunami hit, the tourism industry in the affected regions had experienced a swifter than expected return to business for tourism enterprises and facilities. Additionally, a WTO market research report co-sponsored by Visa International was distributed during ITB on the flows of tourism from generating markets.





Dr. Sasithara Pichaichannarong, Director-General of the Office of Tourism Development, Ministry of Tourism and Sports of Thailand chaired the second meeting of the Emergency Task Force for tsunami recovery at ITB, Berlin

As another step to expedite the tsunami recovery, WTO's regional TOURCOM conference in Bali, Indonesia, was held in May, attracting top experts in tourism communications and journalists. Attracting 200 participants from 20 countries, the event gave media professionals an opportunity to share experiences and exchange views on a wide range of tourism communication issues, and establish the beginnings of a new partnership between the tourism community and the travel and business media. With the tsunami as the underlying theme of the conference, the importance of effective communications in the post-crisis phase was emphasised. Bill Clinton, UN Special Envoy for Tsunami-affected countries, recorded a video message for TOURCOM, appealing to the media for the accurate dissemination of information to the public on areas affected by the tsunami, to facilitate quicker recovery.



Former President of the United States and Special Envoy for tsunami recovery, Mr. Bill Clinton, addressed the delegation at TOURCOM via video, stating

"In order for the area to recover, we must get the tourists back and you can help"

The initial optimism in tourism recovery expressed at the second task force meeting at the ITB in Berlin had to be reviewed in June since the arrivals to the four destinations showed a slower pace of growth than expected. This was confirmed by the second Visa International research study for the Bali TOURCOM as well as the WTO's tourism barometre published in June. As a result two further review missions were undertaken by the Regional Representative to Asia and the Pacific in Thailand in June and by a WTO consultant in the Maldives in May 2005.

The mission in Thailand in June revealed that the Thai government had installed three tsunami early warning towers in Patong beach, Phuket, and others in eleven beaches were to be completed very soon. This was in keeping with the pledge made by the Honourable Minister of Thailand in his welcome address to the WTO special Executive Council meeting in January in Phuket. The Regional Representative for Asia and the Pacific conducted a site inspection in Phuket and held further discussions with related stakeholders in both Phuket and Bangkok. He was encouraged by the fact that the government was in the process of formulating new tourism Master Plans in the tsunami affected areas of Patong and Kamala beaches which will guarantee redevelopment on the principle of sustainability. Even taking into account the slack season, the 30% hotel occupancy rate in the Phuket area required an aggressive communication campaign.



Left: Early warning system tower in Patong Beach



Right: A bird's eye-view of a tourism complex in Maldives

A post tsunami review was conducted by the Maldives Ministry of Tourism and other stakeholders in collaboration with WTO at the end of May 2005. The objective of the meetings was to raise awareness about the need for a Disaster Management Plan for the tourism sector and to solicit information that will form the base of the plan. The result of the tsunami review highlighted the need for improvements of the Male International Airport, telecommunications, early warning alerts, resort and marine safety, all of which showed deficiencies in one way or another when the tsunami struck. The tourism recovery measure called for more promotions, better communication and fiscal incentives and relief for the tourism sector.

In July, the Regional Representative for Asia and the Pacific attended the humanitarian segment in the substantive session of the United Nations Economic and Social Council (ECOSOC) meeting in New York, to present a report on the progress of the recovery effort of the tourism sector in the affected countries. By reporting to the ECOSOC meeting, WTO sought further International support from other UN agencies by persuading them to assist the tourism sector since tourism is indispensable for the economic recovery of the region. The mission further urged the members of the UN family that while physical and humanitarian aid would continue to be needed, the equal importance of the non-physical aid, such as communications, should not be ignored. The perceptions of the general public from the source markets of the affected areas have to be changed in order for tourism to recover. Former United States President Bill Clinton, the United Nations Special Envoy overseeing tsunami recovery efforts, urged the UN and its partners to maintain momentum for what may be the most difficult phase, declaring that the world body was "the glue that holds international cooperation together."

Since the region had experienced a temporary set back in the summer season, it was necessary to make a reassessment of the progress in the forthcoming peak season. WTO therefore decided to send a consultant to the region in November for this purpose. Amongst others, in keeping with the objectives of the Action Plan, the consultant was required to review the progress in the longer term, examining early warning systems, crisis management, and sustainable redevelopment, which will be reported to the Secretary-General for the General-Assembly in Dakar.



Cleaning up debris to expedite recovery in Sri Lanka



Join hands in tourism recovery

The experience of implementing the Phuket Action Plan indicates that while much has been achieved in the short term and tourism has proved to be resilient with the rallying force and the unity of the international community to support it, a year after the tsunami, there is still room for improvements. Hence WTO urges its members to continue with the global efforts to tackle the longer term recovery plans, particularly in community relief, sustainable redevelopment, and crisis management.



I

# Marketing and Communications

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## 1.1 Objectives of Marketing and Communications

The Phuket Action Plan recognized Marketing and Communications as the cornerstone for tourism recovery as clear, detailed and abundant information is key to recovering the confidence of the marketplace, hence it has been placed as the most important element in the plan. Effective communications is needed on many different levels: government, business, tour operators, travel agents, the media and the public. This is understandable given the role of communications in the modern world. The traditional print and visual media has been enhanced by the internet and mobile phones. The unprecedented publicity given to the tsunami by the media undoubtedly created a negative impact in the hearts and minds of people leading to prejudices, confusion and misplaced facts. Therefore, it was not surprising when the Secretary of Tourism of Sri Lanka mentioned in his speech in Phuket that a concerned customer had wanted to know whether the rock of Sigiriya was still intact after the tsunami! The country that suffered the most from the residual fears of the tsunami was Indonesia. While no tourist installation was affected by the tsunami in Indonesia, there was a common misconception to the contrary with the result that Bali, situated over 3000 kilometres away from the tsunami epicentre of Sumatra and untouched by the quake, suffered a severe drop in arrivals.

Keeping in mind the above-mentioned objectives, a summary of the activities in Marketing and Communications can be found in further details as follows:



The Maldives Hilton:  
open and  
fully operational

## 1.2 Live Information Updates

The first task of the Coordinating Unit was to set up the tsunami recovery website of the WTO. This site, linked to the main WTO website [www.world-tourism.org](http://www.world-tourism.org) is completely autonomous, catering to the needs of professionals and the public alike. It features the ongoing activities of the WTO in tsunami recovery, reflecting the work of the Organization and other inter-related institutions such as UN bodies, professional organizations (PATA), Governments, travel trade, media, and last but not least, the affected countries, in a more centralized manner. The biggest advantage of this site is its linkage with the sites of these organizations, thereby giving access to further information and data on tsunami issues pertaining to tourism recovery in general and to the four countries, Thailand, Indonesia, Sri Lanka and the Maldives in particular. WTO is also actively revamping the website and updating it with the latest tourism related news from the region and has recently introduced video footages which carry recent images of the destinations to provide a more positive image of the region. Therefore it can be proudly said that the WTO site is the most up-to-date information unit on tourism recovery following the tsunami and is the voice of international tourism. WTO strongly urges members to consult the site for more detailed information on speeches, reports, FAM trip articles and research work. The documents produced in this book are only partial.



WTO revised Tsunami Website on tourism recovery updates

### 1.3 Familiarization Trips

One of the areas under Marketing and Communications of the Phuket Action Plan was clear, detailed and abundant information to recover the confidence of the marketplace. In this respect tour operators play a vital role. While a majority of the tour operators has its own source of information, it was seen by the WTO that a symbolic trip by the major operators at a senior management level will help to boost visitor confidence, and at the same time, give the governments concerned an opportunity to update the operators with the progress and plans in terms of infrastructure development, marketing and communications and to diffuse this information to the general media. Therefore, the following FAM trips to the affected region have been completed or yet to be made:

#### 1.3.1 WTO Press trip to four countries

Sixteen internationally renowned journalists joined two press trips organized by the World Tourism Organization in partnership with Indonesia, Thailand, Maldives and Sri Lanka from 24 February to 5 March 2005. The task of the mission was to research the actual damage in tourist resorts, to provide balanced and honest information and to restore confidence of the consumers as well as the travel trade. The group included prominent journalists from major tourism generating markets such as United Kingdom, France, Germany, Italy, Spain and Russia. Numerous articles were published following these two trips and are featured in the WTO website.

Left on the top: Thailand  
The press group prior to departure to Thailand (Sponsored by Thai Airways)



Right on the top: Indonesia  
The press group welcomed in Indonesia

Left on the bottom: Maldives  
The press group with the Maldivian officials



Right on the bottom: Sri Lanka  
Press group meeting the locals while inspecting the island

**has not - but we return**

**THE term Paradise Island is perhaps overused and often perhaps exaggerated when talking to tourists and to local residents.**

**But in the case of The Maldives the description accurately reflects the experience that awaits visitors.**

Located just north of the equator a thousand long thin islands sitting on coral skeletons the surface of the Indian Ocean, bristling with the most luxurious and visually impressive island resorts on earth.

These islands are just islands of white sand and as small as in only years ago.

On March 11th a massive earthquake struck the Indian Ocean, causing a tsunami that struck the Maldives, destroying 11 of the 12 resort islands and causing the loss of thousands of lives.

By the end of February when I visited the Maldives, only 12 resorts remained standing.

When I was in the Maldives, the President of the Maldives, Mohamed Nasheed, and his wife, the First Lady, were in the Maldives, and they were inspecting the damage.

The press group is inspecting the damage to the Maldives, and the Maldives government is planning to rebuild the islands.

**CENTRAL GOVERNMENT** increased by shallow coastal waters full of waste. But, the highly scenic island resort is now beautiful once again. Photo by [Name].

A clipping from a travel news of April 2005 boosting what the Maldives has to offer

### 1.3.2 WTO FAM trip of tour operators to Sri Lanka and the Maldives

In this respect, a FAM trip of two senior tour operators, Mr. Martin Brackenbury, President, IFTO and Mr. Fulvio Oginibene, Chairman, Hotelplan Italy, visited Sri Lanka/Maldives from the 5 to the 11 April 2005, and their findings have been summarised in the WTO website with the various recommendations forwarded to the respective countries.



### 1.3.3 WTO FAM trip of tour operators to Indonesia

A second FAM trip to Indonesia, with the participation of various senior tour operators from the major European generating markets, was undertaken to coincide with TIME Travel Mart from the 20-29 September 2005



*Left on the top:* Tour Operators exploring Monuments in Indonesia



*Left on the bottom:* Miss Indonesia at the TIME Travel Mart in Yogyakarta, promoting the beauty of Indonesia



*Right on the bottom:* Operators on a boat ride, exploring eco-tourism in Indonesia

### 1.3.4 WTO FAM trip of Chinese tour operators and travel writers to Thailand

With the participation of the Southern Comfort China Travel Group and the Tourism Authority of Thailand, a WTO FAM trip consisting of the major tour operators from the Chinese market was undertaken in August 2005 to visit the coastal provinces of Thailand.



*Left:* Chinese Tour Operators delegation photo group upon their arrival in Thailand



*Right:* Chinese tour operators in discussions with the Thai Tourist Authorities

### **1.3.5 Mega-FAM trip for South Thailand**

Over 800 international tour operators and travel journalists visited the Andaman coastal provinces of Thailand for a Mega-FAM Trip from 3 – 7 March, 2005. The familiarization trip was organised by the Tourism Authority of Thailand (TAT), THAI Airways International, Tourism Council of Thailand (TCT) and the Thailand Convention and Exhibition Bureau (TCEB).



The Andaman Islands

### **1.3.6 Press trip from the Republic of Korea**

Apart from joining the FAM tour organized by TAT of Thailand, the Government of the Republic of Korea, through its Ministry of Culture and Tourism, has responded to the global efforts by initiating Korean journalist groups to visit Maldives, Sri Lanka and Indonesia in March of this year. FAM trips for tour operators of Korea were carried out in May 2005.

### **1.3.7 More FAM tours of tour operators by generating countries**

Under the initiative of other source markets, such as Japan, further FAM trips were organized to the affected areas for global recovery efforts.

## **1.4 WTO Communication Experts**

WTO has provided the services of two communications experts in Indonesia (May-July 2005) and in Sri Lanka (June-July 2005). The mission of the experts has provided positive and updated information on tourism of both Indonesia and Sri Lanka that is reflected in the WTO website and in major media channels. The experts also liaised with the stakeholders and media in respective countries and trained an Officer who is continuing the work upon the completion of their assignment.

## 1.5 Regional TOURCOM Conference

Tourist resorts in Indonesia suffered no direct damage from tsunami, but faced severe decrease of visitors as a result of the residual effect of the image problem. In this respect, the WTO regional TOURCOM Conference was held from 20-21 May in Bali, bringing together journalists and tourism communicators and updating their knowledge about tourism and the tsunami recovery process. Mr. Bill Clinton, former President of the United States and Special Envoy of the United Nations for Tsunami Relief, made a video address to the 200 delegates of the Conference.



*Left on the top: Welcome Balinese style for the TOURCOM delegates*



*Left on the bottom: Communication Seminar during TOURCOM*



*Right on the bottom: Opening Gong Ceremony by HE Minister of Tourism of Indonesia*

## 1.6 Assistance in Participating in Fairs and Exhibitions

In terms of fee waiving for tourism trade fairs, more and more organizers are responding to the appeal made in the Phuket Action Plan. According to the information received by the Coordination Unit so far, fees have been waived by FITUR (January) of Spain, KOTFA (June) of Korea, Busan International Travel Fair 2005 (October) of Korea, BITTM (April) of China and Utazas (March) of Hungary. TCV (April) in Valencia, Spain, and Tianguis (April) in Acapulco, Mexico. The Coordination Unit is in contact with other organizers of fairs such as CITM, JATA, REED EXHIBITIONS Ltd; as well as with national governments. The latest fair organizer to support this action is the SITV of Colmar, France, in November 2005.

## 1.7 Maldives Roadshow for the Tsunami Recovery

The Maldives undertook three promotional evenings in Madrid, Barcelona and Lisbon in collaboration with the WTO on the 17th, 18th and 20th October 2005 respectively. A senior official from the Ministry of Tourism from the Maldives gave the visitors an overview of the Maldives with the reassurance that they were well on their way to recovery. The event was attended by tour operators, travel agents, the media, airlines and the Spanish and Portuguese tourism officials.

*Left:* Dr. Abdulla Mausoom, Director-General of the Maldives Tourism Promotion Board, presenting the latest recovery updates on the Maldives

*Right:* Attentive guests at the Maldivian promotion evening in Lisbon



## 1.8 VISA Market Study 1

Visa International sponsored a VISA/WTO joint market research on the consumer perception of the 4 affected countries. This survey was conducted in major tourist source markets throughout the world. The study provides a quick reference and a scientific base for tour operators to resume their activity in the affected destinations and for the national tourism administrations to orient their advertising campaign in generating countries. For further details, please visit:

- <http://www.worldtourism.org/tsunami/reports/WTOandVisaPostTsunamiTravelIntentionsResearch10March20051.pdf>
- [http://www.world-tourism.org/tsunami/news/Tourism%20Update\\_visa.pdf](http://www.world-tourism.org/tsunami/news/Tourism%20Update_visa.pdf)



VISA partnership with WTO

## 1.9 VISA Market Study 2

Visa International updated their initial survey and presented their findings to the TOURCOM Conference in Bali (20-21 May), and it was clearly evident that the pace of the recovery process remains much to be desired especially as a result of misconceptions and misinformation at source markets.



Mr. James Murray, Executive Vice President of VISA International, addressing TOURCOM, Bali

## 1.10 Global Advertising Campaign for the Region

Through the findings of the Visa International survey, it became obvious that there was a dire need for global advertising campaign for the region. As advertising is costly and financial assistance for this type of activity extremely difficult to obtain, the Secretary General of WTO, with the support of the Spanish Government, initiated contact with the EU for the possibility of a global advertising campaign to target residual fears of potential tourists. Unfortunately the response so far has not been positive as the Union has found it difficult to incorporate the request into their agenda. However WTO is hopeful of a re-evaluation of its request in the future.

## 1.11 WTO Market Research

In addition to the consumer perception survey deriving from the demand side, the WTO Secretariat is actively collecting information from the supply side in terms of visitor flows, air traffic patterns as well as hotel occupancy levels in the affected destinations. The result of this exercise is released by the WTO Market Intelligence and Promotion Department. It is pertinent to mention that the *Asociación Española de Expertos Científicos en Turismo*, in an act of solidarity, pledged a token of contribution for the implementation of the tsunami action plan. While the amount is small in comparison to the needs, it is nevertheless a worthy contribution that can be used to enhance knowledge through research.

## WTO World Tourism Barometer (October 2005)

### Tsunami recovery update by WTO

**The end of September marks nine months since the devastating tsunami that swept the Indian Ocean on 26 December 2004. While rehabilitation is expected to take another six months to two years –and full recovery of the hardest hit areas including job regeneration could take even longer– tourism has proved to be more resilient than expected.**

Indonesia's Aceh Province, which suffered most of the damage caused by the quake and tsunami, is not an important tourism region. But poor perceptions of distance have meant that potential tourists to the country are mostly unaware of how far Aceh is from the main tourist areas. And the country suffered a further earthquake on the island of Nias at the end of March. So the impact on travel demand for Indonesia, which was mitigated during the first few months of the year as a result of a huge influx of aid workers, has nonetheless been fairly significant. The year-to-date decline –to the end of July– is just over 4%. However, the positive performance of Bali, up 5.5% over the seven-month period, has helped to stem the losses. Moreover, short-term prospects are bullish because the Indonesian Government has further liberalised visa requirements, allowing visitors from 14 more nations to purchase visas when they arrive in the country. Last year, an initial 21 were granted the visa-on-arrival facility.

The Maldives is the destination that has suffered the most as a result of the tsunami, in terms of a decline in tourism demand. Arrivals fell by 45% from January through August, attributed largely to a drop in consumer confidence and in airline capacity. China, France, Japan and Republic of Korea are the markets most affected, reflecting the fact that consumer confidence is not a regional characteristic. According to the latest data available, there are 72 resorts open in the islands, eleven remain closed and are being renovated, and four are still under construction.

On the positive side, some markets appear to have picked up strongly after a decline in the first quarter of 2005. Russia is one example, down a relatively modest 9% after the first eight months (in terms of outbound holiday trips from Russia to the Maldives). In addition, marketing and promotion have been stepped up by the Maldives Tourism Promotion Board (MTPB), with several roadshows in major source markets already undertaken or planned. If the current target of the MTPB is achieved, the overall decline in arrivals should be less than 25% for the full year, and next year should see a strong recovery.

Although Sri Lanka's year-to-date foreign arrivals count was up 13% to end-June 2005 –thanks to a more than 30% increase in the three

months from March through May and a 42% rise in June– the destination's arrivals mix has been very different from its traditional breakdown. As statistics gathered by the Pacific Asia Travel Association (PATA) confirm, hotel occupancy in Colombo City has risen, but there are still significant declines in the southern regions of the country, which is where most of Sri Lanka's tourism plant is located.

While some of this year's growth is due to aid workers and Sri Lankan expatriates returning to the country to help in the rehabilitation, Indian leisure arrivals –up 47%– have been boosted by the introduction of visa-free entry and improved air links. Meanwhile, China, which has not been a significant source for Sri Lanka until now, is a main focus of the country's 2005 marketing and promotion, since the first direct flights between the two countries were launched in mid-June this year by Sri Lankan Airlines.

Direct air arrivals in Thailand for the first eight months of 2005 through Bangkok's Don Muang Airport were up just under 3% compared to last year. And estimates for total international arrivals in the first five months pointed to an 8.5% increase. Given that forward bookings for winter 2005/06 are encouraging it now seems more than possible that the 13.4 million target of the Tourism Authority of Thailand (TAT) will be achieved this year –a growth of nearly 15%:

A key priority is to restore confidence in important Asian markets such as China, Taiwan (province of China), Hong Kong (China) and the Republic of Korea –all well down on 2004. These four markets between them accounted for 25% of all arrivals in 2004.

The Thailand-wide arrivals' statistics nonetheless highlight the fact that tourists are exploring other parts of the country, including the seaside resort of Hua Hin and the northern city of Chiang Mai. But air traffic and accommodation statistics for Phuket, for example, confirm that there is still some way to go.

Overland travel from Malaysia and Singapore, meanwhile, will be harder to attract back, given the incidents in the south of the country, while the recently signed open sky agreement with the USA may contribute in the medium term to improve arrivals figures.

For further updates on each destination's progress, see WTO's dedicated Tsunami Recovery website at [www.world-tourism.org/tsunami/eng.html](http://www.world-tourism.org/tsunami/eng.html)

#### Trends in international tourist arrivals in key tsunami-affected destinations

	Full year				YTD			2005/2004							
	2003	2004	03/02	04/03	2004	2005*	05*/04	Jan	Feb	Mar	Apr	May	Jun	July	Aug
	(1000)		%		(1000)	%									%
Indonesia <sup>1</sup>	3,691	4,541	-9,8	23,0	2,558	2,454	-4,1	-2,7	-3,9	-2,4	3,6	-6,8	-9,7	-4,8	
Bali <sup>2</sup>	993	1,458	-22,8	46,9	952	1,005	5,5	-2,0	19,3	17,4	4,7	-0,5	3,5	7,0	
Maldives <sup>3</sup>	564	617	16,3	9,4	416	230	-44,8	-69,7	-50,8	-44,0	-46,4	-40,0	-33,2	-31,4	-31,3
Sri Lanka	501	566	27,3	13,1	275	311	12,9	-23,5	-15,9	31,2	37,8	35,5	42,3		
Thailand <sup>4</sup>	6,877	8,188	-9,7	19,1	5,253	5,406	2,9	-18,7	7,3	17,6	-3,8	4,9	8,2	5,97,9	

Source: WTO, based on data gathered by PATA from respective member national tourism organisations (NTOs)

1 Arrivals through 13 ports of entry

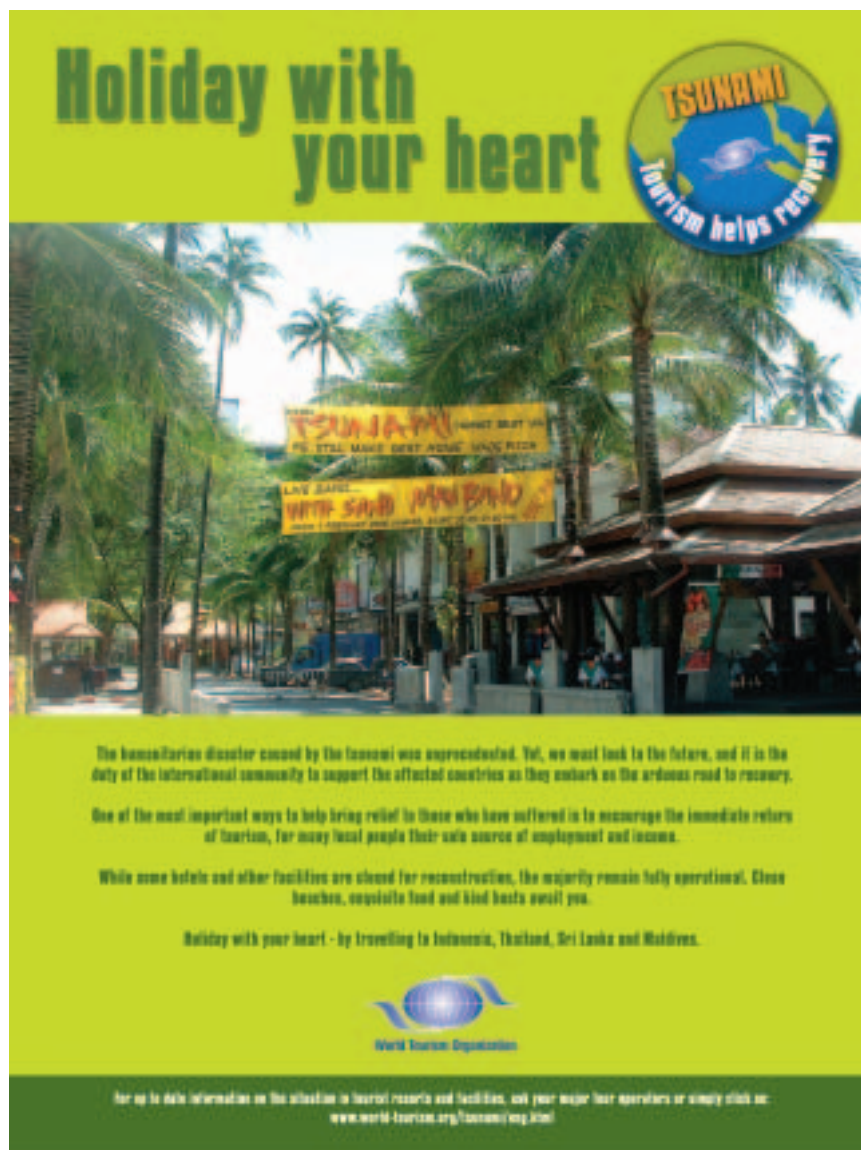
3 Air arrivals

2 Direct foreign tourist arrivals

4 At Bangkok Int'l Airport (excludes overseas Thais)

## 1.12 Stickers and Posters

As part of the global communication campaign, WTO produced 20,000 copies of promotional stickers under the slogan of “Tsunami - tourism helps recovery”. Posters of similar nature have also been produced. Copies were distributed to the general public during ITB and in other occasions.



Rights: WTO stickers promoting “Tourism Helps Recovery”

Left: Tsunami posters promoting tourism in the region at ITB





II

## Community Relief

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## 2.1 Objectives of Community Relief

While other international agencies and institutions focus their programmes on the humanitarian needs and reconstruction of infrastructure, the Phuket Action Plan concentrates on the human element of the recovery: saving tourism jobs, re-launching of small and medium-sized tourism enterprises, repositioning of the tourism product to be more sustainable and less vulnerable and most importantly, restoration of consumer confidence in the tourism destinations affected.

The impact of the tsunami on the livelihood of the people varied from one country to another. In the case of the Maldives, tourism constitutes one third of the GDP. While the growth rate of the Maldivian economy averaged 8% in 2004, the estimated figure of 2005 was under 2%. Therefore it was imperative to undertake an economic impact assessment of the tsunami on the Maldivian economy due to the resultant unemployment and financial losses to the workforce thereby affecting the local communities.

In the case of Sri Lanka and Thailand, the consequences of the tsunami to the tourism industry were two fold. On the one hand, many people from the tourism sector lost their lives in the disaster and others lost their livelihood through damage to property and material. The big hoteliers were able to obtain insurance coverage for their losses, but the small time businessmen – restaurants, boutiques, bicycle and watersport equipment rentals, vendors, etc. had no recourse to financial recovery. Most of these entrepreneurs belong to small and medium scale enterprises (SMEs).



Small jewellery boutique along the beach of Sri Lanka affected by the tsunami

While humanitarian aid reached various sectors of the community, those dependent on tourism were neglected. The situation was further compounded by the fact that many of these entrepreneurs were not legally registered as business ventures, WTO therefore undertook two research studies to assess both the direct and indirect impact of the tsunami on the tourism SMEs, and their consequent effects on local communities in Thailand and Sri Lanka. A number of NGOs had been involved in community relief, and in this respect, WTO called on microfinance organizations to participate in this relief effort.

A summary of the activities in Community Relief can be found in further details as follows:

## 2.2 Evaluation of Tsunami Impact on Tourism in the Maldives

The need for the international tourism community to inform donor agencies and governments about the remaining problems and encourage them to channel more funds to the tourism sector, has led to the organization of a mission of economic impact analysis of the tsunami on the GDP of the country. One specific objective of this mission was to identify on a micro-level the assistance needs of the hoteliers in terms of recovery funds.

## 2.3 Proposal for Channelling Funds for Assistance to SMEs

The WTO Secretariat commissioned studies on Thailand and Sri Lanka in order to assess the situation of funding relating to the SMEs in the tourism sector in these two countries. The mission to Sri Lanka was implemented by a senior WTO consultant, while that of Thailand was carried out by a former senior UNDP official. Both missions are aimed at formulating guidelines on how to channel recovery funds to small and medium tourism enterprises.



A Sri Lankan entrepreneur restarts his business

### 2.3.1 Sri Lanka

Based on the study on Sri Lanka, WTO organized a joint workshop with the Sri Lanka Tourist Board in Colombo on the 13-14 July 2005 on “Microfinance and Assistance to SMEs in the Tourism Sector”. The workshop was attended by 75 local participants from the public and local sectors – Ministry and Tourist Board officials, representatives from banks and Chambers of Commerce and NGOs. The International Finance Corporation and Planet Finance were amongst the foreign participants



Mr. Germán Porras, Special Advisor to the Secretary-General on tsunami affairs, lighting the traditional oil lamp before the SME workshop in Sri Lanka

### 2.3.2 Thailand

A study was undertaken by a WTO consultant and the report on recovery on SMEs affected by the tsunami in Thailand handed in to WTO. An independent workshop on post-disaster SME financing “Enhancing Capacities for Rapid Recovery in Asia” was undertaken by the Thai government in association with the United States Trade and Development Agency in November 2005. WTO consultant due to present his findings.



Awaiting patiently for customers under the shade

## **2.4 “Adopting” a Village in Sri Lanka**

The President and CEO of the Tourism Industry Association of Canada wrote to WTO offering the Association's assistance to one of the Tsunami affected countries. The Association is particularly keen in helping one tourism community which was severely affected by the tsunami. The Coordinating Unit is in touch with the Sri Lankan authorities and has identified a beach resort on the East Coast destroyed by the tsunami.

## **2.5 Post-Tsunami Sumatra: Revitalization of the Tourist Sector**

The problems of Aceh, being located on the island of Sumatra, and therefore affected by the tsunami had a direct impact on the development of tourism of Sumatra. This had had repercussions on the tourists sites and installations in Sumatra such as Minangkabau, Medan, Lake Toba, Gunung Leuser National Park, Siberut island and Bukit Lawang. The economic impact has left hotels and restaurants empty with a great deal of unemployment. Poverty is a problem for those dependent on tourism revenues and several owners of tourist operations have been forced out of business. WTO has received a proposal for the rehabilitation and revival of tourism in the region. This project is due to commence in December 2005.

III

# Professional Training

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### 3.1 Objectives of Professional Training

Along with community relief, professional training constitutes an essential element of the Phuket Action Plan. The loss in lives and the disruption of families meant that the workforce, particularly those involved in the hotel industry, was depleted. Professional training courses were therefore required to re-train staff to find new jobs or to help update their skills while waiting for their former jobs to be available again. It is to the credit of the countries concerned that the local hotel and travel trade associations undertook in-house training on their own initiatives and the request for assistance that was initially acute was satisfied to a large extent. WTO's role in this field has been that of an umbrella organization with overall coordination. It is also pleasing to note that many other institutions who are members of the WTO task force have also conducted a variety of activities in the countries concerned in professional training such as PATA and TUI.



"Welcome back!"

Keeping in mind the above-mentioned objectives, a summary of the activities in professional training can be found in further details as follows:

### 3.2 WTO Workshop on Training in the Tourism Industry in Thailand



Local staff ready to welcome tourists

One workshop has been planned with the Ministry of Tourism and Sports of Thailand in collaboration with the Thammasat University and the University of Hawaii in conjunction with the Government's plan to conduct training activities for the tourism industry.

### 3.3 Practicum

WTO prepared one proposal to seek special financial assistance for three participants to enable officials from countries seriously affected by the tsunami to attend the WTO.HRD Practicum which they did at the end of April for the courses organized at the WTO headquarters.

### 3.4 Repositioning and image recovery

A one-week technical seminar is to be conducted by WTO.HRD, the Education Council and other leading experts in positioning, re-positioning and image recovery of Indonesia in Bali in December 2005. The conclusion of this project will be a solid scientific/professional brief jointly agreed executive plan to re-position tourism destinations after a crisis. It will not only help this particular destination, but will also create an excellent case study for other instances in the area. The Government of Andorra will finance this project.

### 3.5 Training Course on Rescue Techniques

It may be interesting to note that the recent Tsunami event can be thought of in terms of a Swiftwater problem as much as an ocean problem. For instance once the Tsunami hit land, the water behaves much more like a river than a wave. Therefore, a 5-day course taught in Pitsanulok Province, Thailand with the internationally-recognised Swiftwater Rescue Course administered by an organisation called Rescue 3, has been undertaken. This course is a standard prerequisite for rafting guides in many countries. As well as tailored courses specifically for Rafting, they have a programme of various rescue courses in water related, aviation and High Angle Rescue.



A course on river rafting





IV

# Sustainable Redevelopment

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## 4.1 Objectives of Sustainable Redevelopment

Sustainable tourism has been a priority area in the general program of work of WTO. Post-tsunami redevelopment offered an opportunity to correct past mistakes, with a better diversified product to the international market.

Sustainable redevelopment involves improving the physical and socio-economic environment to be developed mainly in the coastal areas of Sri Lanka and Thailand that were ravaged by the tsunami. It also entails identifying new products based on an assessment of market trends both international and domestic, and providing strategic planning policies to meet these trends. In an ever increasing trend in search of environmentally friendly products, the sustainable redevelopment programs have to meet certain international standards and expectations. Finally sustainable redevelopment would be meaningless without the participation and protection of the local communities providing better livelihood and opportunities for poverty alleviation.



Community effort to clean a local beach in Thailand: we're all in it together

These measures involved the green belt development of Sri Lanka and Thailand as well as the Master Plans for Maldives and the southern coast of Thailand. There are envisaged for implementation in the mid and long term. It is hoped that the basic research undertaken in the sustainable indicators workshop in Phuket in May and the green belt redevelopment of tourism infrastructure along the Sri Lankan coastline in July will stand in good stead for future activities in the areas affected as well as in other destinations.

## 4.2 Indicators Workshop in Thailand

WTO undertook an "indicators" workshop in Phuket from the 12 to the 15 May 2005 on the subject of sustainable tourism development. Participants from the tsunami affected destinations attended the workshop. The workshop was conducted on the basis of the newly published WTO indicators study on sustainable tourism development. The results should provide a good source of benchmarking destinations in sustainable practices.



Left: Beachfront activities in Patong beach on may 2005



Right: The new tsunami warning tower in Patong beach

## 4.3 Green Belt Redevelopment

### 4.3.1 Sri Lanka

WTO identified some longer term initiatives in Sri Lanka with regard to Green Belt redevelopment and infrastructure development on the southwest coast of the country. The expected output of this initiative will be an updated tourism development Master Plan for development of coastal tourism in Sri Lanka based on sustainable tourism practices including specific guidelines for zoning and coastal tourism management. The mission was completed in May 2005 and the report has been submitted to the government of Sri Lanka.



### 4.3.2 Thailand

Similar initiatives are being pursued in Thailand. The issue of green belt redevelopment in Phuket and outlying areas is identified. A tourism development master plan is being sought after for development of coastal tourism in Phuket and outlying areas based on sustainable tourism practices including specific guidelines for zoning and coastal tourism management. Funding is awaited.

## 4.4 Tourism Master Plans

### 4.4.1 Maldives

As for the Republic of Maldives, the Government requested WTO to start working on a third tourism development Master Plan. Especially after what happened to the country during the disaster, it was felt that there is an urgent need for the tourism sector to look at some long term perspectives of the sector. The focus would be the repositioning of the country and the diversification of its main source markets. Funding is awaited.



Maldives: the sunny side of life

#### 4.4.2 Thailand

The tourism industry in Southern Thailand has taken a severe hit after the tsunami with loss of tourism infrastructure and tourism plant as well as loss of skilled staff. In this respect, one project has been identified, aiming to provide the Government of Thailand, represented by the Ministry of Tourism and Sports, with a sustainable Regional Tourism Development Master Plan for the Southern provinces of Thailand. The project will provide strategies and guidelines for sustainable tourism development practices, including beach resort development and human resource development. Emphasis will be placed on protection of the physical, historic and cultural environments and tourism resources at the local level and would also provide policies for the diversification of the tourism products in Southern Thailand. Funding is awaited.



Potential beaches for sustainable redevelopment in Thailand

V

# Risk/Crisis Management

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## 5.1 Objectives of Risk/Crisis Management

Asia has been prone to natural and man-made crisis with the tsunami being the latest to affect the Indian Ocean region in a long series of unfortunate events. The tourism industry has shown its resilience to rise above these calamities in a short space of time. However, having faced with these crisis, a number of general and specific lessons have been learnt that help to meet future challenges in a more confident and positive manner. The tsunami was a natural phenomenon of a rare occurrence but given the sparse knowledge and the fears of a recurrence, it was necessary to plan for the future on the risk and crisis management. Special attention was therefore paid to risk analysis in beach front construction



Special attention is now paid when constructing beach front properties

and tsunami early warning systems. Global efforts to establish tsunami early warning systems in the Indian Ocean had been a priority, while governments of the affected countries, in particular Thailand have addressed the issue by constructing their own systems. This proved to be efficient when the second earthquake occurred in Nias Island in Indonesia on the 30th of March. Though it did not lead to a tsunami, the warning systems ranging from the rudimentary (ringing of temple bells in Sri Lanka) to the more sophisticated towers in Thailand proved to be efficient.

Crisis management plans to establish clear communication channels and increase cooperation between the tourism sector and public safety authorities, training workshops, seminar etc., are being implemented in all the countries. There has been an overlap between communication and crisis management in the work undertaken by WTO. For example, the two consultants posted to Indonesia and Sri Lanka on the communication mission spent much of their time on crisis management, with the result that Sri Lanka requested for the consultant to return to the country in December to conduct a special course in crisis management. WTO is also heartened by the fact that the response of Indonesia to the recent crisis (Bali bombing in September 2005) was prompt and precise, proving that the communication mission has borne fruit.

## 5.2 Advance Technology Emergency Information Network in the Tourism Sector

Tsunami reinforced the belief that tourism is a frequently exposed sector to natural and man-made disasters. Such exposure calls for new permanent mechanisms to prepare for their inevitable occurrence, to mitigate risk and to enhance response. In this regard, preparatory work has been initiated and a small Steering Group is being set up to work towards the eventual establishment of the global Advanced Technology Emergency Information Network for the tourism sector, as proposed in the Phuket Action Plan. Materialisation of this system will fill up the gap that exists in the field of communications /information exchange and on the interface among tourism industry, government, international organization, NGO and media action. This work is being closely co-coordinated with related general “emergency” initiatives in the World Economic Forum and in the private sector.

### 5.3 Crisis Management Seminar at SATTE in India

WTO, in collaboration with the South Asia Travel and Tourism Exchange (SATTE), organized an Asia-Pacific Seminar on Crisis Management which was held in New Delhi, India from 20-21 April 2005. SATTE is the biggest tourism and travel trade fair in South Asia and served as an excellent forum to bring together representatives from the public and private sectors, and to discuss the latest developments in formulating and implementing crisis management plans. Case study presentations on crisis management plans for both natural and man-made disasters such as the Tsunami, SARS, terrorism, and, financial crises were delivered by representatives from Australia, China, India, Malaysia, Maldives, Nepal and Sri Lanka as well as presentations from the private sector, the International Federation of Tour Operators and regional organizations such as UNESCAP. Approximately 80 participants from 12 countries actively participated in the deliberations of the seminar.



WTO/SATTE Seminar in Delhi on Crisis Management

### 5.4 WTO Workshop on Crisis Management in Maldives

One workshop together with training activities was scheduled in June/July 2005 for Maldives. It is aimed at building awareness about the need for integrated and participative crisis management within the tourism industry--both the public and private sectors--and in other related government agencies, such as public safety, health, environmental protection and aviation. The workshop also gave detail on how to create a crisis management team and a crisis plan, and prepared tourism workers in practical crisis management techniques.



Male Harbour

## 5.5 WTO Youth Camp in Southern Thailand

A seven-day workshop for 50 youth from Thailand's tsunami effected areas was undertaken in October 2005 by the Asian Center for Tourism Planning and Poverty Reduction. Its goal was to develop strong and committed local leaders in tsunami affected areas who can help their own people.



Despite a crisis, hoteliers are ready to welcome tourists back to Patong beach

## 5.6 Crisis Management Workshop in Sri Lanka

A workshop is planned with the assistance of a WTO consultant in Colombo, in December 2005.



# Annexes

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## A. Tsunami Relief for the Tourism Sector Phuket Action Plan

Adopted at the WTO Executive Council Meeting  
(Phuket, February 2005)

*"We can do no great things,  
only small things with great love".*

*Mother Teresa*

### 1 Introduction

In solidarity with the victims of the Asian tsunami of 26 December, the international tourism community is rallying together at one of the scenes of the disaster in Phuket, Thailand, to offer condolences to family and friends of the many victims and to launch a comprehensive regional assistance program for recovery from this tragedy.

With most of the immediate humanitarian needs such as sanitation, food and housing now being met thanks to the massive outpouring of aid from around the world, we are turning our attention to rescuing and rebuilding the livelihoods of survivors in the tourism destinations of tsunami affected countries.

While acknowledging with great sorrow the massive loss of life throughout the region, the tourism sector is offering relief in the industry where it has the greatest influence and expertise. It is offering its assistance at the right time, the critical moment after all physical danger has passed and future threats come mainly from the lack of tourists.

Tourism destinations in four countries have been identified for assistance under this Plan of Action: Sri Lanka, the Maldives, Thailand and Indonesia. The Phuket Action Plan does not involve the rebuilding of infrastructure or hotels, which is already being covered by other agencies and insurance companies. Instead it focuses on the human element, saving tourism jobs, relaunching small tourism-related businesses, and recovering the visitor flow that makes these economies work.

The principles of sustainable tourism development underpin the entire Phuket Action Plan. Our aim is to ensure that the tourism sector in these four countries emerges from this disaster stronger and more resilient than before, with more environmentally friendly systems, more civil society involvement in the tourism industry and more revenues from tourism remaining in the local community.

### 2 Objectives

The main goal of the Phuket Action Plan is to speed up recovery of the tourism sector in the affected destinations, by restoring traveller confidence in the region so that visitor flows resume as quickly as possible. The plan also aims to help destinations resume normal operations by maximizing the use of existing tourism infrastructure and by helping small tourism-related businesses and employees survive the recovery period.

Secondary goals include, putting systems in place that strengthen the sustainability of the affected destinations and working with the United Nations system on disaster reduction in the region. The plan is divided into five operational areas:

- Marketing-Communications
- Community Relief
- Professional Training
- Sustainable Redevelopment
- Risk Management

Some of the activities included in the plan are regional in nature, while others are designed specifically for each country.

### **3 Action areas**

#### **a) Marketing-Communications**

Clear, detailed and abundant information is key to recovering the confidence of the marketplace. Effective communications is needed on many different levels: government; business; tour operators; travel agents; the media; and the public. Special attention needs to be paid to travel advisories. The use of special events and development of new products is also needed to help speed the recovery process.

#### **b) Community Relief**

Small and medium-sized tourism businesses in the affected destinations, such as restaurants, handicraft producers and boat hire, have less access to recovery funds than large corporations, so assistance is urgently needed. In addition, many of these enterprises are family-based and may have lost family members in the tsunami. Technical and financial support is needed to help them resume business and increase competitiveness.

#### **c) Professional training**

The tsunami disrupted the employment of thousands of people, many of them women and young people. Retraining programmes are needed to help them find new jobs or to help update their skills while waiting for their former jobs to become available again. Likewise, new employees for the tourism industry need to be trained to replace those who perished. Building leadership capacity and counselling for those in the tourism sector are also needed.

#### **d) Sustainable Redevelopment**

Post-tsunami development offers the opportunity to correct the mistakes of the past and make the re-emerging destinations among the best in the world in terms of environmental conservation and community involvement in the planning process. It offers the chance to rethink and diversify the product offer so that destinations become more competitive in the global marketplace.

#### **e) Risk Management**

To make coastal tourism destinations safer and more secure, risk management analysis will be conducted, with special attention to beachfront construction. Crisis management plans will be reviewed to establish clear communication channels and increase cooperation between the tourism sector and public safety authorities. Training workshops will also be offered in risk and reputation management.

## 4 Joint Regional Actions

Impact on tourism in the region: As the biggest natural disaster the world has ever seen, the tsunami has had a considerable impact on tourism in the region. With unimaginable scenes of devastation, an overall death toll surpassing 280,000 and more than 3,500 international tourists dead or missing, it is still exerting a strong psychological fear of visiting the region. The countries that suffered the most impact to tourism were: Sri Lanka—although interior destinations continue to operate normally; the Maldives—with about 25% of resorts closed; and Thailand—where three famous beach destinations were hit. Without trying to diminish the huge dimension of the human tragedy, WTO estimates that tourism to the affected destinations represents only 1% of total world arrivals. Recuperating from the SARS crisis, Asia-Pacific was the world's fastest growing tourism region in 2004. Medium and long-term prospects for the region remain strong, as it has repeatedly demonstrated a resiliency following multiple crises over the past decade. In the short term, assistance is needed to get tourists coming back and to help small tourism-dependent businesses survive in the interim.

Some ideas to choose from, or add to, the marketing campaign:

### a) Global advertising campaign

The primary idea would be to target the residual fears of potential tourists (disease, clean water, clean food, attraction closures, ghosts) with an upbeat TV advertising campaign in the region's main generating markets. The campaign would use current images that show tourism as usual (safe, fun, relaxing, happy, delicious) in affected beach resorts, using simple thumbs-up slogans delivered by volunteer cinema, sports and other icons, and also demonstrate regional solidarity. Television stations would be encouraged to run the series of spots free-of-charge or at a discount in solidarity with the tsunami victims.

### b) Big ticket giveaway

Expanding on Thai Airways "Lucky Draw" campaign—which is giving away 20,000 free tickets to Thai destinations in areas affected by the tsunami—the idea would be to organize the airlines in the region's main generating markets to participate in a "Solidarity Day". One passenger on every flight in that country on the designated day would be selected to receive two free air tickets to visit one of the affected destinations, within the next three months. This would have a two-fold effect: boosting visitor numbers and sales of hotel rooms, while at the same time creating publicity about travelling to the region. Similar giveaways can also be organized with hotels/resorts and tour operators.

### c) Ticket contest or raffle

A collaboration between airlines, tour operators and a key newspaper in each major generating markets could offer as prizes a holiday in one of the tsunami-affected destinations. Winners would be selected from among those who made a small contribution to a tsunami relief fund. The message communicated would be the need to continue travelling to the region as a way of helping the victims.

### d) Free participation in tourism fairs

A variety of promotional tools will be needed for tourism recovery. For this reason, the FITUR trade fair in Madrid at the end of January and SATTE-New Delhi (19-22 April) are waiving participation fees for destinations affected by the tsunami. Other tourism fairs are encouraged to follow their lead.

### e) Industry Leadership Forum

WTO, PATA, ITB and the International Council of Tourism Partners are collaborating to organize a special event dedicated to tsunami recovery on the day before ITB-Berlin, 10 March. In addition to focusing tourism industry and media attention on the recovery, the Leadership Forum will draw together global support for the region, explore the challenges remaining and mobilize a sustained

worldwide response from the tourism sector—both public and private—and civil society. Results of the Forum will be fed into wider United Nations initiatives.

**f) Sponsored road shows in main generating markets**

The tourism ministries or private sector tourism associations are requested to sponsor road shows for the affected countries, by paying air tickets, providing hotel and meeting facilities, organizing meetings with tour operators, travel agents and the media, etc.

**g) Campaign for Responsible Travel Advisories**

WTO is calling on tourism generating countries to respect Article 6 of the Global Code of Ethics for Tourism regarding the issuance of travel advisories, especially taking into consideration that the tsunami only affected parts of each country. Close attention should be paid to the currently improving health situation and advisories should be lifted without one extra day of delay, as soon as the situation permits.

**h) Coordination of websites**

This project would link together all of the excellent information available on Internet, regarding the extent of damage and the recovery process. A certified “official” list of the operational status of hotels in the affected destinations would be posted on all sites. A centralized Recovery Info weblink to the information could be promoted in television ads and in other communication materials. Some of the websites are listed in Appendix A

**i) Joint regional press trip**

WTO’s Press and Communications Department will organize a press trip for 10 international journalists to Thailand, Sri Lanka and Maldives to see for themselves and report on recovery operations.

**j) Regional TOURCOM Conference on 19-20 May**

As part of the series of regional conferences on tourism communications being organized by WTO in 2005 and 2006, the proposal is to move the conference planned for South Asia forward to assist with the recovery. Tourcom will bring together journalists and tourism communicators from the region, giving them a chance to update their knowledge about tourism and the tsunami recovery process, crisis management, internet, branding, promotion and the basic tools of communications.

## **5 Special Activities for Sri Lanka**

### **Impact on tourism to Sri Lanka**

The tsunami battered 1,126 km of Sri Lanka's coastline and left 30,725 people dead (107 tourists), 6,000 missing (65 tourists) and 422,000 homeless. Tourism, which is the fourth largest contributor to Sri Lanka's GDP, came to an immediate halt. Most of the 14,500 foreign visitors on the island at the time of the disaster left. Of the country's 246 hotels, 25 were still closed on 26 January. Five of those suffered structural damage and will not reopen. Heaviest damage to the tourism industry was sustained along the coast southwards from Colombo, especially in Bentuta and Galle. Restoration of the tourism resorts is expected to cost about \$195 million. Tourism Minister Anura Bandaranaike has launched a two-pronged recovery strategy that combines fast-track restoration of tourism facilities in beachside areas with a international



marketing campaign called "Bounce Back Sri Lanka". Of major concern are travel advisories issued by countries such as Australia, the United States, Germany and France, which are stifling tourist arrivals. The World Health Organization said no outbreaks of communicable diseases or epidemics have been reported. Since the end of its civil war, Sri Lanka has experienced boom in tourism, with arrivals last December hitting a 37-year high of 66,159—an increase of 14.6% over the same month the previous year. Tourism contributed \$430 million to the Sri Lankan economy in 2004 with an estimated 566,000 international arrivals, up 13% on 2003.

### TOP PRIORITIES:

- Adherence to the principles of sustainable development in reconstruction
- Training of new staff
- Assistance to small tourism-related business

### Marketing-Communications

- a) Provide communications expert to help look for and disseminate positive news throughout the recovery period
- b) Provide financing to enhance tourism website and email newsletter
- c) Assistance with organization of fam trips for tour operators and travel agents
- d) Sponsorship of annual trade fair in Colombo on 6-9 June
- e) Provide expert in product development to advise on new products during coastal redevelopment phase
- f) Review marketing strategy
- g) Strengthen brand Sri Lanka
- h) Adapt promotion for each key market

### Community Relief

- i) Identification and assistance to small enterprises damaged by tsunami through grants and micro-financing

### Professional Training

- j) Courses for retraining of tourism employees to raise service standards
- k) Courses for training of new tourism employees
- l) Management training courses
- m) Training in the redesign of tourism operations to make them more efficient and competitive

### Sustainable Redevelopment

- n) Provide expert in sustainable development to advise on zoning and planning for rebuilding
- o) Strengthening of community groups to stimulate involvement in planning process

## 6 Special activities for the Maldives

### Impact on tourism to the Maldives

The tsunami flooded the low-lying Maldives, but hit with less force than in places closer to the epicentre of the Sumatra earthquake and because of the protection afforded by its coral reefs. Eighty-one people were killed, 26 are missing and 100,000 were left homeless. Three British tourists were killed. Tourism Minister Mustafa Lutfi reported that out of 87 resorts in the islands, 24 were damaged by the tsunami, six of those were severely damaged and will not reopen. Seventy resorts are currently in operation, with the others expected to open by the end of March. The estimated cost of rebuilding is \$100 million. Occupancy rates at the resorts remaining open have dropped to between 20 and 30% at a time of year when they are usually operating at 100% capacity. It is estimated that the tourism sector will suffer a loss of at least \$250 million from the closures and lack of visitors. No outbreaks of communicable diseases or epidemics reported, although there have been some cases of acute diarrhoea and viral fever. Tourism accounts for 30% of the Maldives GDP and an estimated 616,000 international tourists visited the islands in 2004.



### TOP PRIORITIES:

- Communication of current operational status of most resorts
- Increasing visitor numbers
- Disaster management

### Marketing-Communications

- a) Provide communications expert to help look for and disseminate positive news and human-interest stories throughout the recovery period
- b) Assistance with organization of fam trips for tour operators and travel agents
- c) Provide marketing expert to advise on new market development and strengthen brand Maldives
- d) Redraft and update national tourism strategy

### Community Relief

- e) Identification and assistance to secondary enterprises indirectly damaged by loss of tourists through grants and micro-financing

### Sustainable Redevelopment

- f) Assessment of damage to coral reefs
- g) Establish Tourism Satellite Account
- h) Assistance in creation and implementation of national disaster management plan

## 7 Special activities for Thailand

### Impact on tourism to Thailand

The tsunami struck southern Thailand's west coast with great force, especially the provinces of Phuket, Krabi, Phang-nga, Trang, Satun and Ranong. 5,303 people were killed (2,510 tourists), 4,499 are still missing (1,076 tourists) and about 8,500 were left homeless. Major international tourism resorts in Khao Lak, Phuket and Phi Phi Island were severely affected by the tsunami, resulting in a tremendous amount of news coverage by international media. Structural damage to tourism infrastructure is estimated at \$1 billion. Damage to Khao Lak and Phi Phi Island is the most severe. As of 20 January, only three hotels in Khao Lak and four in Phi Phi remain open. More than 75% of Phuket's hotels are operating normally, although the number of visitors is sharply lower. Occupancy rates have slid as low as 10%. Reflecting the lack of demand, several air carriers have suspended or reduced service to Phuket. No cluster of disease outbreak has been identified, however there are concerns about possible outbreak



of dengue fever and, unrelated to the tsunami, fears about a new outbreak of avian flu in northern Thailand. Tourism accounts for 5.1% of Thailand's GDP. The country received 10.8 million international tourists in 2003 and recorded an increase of 21.8% in the first nine months of 2004.

### TOP PRIORITIES:

- Assistance to small tourism-related businesses
- Diversification of tourism offer of southern Thailand beyond sun and sand, to include more nature and cultural-based products
- Training of new staff and retraining of existing staff
- Communication of current operational status of most tourism destinations and complementary offer—such as restaurants, shops and excursions.

### Marketing-Communications

- a) Provide communications expert to help look for and disseminate positive news throughout the recovery period
- b) Co-sponsorship of fam trips for tour operators, travel agents and journalists

### Community Relief

- d) Identification and assistance to small enterprises damaged by tsunami through grants and micro-financing



### **Professional Training**

- e) Courses for retraining of tourism employees who are idle during the recovery phase
- f) Courses for training of new tourism employees
- g) Management training courses

### **Sustainable Redevelopment**

- h) Provide expert in product development to advise on diversification of tourism offer and development of new ecotourism products
- i) Drafting of regional master plan
- j) Strengthening of community groups to stimulate involvement in planning process

## **8 Special activities for Indonesia**

### **Impact on tourism to Indonesia**

In contrast to other countries designated for assistance under the Phuket Action Plan, the tourism resorts of Indonesia suffered no damage. There was virtually no tourism in the devastated Aceh province, but nonetheless there has been a residual falloff in visitors to Indonesia due to the tsunami and continuing media coverage of relief operations. The destination most affected by this residual effect is Bali, which has experienced a big decrease in MICE and cruise tourism since the terrorist bombing in 2002.



### **TOP PRIORITIES:**

- Communication of current operational status of most resorts
- Building the communications capacity of tourism organizations

### **Marketing-Communications**

- a) Within the scope of the National Recovery Plan, provide communications assistance to help improve image, looking for and disseminating positive news and human-interest stories about tourism sector throughout the recovery period
- b) Capacity building in tourism communications in tourism ministry
- c) Provide financial assistance to enhance tourism website and create email newsletter
- d) Assistance with fam trips for media and travel agents

## 9 Disaster Preparedness

WTO and the International Civil Aviation Organization (ICAO) will collaborate with the UN International Strategy for Disaster Reduction (ISDR) to create an early warning system for tsunamis in the Indian Ocean. The UN estimates such a warning system will cost about \$30 million. About \$8 million, enough to get the programme started, has already been pledged by Japan, Sweden, the European Union and others.

Development of an advanced technology information network for crises and disasters in collaboration with partners throughout the tourism sector.

Looking towards the long-term, training and new communication systems to ensure public safety in tourism destinations needs to be developed using a partnership approach between the public and private sectors. It is a good moment to conduct risk assessments of destinations affected by the tsunami, evaluate the effectiveness of crisis management procedures and make improvements where needed.

## 10 Monitoring and Evaluation

A coordination group will be set up to monitor and direct implementation of the Phuket Action Plan. The coordination group will hold regular meetings to evaluate progress and report back to the Executive Council of the World Tourism Organization. The Group will prepare a precise statement of the activities in progress or planned in this area for submission to the Emergency Task Force and to possible donors, which will be examined at the meeting scheduled for 10 March at ITB-Berlin, immediately before the meeting of the Tourism Leaders' Forum.

## 11 Financing and cooperation

The Phuket Action Plan is intended to be a catalyst for cooperation among the Member States of the World Tourism Organization and PATA, as well as all varieties of organizations, private businesses and academic institutions. Both internal and external partners are encouraged to sponsor and implement projects selected from the plan, which correspond to their capabilities and financial resources.

Generous allocations of assistance to the tourism sector have already been pledged by:

SNV – Netherlands Development Organization	1,000,000 €
VISA International	to be determined
Republic of Korea	US\$ 400,000
UNDP – United Nations Development Programme	to be determined
IFC (aid to SMEs, microcredits)	up to US\$ 2,500,000

The Republic of Korea has offered the technical assistance of experts at the headquarters of the ST-EP foundation in Seoul, although ST-EP foundation funds will not be used for tsunami relief. Those funds are earmarked for long-term development assistance to the world's least developed countries (LDCs).

The following States are offering bilateral assistance: Australia, in the areas of training, planning and sustainable development; Brazil, through its cooperation agency; Spain, up to 2 million euros for fam

trips and in the areas of marketing, communication, and training; Germany, for the tsunami early warning system; and Japan, for specific requests.

China and Turkey will provide their support for the organization of fam trips and Mexico will organize a press conference to give an accurate picture of the affected countries. China will also host a seminar for the ASEAN countries in May in Shanghai. Andorra will contribute through the Themis Foundation and Hungary will offer training courses in the country. Israel will contribute its experience in crisis management, India in the development of intra-regional travel, and Turkey in the area of tourism revival. Lastly, a number of countries will grant the affected countries favourable terms of participation in various tourism fairs.

The International Finance Corporation (IFC) is offering a credit line of up to \$2.5 million to help rebuild small businesses destroyed by the tsunami in Sri Lanka, Thailand and the Maldives. In addition, the Resort Condominium International (RCI) has also pledged its support.

Pledges of cooperation have also been received from the Asian Development Bank (ADB) for the financing of a regional master plan for the six countries affected by the tsunami, and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

Members of the Emergency Task Force and the WTO Executive Council appeal to the entire donor community, both public and private, to contribute to this Plan of Action in the way they see fit: through financial donations; contribution of materials; or the loan of expert staff.

By joining together in the face of this terrible tragedy, those in the tourism industry can throw a lifeline to their unfortunate colleagues in Asia and perhaps even set a precedent for responding collectively to future disasters or problems in other parts of the world.

## B. Post-Tsunami Actions Undertaken by the World Tourism Organization

(February 2005)

### A REPORT BY THE SECRETARY-GENERAL OF THE WORLD TOURISM ORGANIZATION TO THE UN SECRETARY-GENERAL

In the aftermath of the world's unprecedented natural disaster which befell a number of countries in the Indian Ocean, the World Tourism Organization, as a specialised agency of the United Nations responded in a manner commensurate with the magnitude of the disaster and undertook a series of emergency actions as follows:

1. On 29 December 2004, the WTO Secretary-General decided to rally the support of the international tourism community by convening an Emergency Session of the WTO Executive Council in order to assess the situation and its impact on tourism. Phuket, being the "tourism epicenter" of this tragedy, was chosen as the venue for this emergency meeting.
2. The second decision taken by the WTO Secretary General was to immediately dispatch two high-level and internationally reputed experts to the 4 hardest hit countries of the tsunami, namely, Thailand, Indonesia, Sri Lanka and Maldives. These two special envoys of WTO, while conveying the message of the international community's condolences and solidarity, accomplished the mission of assessing the extent of the tsunami disaster on the tourism destinations.
3. The third decision, based on the experience acquired by WTO on crisis management following the 11 September 2001 terrorist attacks, was the constitution of an Emergency Task Force composed of senior tourism officials, industry leaders, high level tourism experts, and regional and international institutions. The members of the task force who were called upon to assess the extraordinary situation came up with a draft of a global tourism recovery action plan.
4. For the first time in the history of the Organization, the Emergency Executive Council Meeting was held on 1 February 2005 in Phuket, Thailand. The Emergency Task Force submitted the draft action plan which was unanimously adopted by the Executive Council as the Phuket Action Plan. At this meeting WTO brought together Government Representatives from 42 countries as well as industry leaders, regional organizations and financial institutions.
5. While other international agencies and institutions focus their programmes on the humanitarian needs and reconstruction of infrastructure, the Phuket Tourism Action Plan concentrates on the human element of the recovery: saving tourism jobs, re-launching of small and medium-sized tourism enterprises, training or re-training of the tourism workforce, repositioning of the tourism product to be more sustainable and less vulnerable and most importantly, restoration of consumer confidence in the tourism destinations affected.
6. The Phuket Action Plan is divided into five operational areas:
  - Marketing and communications
  - Community relief
  - Professional training
  - Sustainable re-development
  - Risk management

To implement the above plan, the World Tourism Organization, in collaboration with the international tourism community, has initiated a series of specific activities including familiarization trips for the media and tour operators, communication campaigns, waiving of participation fees at international tourism fairs, assistance in channeling funds to tourism SMEs, workshops on risk management and repositioning of tourism products.

7. Finally, the WTO Secretary-General has decided to take advantage of the world's forthcoming biggest travel fair - ITB Berlin to convene the second meeting of the WTO Emergency Task Force. The meeting will review the progress of the implementation of the Phuket Action Plan with a view to obtaining more international support and speeding up the recovery efforts of the affected destinations.

# C. Post-Tsunami Review Workshop and Seminar in the Maldives

(June 2005)

## 1 Introduction

A Post Tsunami Review was conducted from 24-31 May by the Maldives Ministry of Tourism, in cooperation with the Maldives Tourism Promotion Board (MTPB), the private sector Maldives Association of Tourism Industry (MATI), and the World Tourism Organization (WTO). A series of four workshops for resort operators, tour operators, aviation companies and travel agencies culminated in a final seminar that was attended by some 150 representatives of the tourism sector, as well as the Ministers of Finance, Planning and National Development, Education and Tourism.

The purpose of the meetings was to raise awareness about the need for a Disaster Management plan for the tourism sector and to solicit information that will form the basis of the plan. The aim of the workshops was described as follows:

- To examine the reaction and challenges faced when the tsunami hit the country on 26<sup>th</sup> December, 2004
- Review what has been done since then
- Examine the future challenges
- Foster cooperation between all stakeholders in the exchange of information, experiences and best practices in disaster management.

The Ministry of Tourism is to be commended for conducting the meetings in an extremely professional and participative manner. A preliminary report on the results of each of the four workshops is attached, including the tsunami experiences of each of the sub-sectors of the tourism industry.

## 2 The Maldives Tourism Industry

Tourism forms the backbone of the Maldivian economy—accounting for 32% of GDP, 70% of foreign exchange earnings and 30% of government revenues. One out of every five jobs in the Maldives is directly linked to tourism at island resorts, tour companies, restaurants and transport companies. In addition, the industry indirectly provides income for thousands of other inhabitants. International tourist arrivals were estimated at 616,000 in 2004.

The tsunami flooded the low-lying Maldives, but hit with less force than in places closer to the epicenter of the Sumatra earthquake and because of protection afforded by its coral reefs. Eighty-two people were killed, 26 more are missing and presumed drowned, and 100,000 were left homeless. Two British tourists were killed. Out of 87 resorts in the islands, 24 were damaged by the tsunami, the rest were undamaged. There are currently 71 resorts open and fully operational, ten resorts are still closed for repairs and expected to reopen before the high season begins in October, while six resorts were severely damaged and need to be rebuilt.

Occupancy rates at the open resorts climbed steadily for the first three months of the year, approaching normal levels by the end of March. Then the second earthquakes off the coast of Sumatra occurred. Even though there was no second tsunami, arrivals dropped off again. Although May is the low monsoon season, occupancy rates were significantly lower than the same period last year, averaging

between 30-50%. The estimated cost of rebuilding is US\$100 million and it is estimated that revenue loss from the closures and lack of visitors will be at least US\$200 million, increasing if the downturn in arrivals continues.

### 3 Results of the Post Tsunami Review

Participants in each session of the Post Tsunami Review coincided in the need for a Disaster Management Plan that covers all types of natural and man-made crises, everything from another tsunami to fires, air crashes, epidemics, civil unrest and terrorism. Concerns for actions that improve tourism safety and crisis response focused on nine broad areas, their specific suggestions are listed below:

#### 3.1 Male International Airport

As the only international airport in the islands, safeguarding the physical integrity of the airport and ensuring its efficient operation in a disaster was the foremost concern of the tourism sector, which called for:

- a. Additional protection for the runway
- b. Additional protection for navigational equipment
- c. Back up communications systems with resort islands, tour operators, travel agency offices and with domestic airports
- d. A clear chain of command and a disaster plan to organize airport staff in case of an emergency
- e. Emergency supplies of first aid, food, water and blankets
- f. Memoranda of understanding signed in advance with suppliers of equipment needed to clean up the airport in a disaster
- g. A new policy on airport departures, so the terminal is not flooded with passengers trying to get a seat in case of another massive emergency
- h. Disaster training and practice drills for airport staff both in daytime and at night
- i. Increased frequency of transfers from Male to the airport in a crisis

#### 3.2 Telecommunications

A breakdown in the national telecommunications system during the tsunami caused the most problems for the tourism sector, blocking communication between national disaster authorities such as the NSS/Coast Guard and the resorts. It also prevented tour operators and travel agencies from contacting resorts for accurate information on the condition of their clients, causing alarm by their friends and relatives and in the international media. The lack of



A bird's eye-view of a tourism complex in Maldives

information coming out of the resorts exacerbated the crisis, leading to speculation that the situation was much worse than it actually was. In addition, the system collapsed for a second time during the tsunami alert on 28<sup>th</sup> March.

- a. Additional protection for the national telecommunications system
- b. Additional hardware capacity to handle more simultaneous calls
- c. Back up communications systems and increased capacity to handle calls at strategic disaster management points such as the airport, coast guard and national meteorological office
- d. Clarification and simplification of the legality of the use of satellite telephones

### 3.3 Early Warning Alerts

The tourism sector needs speedier alerts that reach each resort directly from the government, without relying on them to be constantly monitoring national television or radio. They also require more detailed instructions of what to do in a disaster, because they are legally liable for complying with government warnings and instructions.

- a. A system that “pushes” alerts out to each tourism business
- b. Quicker advice on impending storms, high tides and tsunamis
- c. More detailed information on what to do during each alert
- d. Increased capacity to handle simultaneous calls at the national meteorological office and national disaster management centre

### 3.4 Resort Safety

As many resorts are located on outlying islands far away from emergency facilities, there is a need to upgrade and standardize safety regulations. Island resorts currently have varying degrees of preparedness. New construction codes are needed for new building. Although all the islands have low elevation, it was concluded that in most disasters it would be better for guests to remain in a shelter on high ground, perhaps on the upper floor up a two-story building, at the resort island instead of descending en mass at the airport.

- a. Satellite telephones and other back up communications systems
- b. Protection for electrical generators
- c. Disaster shelters on high ground
- d. Emergency supplies of food and water
- e. Evacuation plans
- f. Emergency information for guests in various languages
- g. Staff training and drills in using communications equipment, first aid and evacuation



### 3.5 Marine Safety

Ship-to-ship two-way radios proved indispensable during the collapse of the telecommunications system in the tsunami and worked well. However, the tourism industry needs to make sure that transfers between islands and excursion boats are as safe as possible. There is currently confusion about where safari boats are allowed to anchor.

- a. Satellite telephones on tourism boats
- b. Improved safety regulations and enforcement for ferry boats
- c. Clarification of anchoring rules for safari boats
- d. Publication of maritime regulations in English

### 3.6 Insurance

There is confusion in the sector about insurance requirements, especially on small business owners such as travel agencies and safari boat operators. How much coverage is really needed? What type of coverage is necessary? What the insurance companies are required to pay out? How the industry works in the tourism source markets, especially in light of the European Union directive that makes tour operators liable for mishaps.

- a. Information on insurance for the tourism industry should be compiled and disseminated to travel agencies.

### 3.7 Crisis Communications

Quick, honest and transparent information is the key to responding successfully and overcoming any kind of a crisis in the tourism sector. Detailed and plentiful information puts the crisis into context, allaying the fears of loved ones and putting a halt on speculation in the media.

- a. The government adopt a policy of full disclosure in a crisis
- b. A special disaster website with detailed maps be developed
- c. Information flow from the tourism ministry be increased
- d. A media centre be set up in a large scale crisis
- e. Priority be given to inter-governmental communication to prevent travel advisories or get them lifted the moment the danger subsides

### 3.8 Tourism Recovery

Recovery of the tourism sector following a crisis calls for extraordinary efforts to regain the confidence of visitors in the main tourist source markets. It also requires extra human and financial resources to undertake a vigorous promotional campaign.

- a. Boost communications on safety improvements
- b. Launch an aggressive marketing and promotional campaign in major generating markets
- c. Increase the number of familiarization trips for journalists

- d. Solicit assistance from airlines to bring in tour operators and travel agents
- e. Television coverage and advertising to counteract the images of the disaster
- f. Seek out new source markets for tourists

### 3.9 Fiscal Measures

There is a need to protect tourism jobs and small businesses during the crisis recovery period. Additionally, there is a need to provide economic incentives to larger businesses and airlines so that they can adopt measures to attract tourists back to the Maldives and speed up the recovery, thus lessening loss of government revenues, protecting the destination's reputation and reassuring new investors. Participants felt that a sector that contributes so much to national development is entitled to financial support from the government in times of crisis. Types of fiscal incentives discussed include:

- a. Lower landing fees at the airport
- b. Lower per-bed lease fees
- c. Extension of leases
- d. Tax incentives
- e. Waiver of import duties

## 4 Developing the Disaster Management Plan for Tourism

In accordance with the procedures outlined the World Tourism Organization publications Crisis Guidelines for the Tourism Sector and Risk Management for the Asia-Pacific Region, the WTO consultant recommends adopting the international definition of a tourism crisis:

*“Any unexpected event that affects traveller confidence in a destination and interferes with the ability to continue operating normally.”*

It is further recommended that the Disaster Management Plan for tourism include the three key phases of a tourism crisis and the following elements:

### 4.1 Readiness

- a. Safety regulations for resorts and transport operators, including creation of a disaster shelter on high ground, back-up communications equipment and evacuation plans
- b. Safety regulations for the international and domestic airports
- c. Enforcement mechanisms
- d. A model evacuation manual for resorts
- e. Disaster training drills for resorts and transport operators
- f. Upgraded communications equipment and training for tourism authorities

## 4.2 Response

- a. Formation of a crisis unit in the tourism ministry
- b. Participation in a crisis management seminar by several tourism officials
- c. A crisis communications policy of full disclosure
- d. Training in crisis communications
- e. First aid training for resorts and transport operators
- f. A policy for dealing with travel advisories

## 4.3 Recovery

- a. An emergency crisis recovery fund
- b. Formation of a recovery partnership between the public and private sectors
- c. Research on travellers' perceptions in generating markets
- d. Communications activities in generating markets
- e. Fiscal relief measures for the tourism industry
- g. Familiarization trips for travel agents and media
- h. Promotional activities in generating markets
- i. Organization of special events

## 5 Conclusion

A good understanding of the importance of tourism to national recovery and development was demonstrated in all branches of government that participated in the workshops and seminar. An unprecedented level of participation and cooperation was demonstrated by leaders of the private sector. In addition, a great deal of momentum was created by this process, which needs to be harnessed and carried forward to create a safer and even brighter future for Maldives tourism.

Report by Deborah Luhrman, WTO Consultant

# D. WTO Mission of Tour Operators Post-Tsunami Visit to Sri Lanka and Maldives

(April 2005)

Summary

## Introduction

As part of the World Tourism Organisation's work on implementing the post-tsunami plans, it was decided that a special mission of tour operators organised by the International Federation (IFTO) should take place to assess progress towards recovery. This is a summary report on the findings of that mission that began 100 days after the tsunami on the 5th of April 2005 and on the recommendations made for further action.

In Sri Lanka the tsunami devastated about two-thirds of the coastline in the north, the north-east, south and south-west. The waves were up to 12 metres high when reaching the land resulting in the loss of nearly 40,000 lives. In the effected area, 70% of the community was involved either directly or indirectly in the tourism industry. The tsunami also destroyed the infrastructure such as roads, railways, ports, fisheries, harbours, public buildings, homes and tourist establishments.

Out of the 242 hotels in operation, 84 hotels (with 3553 rooms) were affected.

Surveys have shown that consumers have three main concerns:

- That the infrastructure is ready to receive tourists. This includes hotels, roads, water systems, beaches, tourism enterprises and transport facilities, with special emphasis on health and sanitation.
- That the local population having suffered so much are not yet psychologically ready to receive tourists.
- That, in the absence of a technical solution, a tsunami warning system for tourists and for local people, exists and is effective.

The mission was to establish the extent to which these concerns have been met.

This, in turn, enables the various stakeholders to reassure consumers from the originating countries.

## SRI LANKA

### Findings

#### Health and Sanitation

The World Health Organisation (WHO) "strengthened active disease surveillance and early warning systems and significantly improved laboratory technical services ensuring swift and accurate diagnosis allowing for timely and correct treatment. As a result, disease outbreaks were avoided."

## Beach and Coastal Recovery

The mission concentrated on the coastal areas between Mount Lavinia and Matara. A great deal of work has been accomplished which has led to the restoration of beaches, the creation of land barriers and the progressive introduction of sea barriers that should be completed before the onset of the monsoon in May.

Much of the heavy debris has already been removed along all the coast visited. From a tourist point of view the cleanup has been completed as far south as Bentota. However, south of Bentota all the way to Matara, with very few exceptions, there are many visible signs of the tsunami's effects.

## Roads, railways, water supplies, transport facilities between Colombo and Matara

All road links, railways and transport facilities have been restored between Colombo and Matara. All water supplies have been restored to permanent buildings. Temporary housing continues to have temporary water supply as a matter of policy.

## Small and Medium-sized Tourism Enterprises (SMEs)

A report has been prepared for the WTO by the former DG of the SLTB, Dr. H.M.S. Samaranayake, concerning the plight of many SMEs in the affected areas. These enterprises often represent the distinctive flavour of a destination for tourists. Without them the tourist product remains incomplete. As a result of an advertisement encouraging SMEs to become applicants for funds around 400 SMEs have applied for a total of about 2m Euros. These SMEs have lost whatever capital they had and did not have any insurance.

## Tsunami warning systems

There are two distinct activities that need to take place. The first is a warning system for tourists and the local population to move away from the coastal areas in the event of a tsunami warning following an earthquake. In Sri Lanka a simple but effective solution has been found: that of ringing the temple bells continuously which then alerts the authorities, local people, hotels and tourists.

The second is a technical solution for the Indian Ocean which will prevent false alarms as the huge majority of earthquakes do not cause tsunamis. We understand that this technical solution may be completed within two years.

## Future plans

During discussions with the Director for Urban Development, with the Ministry of Tourism and the SLTB it became clear that there are agreed plans for creating a highway that will link the airport at Katunayake, north of Colombo, with Hambantota, in the south. This will provide a number of significant benefits for tourism:

- It should reduce the lengthy journey time from the airport to the resorts in the south.
- It should alleviate the excessive traffic load on the coast road.
- It should encourage local populations to move towards the highway allowing for more orderly tourism development.

These discussions also revealed that airports available for international long-haul traffic were being considered for Hambantota and for Koggala as well as another one on the east coast.

These discussions also revealed that the SLTB has proposed introducing 'Tourism Zones'. The objective is to set specific guidelines and to manage these zones efficiently which will avoid ad-hoc tourism development. For the purpose of marketing each of these zones there are specific themes.

## Recommendations

For the immediate future we consider that the priorities for tourism recovery are:

- A continuing marketing campaign working with the tour operators in the originating markets.
- A PR campaign to provide positive messages and reassurance that:
  - The infrastructure is fully operational. (There is the proviso that the clean up needs to be completed)
  - The famous Sri Lankan smile remains intact
  - A tsunami warning system is in place and it works
- That the SMEs are found the funds to recommence their business again as soon as possible.

## Conclusion

Sri Lanka is well on its way to tourism recovery although there remains much to do. Indeed, its plans for development should ensure that it becomes a significantly more attractive destination for tourists. As a result of which the current plans of 1m tourists by 2010 could well be very conservative.

We want to thank all those who enabled the mission to accomplish its goals and who provided exceptional hospitality.

## MALDIVES

### Media Reporting

Unfortunately the Maldives have suffered heavily from media reporting that failed to distinguish the levels of devastation suffered by different countries and destinations of the Indian Ocean. Furthermore they failed to distinguish between the height of the tsunami on its arrival in some parts of Thailand and Sri Lanka and the much lower waves encountered in the Maldives. Media speculation about the probability of further earthquakes and, by implication, tsunamis, has further hindered tourism recovery. This has meant that potential visitors are in need of much reassurance before they are willing to book. Unfortunately anxieties remain that the Maldives are unable to protect themselves from a tsunami.

### The Tsunami Effect Upon the Tourism Economy

Precise statistics on per capita receipts are not available; however they are unlikely to be less than 1600 USD per capita. This means that the actual losses and remaining potential losses to the economy are very substantial. For example the January to March figures represent a loss of national income of around 162m USD compared to the equivalent period in 2004.

### Summer Seat Capacity

Airline applications both scheduled and chartered for summer '05 show a drop of 26.4% in seat capacity. Our concern is that with booking levels still so low, and consumer demand so weak for the Maldives, that seat capacity will be cut still further for summer 2005.

## Tsunami Warning Systems

At the moment there is no national tsunami warning system. There are two elements that need to be put in place: a technical system to warn of a tsunami following an earthquake, and a local system to enable local people and tourists to be made aware of the imminent arrival of a tsunami and what they should do in that event.

We found that hoteliers had made their own tsunami warning systems which were put into effect at the time of the second Sumatra earthquake. Various remedies were organised. One was to arrange for everyone on the resort island to get on board large boats and make for the high sea with life-jackets. Another idea was to seek buildings with a second storey and to occupy them. A third ingenious idea is to create an elevated area in each mosque where everybody could assemble.

To provide reassurance to local people and tourists a national tsunami warning system is needed with clear policies and procedures put into effect.

## Recommendations

For the immediate future we consider that the priorities for tourism recovery are:

- To devise a strong tour operator/tourist board/hotelier backed marketing campaign in the main originating markets. It would be helpful if some of the scheduled airlines could be persuaded to improve their prices.
- Consider introducing a scheme to protect and enhance the airline seat capacity made available to the Maldives. A cost-effective system has proved to be that introduced by the Egyptian authorities following 9/11.
- To devise a tsunami warning system that protects local people and tourists alike. This will need the advice of a tsunami expert to establish the potential wave height and damage that a tsunami could cause. In addition an engineering expert and surveyor are likely to be needed to make assessments as to the safety requirements for any elevated structures. Given the high improbability of any tsunami arriving from the west, it seems likely that measures can be limited to those islands exposed to the east only.
- A PR campaign to provide positive messages and reassurance that:
  - The infrastructure is fully operational.
  - Tourists can be assured of a warm welcome
  - A tsunami warning system is in place and it works

## Conclusions

Given the effects of the tsunami, we have to conclude that the Maldives have suffered an unwarranted loss of tourists. The key to the recovery has to be a combination of strong, positive messages coupled with the measures to reassure potential tourists to allay their fears.

We want to thank all those who enabled the mission to accomplish its goals and who provided exceptional hospitality.

Report by M. Brackenbury and F. Ognibene

## E. WTO Mission of Tour Operators Post-Tsunami Visit to Indonesia

(September 2005)

WTO Regional Representation for Asia and the Pacific

### Background

As part of the implementation of the Phuket Action Plan and within its operational sub-division of communications and marketing, the World Tourism Organization in collaboration with the Ministry of Culture and Tourism of Indonesia, carried out a familiarization tour of tour operators to Indonesia from 22 to 30 September 2005.

As a result of the destructive tsunami that hit the Indian Ocean on 26<sup>th</sup> December 2004, tourism destinations in the Maldives, Sri Lanka and Thailand sustained varying degrees of damage. While Indonesia was also hit by the tsunami, its effect did not affect typical tourist destinations of this country. Banda Aceh and North Sumatra which the tsunami almost destroyed are many many miles away from the tourist hub of Indonesia – Bali. In spite of that, Indonesia's tourist arrivals which saw a growth of 31.2 percent in 2004 over the previous year, is losing out on its fair share of the world's tourism cake. January to July recorded negative 4.1 percent in international tourist arrivals. This is attributable to the residual fears still lingering in the minds of tourists in Indonesia's source markets as well as potential tourists, owing to the magnitude of the damage done to Aceh and the loss of many lives which was exaggeratedly publicised in the international media; hence Indonesia's tarnished reputation as a safe place for tourists.

### Objective of the Fam Trip

WTO's aim in organising this fam trip was thus to assist Indonesia to restore its positive image and the marketability of its tourist destinations in its generating markets. The invited tour operators visited key tourist areas in Indonesia in order to have first hand experience of the safety conditions in these places as well as the tourist products they have to offer.

### Participants and Places Visited

Although WTO's invitation was extended to tour operators from many tourist generating countries, other commitments clashing with the period of the fam trip prevented the majority from responding affirmatively to WTO's invitation. The group was made up of four European delegates: Mr. Rob Haynes, Head of Product of Somak Holidays representing the United Kingdom, Mr. Lars Thykier, the Managing Director of the Danish Association of Travel Agents and Tour





Operators (DRF), Mr. Gerard de Vries Lentsch, the Secretary-General of Dutch Association of Tour Operators (ANVR) and Ms. Maribel Rodrigo, CATAI Tour's Asia Manager. The tourist destinations visited include Yogyakarta, Surabaya, Bali and Lombok. Meetings were held in each place with local tourist authorities and representatives of the travel and tourism trade. In line with the Organization's goal to assist Indonesia to restore its positive image and recuperate its marketability to its source markets (including Japan, Republic of Korea, Taiwan, Australia, Singapore) and other potential markets, the tour operators are required after the tour to run positive articles on Indonesia's tourism in prestigious travel and tourism magazines. The meeting in Yogyakarta was held after the Opening Ceremony of TIME 2005 (Tourism Indonesia Mart and Expo) which gathered 126 sellers from 20 provinces and 84 buyers from 23 countries. Issues emerging from these dialogue-based meetings in the destinations visited include the following:

### **Main issues addressed**

**The need for tourist offices abroad:** Indonesia's unsatisfactory post-tsunami tourism performance in terms of international tourist arrivals was attributed to / has been aggravated by the fact that it closed down its tourist offices in its source markets owing to financial constraints. These offices used to undertake Indonesia's promotional and marketing activities needed to bolster its tourist growth. There is no systematic flow of information on the part of Indonesia to counteract the horrible images that the international media projected on the tsunami. The absence of Indonesia's presence on the tourist market is also perceived in the lack of awareness about its numerous cultural and natural resources and ethnic diversity in other provinces other than Bali such as East, West and Central Java, Yogyakarta, Makassar, Medan, etc. There is nobody on the market to repeatedly inform potential tourists about the fact that Indonesia's tourism industry has been operational since day one of the unfortunate tsunami tragedy because of the vast distance between the areas hit and the tourist destinations of the country. Therefore, travellers' confidence in the country has dwindled, and along with it, Indonesia's attraction to them.

**Air Access:** Another reason dissuading potential travellers from especially Europe from visiting Indonesia can be attributed to the fact that its national carrier, Garuda Indonesia, closed down its offices in Europe in 1998 owing to financial problems and mismanagement. This has made airfares to Indonesia expensive because tourists have to take other foreign carriers. But the delegation was informed that plans are underway to resume Garuda's flights back to the European market latest by 2007. This problem with air access extends to local destinations as well. Lombok, for example is only 20 minutes' flight from Bali; however, because of irregular and infrequent flights, there is a vast difference between tourist arrivals in the latter and that of Lombok.

**Visa issuance:** Although visa upon arrival facility has been extended to about 36 countries the world over, visa restrictions prevent a country like the Netherlands with whom Indonesia shares historical ties to increase its tourist flows to the country. It takes 12 working days to obtain a visa at the Indonesian embassy in Holland.

**Travel advisories:** The central government raised this issue as one of the factors preventing more tourists from visiting Indonesia given that after conditions of safety have normalised, there are countries that are adamant in lifting the travel ban on Indonesia. A case in point was that of Denmark whose foreign office still advises its citizens to refrain from travelling to the country.

As a result of the foregoing, WTO was called upon to:

1. Continue to help Indonesia to correct the damage done to its image in the international tourism community
2. Take up the issue of travel advisories seriously and urge countries to lift them when conditions normalise
3. Assist Indonesia to increase its international tourist arrivals

### Some observations

1. Tourism is not given the importance it merits. It is under the portfolio of social welfare and lacks the necessary governmental support as far as national budget allocation is concerned.
2. Indonesia is endowed with a variety of tourist products such as ecotourism, MICE tourism, marine tourism, community-based tourism, health and wellness tourism and beach tourism. But if it will have its fair share of the tourism cake, it will have to sharpen its competitive edge in the face of the fierce competition from its neighbouring countries such as Malaysia, Indonesia, Thailand and Singapore
3. There is the need to improve airport and hotel infrastructure in government-owned establishments

### Conclusion

The group left Indonesia under the conviction that there is more to the country's tourism potential than it's been given credit for, owing to lack of awareness. WTO's underlying objective for organising the fam trip was to enable the invited tour operators to have first hand experience of the safe conditions in the places visited and to return to their home base to proclaim to the international tourism world that Indonesia did not sink with the tsunami and still remains a safe place to visit. The terrorist attack which revisited Bali on 1st October 2005 threatens to undermine this assertion. However, it is undeniable that Indonesia is no more dangerous than countries such as the United Kingdom, the USA, Spain, Egypt and all other countries that have been unfortunate to experience terrorist attacks and natural disasters. Bali has been attacked again but so can destinations in these other countries just mentioned. WTO is thus of the opinion that even though this will temporarily disrupt tourist flows, Bali's tourism will resume its growth trend when conditions normalise. The Organization encourages potential tourists to visit Indonesia to prove to the perpetrators of such heinous crimes that they are fighting a losing battle with tourism.

## **F. Post-Tsunami Mission on Communications in Indonesia**

(July 2005)

### **1 Mission**

The Phuket Action Plan identifies communications as a vital field for tourism recovery in the tsunami affected destinations. In this respect WTO has identified a communications expert to be based in Jakarta to assist the Ministry of Tourism of Indonesia to carry out the post tsunami tourism recovery in an effective manner.

The approach has to be sensitive, as we will not update the international community of the progress in tourism reconstruction and operations (as for other affected destinations), but reassure the individuals on issues of safety. We have to acknowledge that very little information has been sent out by the Indonesian Authorities during the crisis towards the international community

### **2 Objectives**

Building CONFIDENCE in the markets will be essential to overcome the damage faced by Indonesia in its perception as a destination.

Adapted messages towards the various generating markets will stimulate the desire to visit the archipelago. Creative ideas and stories and systematic and regular communications will fade and hopefully clear the negative perception of the destination.

While improving communications from Indonesia during this two month, we will as well identify major weaknesses in the existing communications, as well as necessary issues to be considered and improved in short, medium and long term.

### **3 Outcomes and results**

#### **3.1 Methodology**

A detailed work plan has been elaborated after the first week in the country, giving actions to be carried out during the two months and expected outputs. A document attached to this report evaluates in details the achieved results, constraints and highlights the recommendations for further action.

The Ministry assigned a junior officer working in the Data and Information Centre to work and be trained by the WTO expert. The section is under the responsibility of the Deputy Minister for Accountability, and is not really appropriate for international communications. The officer was of a great assistance in all the phases of the mission, especially in translating all information about the destination only available in Indonesian.

The officer was trained to the extend of having a good understanding of identifying relevant news and stories, but still lacks of professional skills to write for international media. There is no guidance of senior officers for this purpose. Hopefully a proper communications section will be established.

An ongoing and weekly evaluation has been established with Mr Bachri and Mr Sapta the Secretary General.

A final evaluation of the mission was presented in a workshop organised for key Ministry's officials. In the context of tourism communications and a very competing environment, the presentation defined areas and strategies that could be adopted or improved for successfully promoting the ultimate diversity of Indonesia and the unique features of the various provinces.

### Relevance of the WTO mission

The mission has been timely proposed by WTO as the Ministry is going under a phase of restructuring, after the nomination of a newly appointed Minister for Culture and Tourism.

However, the most challenging issue was to sensitively express how much Indonesia's image, as a destination, has been alliterated.

Besides the effects of the tsunami, the destination has lost of its appeal for international visitors since several years, not being able to compete with neighbour countries in term of aggressive promotion. The size of the country and the bed capacity of Indonesia exceed the one of Thailand or Malaysia that are hosting three times more international visitors per year.

The lack of financial resources for advertisement has created a climate of not been able to overcome the problem in alternative and creative solutions.

The lack of a sufficient pool of skilled and trained human resources in the marketing division is an additional challenge that the destination has to face. New and innovative techniques for marketing are not applied. The Marketing Planning section has no market research from the main generating markets available to build its marketing strategy.

Communications could be one of the possible solutions to boost the destination's attractiveness. Only a strategic alliance and partnership with the private sector and the Regional Tourism Authorities will enable the destination to create the critical mass of financial and human resources.

Return on investment in using communications in promoting the country can be extremely high, and would enable Indonesia to be back on the scene of desirable destinations.

The meetings organised during the mission with the trade associations have created a very positive momentum for the Ministry, and a POSITIVE IMAGE that has been consolidated by the WTO communications mission. WTO is known and respected as an organisation in Indonesia. Any new WTO activity and mission will be very much appreciated and welcomed by the trade.

## 4 The Road to a Strategy

The work plan established proposes to present a possible scenario for improving Indonesia's performances in increasing international visitor's arrivals, in short and medium term.

### 4.1 The Proposed Strategy is to Execute PR & Media Campaigns

**Focus on stimulating consumer awareness**, interest and desire for Indonesia by enhancing the destination's profile through unpaid media communications

- **Audiences**

- Media – international, national
- Consumers – international and domestic
- Industry – international and in Indonesia
- Government departments
- International Community

**Strategic partnership between national and regional public tourism NTO, private sector and airlines**

- influencing the decision-making process vis à vis both consumers and trade
- Providing credible product and destination endorsement
- Flexible communication to reach target audiences
- Creating platforms for product launches, destination positioning and awareness building.

**Expected Positive Results:**

- Improved Indonesia's image and perception as SAFE, evocative, desirable and quality destination
- Achieve economic growth
- Establish a more sustainable basis for future tourism development

## 4.2 Success elements

**Core areas** in which Indonesia should invest its resources to achieve its objectives and maximise its full potential:

- **Market research;** outbound market trends, consumer satisfaction, global trends, an improved use of WTO e-library..
- **Communications:** Crisis communications, PR activities, consumer and trade media, media visits, web site development, e-marketing
- **Promotion:** Educationals, Trade & consumer fairs, Workshops and trade support materials, Joint trade promotions, cross – marketing

### **Budget**

When matched with industry investment – Government return on investment can be 25 to 30 times more.

However, the Ministry needs to allocate necessary financial resources to formulate and implement the strategy.

## 4.3 Implementation

Considering the lack of budget for an advertisement campaign, the Destination's competitiveness, image enhancement and marketing efficiency, can be only achieved with a revised Marketing structure and optimised budget that should incorporate:

### In the Ministry:

- **Communications section** (PR, Information, Media, Production, Web development, tactical advertisement)
- **Promotion section** (Educationals, Trade & consumer fairs, Workshops and trade support materials, Joint trade promotions, cross – marketing)
- **Planning and research**

### In the markets (Europe, Japan, Australia, Asia)

- **Professional Destination Marketing companies:**
  - The companies should be providing the Ministry with core market trends and research, which are NOT AVAILABLE today in the Ministry, to elaborate the destination marketing strategy.
  - The companies should be working closely with the Ministry sections and regional tourism authorities **to formulate and implement the strategy, with involvement of the trade**
  - Performance should be measured by benchmarking every year

## 5 A brighter future for Indonesia

Indonesia is an untapped destination. The potential for achieving a rapid growth in international visitor's arrivals and foreign exchange earnings is very promising.

The new 5 stars property developments and segment markets as spas and well being, golfing, are flourishing. Cultural tourism has to offer very diverse and unique experiences.

Service and value for money is exceptional, and investment is booming in new luxury properties. The trade is mature and extremely professional. In Bali for example the total direct international visitors arrivals reached 1,5 millions in 2004, out of which more than 75% came through Tour Operators, and 30% staying in 5 stars properties. High yield has to be favoured.

The destination as a country should be promoted through its regions and islands that do not carry any negative perception: Java, Borneo, Lombok, Bali, and Papua. In doing so the destination would be able to position its USP and its diversity, as the branding proposes.

However, the growth will not be possible without promoting the country in the markets. Advertisement or Marketing Communications led by the Ministry of Culture and Tourism are the only possible solutions. As the country does not have the necessary financial resources to carry out an advertisement campaign, the choice seems clear that Marketing Communications are the best option for promoting the destination.

The Ministry should redefine its role in term of marketing the destination, in respect of its available budget and resources.

Because of the growing challenges facing the industry a strategic alliance and an active partnership between the national and regional tourism authorities, public and the private sector will be the key to a successful promotion of the destination.

By sharing human and financial resources, Indonesia will be better prepared to address unexpected events and stretch its resources to bridge the gap between current capabilities and future opportunities.

Report by Zoritsa Urosevic, WTO Consultant

# G. Post-Tsunami Mission on Communications in Sri Lanka

(August 2005)

## Summary

### 1 Introduction

The one-month mission was divided into three main activity areas: improving communications; beginning work on a crisis management plan for the Sri Lanka Tourist Board; and the *WTO Workshop on Microfinance and Assistance to SMEs*. Carrying out these activities required extensive contacts with all of the major players in the Sri Lankan tourist sector, as well as several visits to the tsunami stricken areas. Details are summarized below.

In addition, I conducted two weeks of “communications training” for the staff of the Marketing Department at the tourist board, which ended up being mostly individual instruction in business English and letter writing. For the entire time I was there, I also worked as the resident editor – correcting reports and other types of documents, such as the Tourist Board’s response to parliament on a new law that would dismantle the board! I completed the text and design of a new investment brochure. And I also spoke at a very interesting conference for about 150 members of the local media on *Improving Disaster Coverage: Did we get the tsunami story right?* that was sponsored by the Press Complaints Commission.

Cooperation from the Tourist Board was outstanding, especially the Director General Mr. S. Kalaiselvam. Their PR agency, Batey Public Relations of Singapore, was also extremely supportive.

### 2 Post Tsunami Sri Lanka

Six months after the tsunami, the Sri Lanka tourism sector is still recovering. While overall tourist arrivals were up by 13% from January to June. They are not the traditional beach tourists and these arrival figures include many aid workers, Sri Lankan emigrants returning to help their families, and lower spending Indian tourists who are coming on three-day packages to Colombo and the hill country.

For the most part, tourist beaches have been cleaned up and hotels have been repaired and are in excellent condition, but adjacent tourism facilities like souvenir shops and local restaurants are still in ruins. I would say that the situation in Phuket in January was better than Sri Lanka’s western coast six months later. And the situation on the more remote Eastern coast, which was harder hit, is said to be worse.

There are several reasons for the slowness of the recovery.

- a. Political wrangling over how to distribute recovery funds
- b. The 100 metre coastal buffer zone is preventing people from rebuilding houses and small businesses, although most hotels have either received permission or just gone ahead and rebuilt without permission.

There seems to be a real disconnect between the coastal zones and the people in Colombo – who are tired of the tsunami crisis and want to get on with other projects. But it is clear that tourists would not feel comfortable visiting the coastal areas yet, while so many reminders of the disaster lie just outside the hotel boundaries.

### 3 Improving Communications

The Tourist Board's PR agency is in charge of communications and what they do is done very professionally. So far this year they have hosted 59 journalists.

But as they are the only ones doing good quality communications, I supplemented the work they did. I did this by issuing recovery oriented news releases through their distribution system, through WTO and to local media, hoping to show by example that good communications can have a positive impact.

Interestingly, USAID is also running a one-year tourism communications project in Sri Lanka. It is headed by an American with a similar background to mine (LA television production, Olympics etc.) They work with the private sector and are prohibited from giving funds to the government, but they are financing one-third of the US\$4.1 million television ad campaign and are producing a series of video news releases. They are also revamping the SLTB website and preparing materials for the one-year tsunami anniversary.

I also tried to take advantage of the work on Crisis Management to improve communications, by organizing the Tourist Board's data bases and insisting that they hire someone internally to handle communications. This was agreed to by the Director General and I wrote a job description for a person that would complement rather than duplicate the work of the PR agency.

### 4 The Crisis Management Plan for SLTB

At the request of Mr. Kalaiselvam, I began the process of creating a crisis management plan for the Tourist Board. I outlined a step-by-step approach and we started implementing the steps. First by forming a Crisis Management Unit and holding regular meetings; by locating the data base (which was in London!) and starting to update it; by offering two training sessions to the Crisis Management Unit; by conducting a risk analysis of potential crisis with the Crisis Management Unit.

I also conducted a Post Tsunami Review by interviewing a cross-section of leaders from the private sector to find out what was done well and what could be improved in the crisis plan. Results were presented to the Crisis Unit.

The next steps involve drafting the actual crisis plan and returning to Sri Lanka to present it. I also suggested conducting a workshop on Crisis Communications for the Tourist Board at the same time.

### 5 Workshop on Microfinance and Assistance to SMEs

While this was organized out of Madrid, I worked on the Sri Lanka side by identifying potential speakers, drafting the invitations and keeping things moving with the logistics.

We also held a follow up meeting with the Tourism Secretary, Dr. Ramanujam and the Deputy Minister, Mr. Faizer Mustafa. There are basically two problems, small businesses that cannot get loans to rebuild because they are within the 100 metre buffer zone and people like guides and drivers who have lost income due to the lack of tourists.

In addition to the workshop conclusions, I proposed some alternative steps such as tax relief for small businesses and courses for guides and drivers that they would be paid to attend. Dr. Ramanujam liked the idea of the courses and promised to do it, if the money promised by Spain comes through.

Report by Deborah Luhrman, WTO Consultant



## H. Conclusions from TOURCOM Bali

(20 May 2004)

Delegates from 20 countries who gathered in Bali, Indonesia for the TOURCOM Regional Conference on Tourism Communications on 20-21 May, 2004 draw the following conclusions and make the following recommendations for tourism destinations in the Asia Pacific region.

1. Tourism officials and the private sector need to work more closely together to lobby for increased support for the tourism sector at the highest level of government and cooperate in order to translate that support into additional funding for marketing and communications activities
2. Limited promotional funds can be stretched further and be more effective when used on PR, media relations and internet rather than on expensive television advertising.
3. Tourism destinations in Asia Pacific should increase the flow of information to the media in good times as well as during a crisis and work at the same time to develop specialized media contacts and good databases.
4. In order to increase emphasis on tourism communications, NTAs which do not yet have a communications section should organize one and establish the post of communications officer to disseminate positive news about the destination, handle media enquiries and deal with crisis communications.
5. While recovery from the devastating tsunami in this region is well underway, the recovery is not yet complete. More work is needed to allay the irrational fears and misperceptions of potential tourists, particularly in the area of health and safety, the current operational status of affected destinations and the attitude that it may not yet be appropriate to take a holiday in places that were the scene of so much tragedy.
6. When a crisis strikes it is essential to communicate in an honest and transparent way, to work as quickly as the media and to put the crisis in context by providing plenty of background information on the destination and maps which show the actual extent of the problem, as well as where it is still safe to travel.
7. More training opportunities are needed in PR, media relations, image building and awareness campaigns for young tourism professionals in order to prepare the communicators of the future.
8. An additional regional TOURCOM should be organized in 2006 with more emphasis on the effective use of new information technologies and more participation by countries from northern Asia and the Pacific islands.



## I. Latest Visa Data Shows Tourism Recovery Still Volatile in Key Tsunami Affected Countries

### International Consumer Travel Dampened by March Earthquakes (May 2005)

BALI, INDONESIA, 20 May 2005 - According to the latest tourist spending data released by Visa Asia Pacific, tourism recovery in selected tsunami-affected countries remains volatile, with international traveler confidence showing signs of weakening following the series of earthquakes and aftershocks on Nias Island, Indonesia in March 2005.

Visitor card spend in the three tourist destinations hardest hit by the tsunamis of December, Maldives, Phuket and Sri Lanka, after a period of steady positive recovery through February and March, has fallen since April and is still experiencing year-on-year decline.

"Visa's latest data clearly shows that tourism recovery in the tsunami hit countries remains volatile and fragile, exacerbated by the recent earthquakes and disturbances in Southern Thailand. For destinations such as Phuket or Maldives where inbound tourism relies considerably on leisure travel, the impact of these incidents on consumer travel intentions is greater than originally expected and recovery is likely to take longer. Every week of negative decline in tourist spending represents millions of dollars lost for the merchants and thousands of jobs at risk in the local communities," said James Murray, executive vice president South and Southeast Asia, Visa Asia Pacific at the Regional Conference on Tourism Communications (TOURCOM) in Bali today.

TOURCOM is convened and organized by the World Tourism Organization (WTO) in cooperation with the Ministry of Culture and Tourism of Indonesia, and sponsored by Visa Asia Pacific.

During the week ended 8 May, international Visa cardholder spending declined by 35 percent year on year in Maldives, and by three percent in Sri Lanka. In Phuket, after reaching positive territory of six percent growth during the week ended 26 March, tourist card spend fell consistently through April to reach a 37 percent year-on-year decline.

With Phuket contributing to a sizeable portion of Thailand's inbound tourism, weekly tourist card spend in the country slowed to 12 percent by 8 May, almost half its highest point of 23 percent year-on-year-growth at the end of March.

"The WTO's TOURCOM event is an essential reminder to the public and private sector players in the tourism industry how critical effective stakeholder communications is in this post-crisis phase. Based on the findings from Visa's *Post-Tsunami Global Travel Intentions Research* released in March, consumers' main barriers to travel are clearly perceptions about the infrastructural readiness and safety of the destinations.

Visa's study also shows that the tsunami's impact on travel to Asia varies considerably by source market. Travelers from certain countries have higher levels of apprehension

and resistance to visiting tsunami-affected countries, while others are more impervious and supportive. This is mirrored in our analysis of tourist spending in Phuket during March and April, when the largest year-on-year losses in international card spend were incurred by Asian travelers, particularly from Taiwan, Hong Kong and Japan as well as Europeans to varying degrees. On the other hand, American

cardholders were spending 18 percent more in Phuket than last year and Canadians similarly outspent last year by eight percent.

Tourism industries across Asia should adopt a varied and sustained approach when communicating and marketing to consumers and travel trade in different source markets, to address their respective concerns and rebuild confidence," Murray added.

### **Bright Spot - Bali**

At the conference, Murray also presented data on international visitor card spend in Indonesia and its major tourist location Bali, since 1997. Flat or negative growth in tourist card spend persisted for many years in the aftermath of the economic crisis and political turbulences, highlighting the crippling effect that security and safety have on inbound tourism growth.

However, recent trends seem to demonstrate that Indonesia's tourism industry is on the road to stabilization and revival. During the 18 consecutive months from November 2003 to April 2005, Bali experienced the longest period of positive year-on-year growth in the past eight years, reaching the highest growth of 34 percent in March boosted by the Easter holidays.

To help sustain the momentum of inbound tourism into Bali, Visa is running a *Visit Bali 2005* program till October this year. In collaboration with 56 merchants in Bali, the Visa program promotes the best of the tourist destination to domestic and international cardholders, offering them special privileges and discounts with a *Visa Savings Passport*.

Full data is available in the latest issue of Visa Tourism Update, at [www.visa-asia.com](http://www.visa-asia.com).

# J. Evolution of Tourism in Tsunami Affected Destinations

(March 2005) WTO Market Intelligence and Promotion Department

Some ten weeks after the tsunami so devastatingly hit the Indian Ocean region, the attention in the relief effort has shifted to activities that allow the people of the affected areas to regain their livelihoods. Immediate humanitarian needs on the ground generally have been met. Clean water, food aid and sanitation programs are in effect. Thanks to rapid response and emergency health programmes and contrary to initial fears, no massive disease outbreaks have been reported (see the World Health Organization (WHO) for a regularly updated report on health issues at [www.who.int/hac/crises/international/asia\\_tsunami/sitrep/en](http://www.who.int/hac/crises/international/asia_tsunami/sitrep/en)).

For tourism the situation has also become more clear. An inventory has been made of the damage suffered. Many of the affected establishments have been cleaned up and are operational again. In other places reconstruction work is under way. The majority of places are in the condition to welcome visitors once more. Moreover, tourism workers at the destinations are eager to receive guests again, as taking up their usual activities is the best way to return to everyday life and overcome the drama of the tsunami.

This document examines the evolution of tourism after the tsunami and the short- and midterm prospects. It is based on air traffic and arrival data as well as data from a survey among the travel trade in major source markets. In this respect it is a complement to the consumer perception survey deriving from the demand side conducted under the responsibility of VISA International. It will focus on the four most affected destination countries: Indonesia, Maldives, Sri Lanka and Thailand.

At the time of drafting this report, the beginning of March 2005, only limited hard statistical data is available. The latest data just published generally refers to January and is necessarily still fragmented and sometimes contradictory. A lot depends on what happened in February, and what will happen in March and the coming months. The next issue of the *WTO World Tourism Barometer*, scheduled for June, will contain an updated and more complete and detailed evaluation.

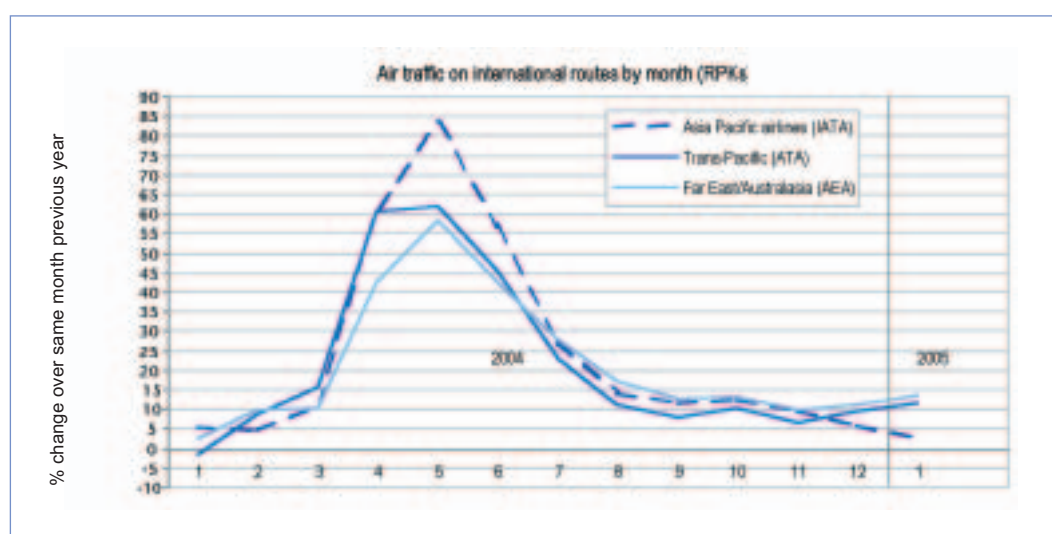
## Tourism stock

In Maldives and in Sri Lanka around 80% of the existing capacity is operational. In Thailand close to full capacity is available. The affected areas represent around 9% of all inbound traffic. Within this area there has been a quick recovery of the infrastructure and 80% of the hotels are functioning normally. In Indonesia, though in humanitarian terms most hurt, there was no relevant impact in terms of tourism, as its main tourism destinations situated on the islands of Java, Bali and Lombok are thousand of kilometres away from the North-West coast of the island of Sumatra where the tsunami struck.

## Air Traffic Flows

As already anticipated in the January issue of the *WTO World Tourism Barometer*, for world tourism as a whole the tsunami does not seem to have had a significant impact. As reported by IATA, worldwide air traffic (as measured in revenue passenger kilometre) maintained strength in December 2004 and January 2005 with growth close to 8% for both months compared to the same months a year before.

Notwithstanding, air traffic by airlines of Asia and the Pacific (referring both to traffic within, to and from the region) saw slower growth of 6% in December and 3% in January. IATA attributes this slowdown to the loss of leisure travel suffered by some Asian airlines from the tsunami, but believes the fall will be reversed in the following months given the strength of economic activity in the region. The Association of Asia Pacific Airlines (AAPA) points in this respect also to the fact that in 2004 January figures were boosted by the earlier timing of the Lunar New Year holiday, and states that any post-tsunami effects appear to have been limited to specific areas within the region. Interestingly enough, however, trans-Pacific traffic by US member airlines of the Air Transport Association of America (ATA) and traffic between Europe and Asia and the Pacific by member airlines of the European Association of Airlines (AEA) showed remarkable strength with growth at 11% and 13% respectively in January.



Source: compiled by WTO from International Air Transport Association (IATA), Air Transport Association of America (ATA), Association of European Airlines (AEA)

## Arrivals to Destinations

As for the evolution of arrivals to individual destination countries, it is relevant to note that all four destinations analysed here were in full expansion in 2004. Thailand and Indonesia reported growth in international tourist arrivals of 19% and 18% respectively, thus compensating amply the SARS losses of 2003. Sri Lanka and Maldives, both not significantly affected by the SARS outbreak and still with positive growth in 2003, reported increases of 13% and 9% respectively in 2004.

The impact of the tsunami on tourism can be read from the monthly data for December and January as reported by the destinations to PATA. As could be expected just after the disaster, in January the loss of arrivals was generally substantial, while in December in some cases the figures were still positive as only the arrivals in the last week were affected just after the tsunami took place. International tourist arrivals to Indonesia decreased by 8% in December compared to the same month a year before. January 2005 data for Indonesia as a whole is not yet available. The number of direct foreign tourist arrivals to its prime destination Bali, however, decreased by 40% in January, while in December an increase of 33% was still recorded. Arrivals to Maldives decreased by 24% in December compared to the same month of 2004, and in January a decrease of 70% was recorded. Tourist arrivals to Sri Lanka still increased by 15% in December, while in January a decrease of 24% was reported. Arrivals at Bangkok International airport (excluding overseas Thais) increased by 2% in December and decreased by 19% in January. In the first half of February, though, arrivals were up by 12% compared to the same period of 2004. Traffic by flag carrier Thai Airways as reported by IATA, decreased by 14% in January (referring both to arrivals to and departures from Thailand).

## Source markets

The most interesting question at this moment is how quickly recovery will take place. In order to get insight on the short- and medium-term prospects of the affected destinations, a brief survey has been conducted by the WTO Secretariat among travel trade representatives of a number of important source markets of the affected countries in Asia, Europe and the Americas. Questions focussed first, on the assessment of the pace at which tour operations have been restored in the main generating markets, and second on the evaluation of how consumers are reacting in terms of bookings, of possible changes of destinations and of overall perception regarding the affected destinations. Responses have been received from representatives in Australia, Canada, China, Finland, Germany, Japan, the Netherlands, the Republic of Korea, the United Kingdom and the United States.

Some of the most noteworthy conclusions from the responses are:

® Unlike other emergencies such as SARS, the tsunami did not insert a generalised uncertainty in the markets undermining travel confidence. Travellers understand that the tsunami was a unique one-time event that could also have occurred in other places, for which nobody to blame, and which is not likely to be repeated. Potential visitors do feel the need for information about the actual state of affairs, but are not scared away in large numbers. Travellers might decide to shift to other destinations within the same country or the same region, but will not refrain from travel. Travellers from more mature source markets with more international travel experience, such as Western Europe and Canada, generally show less reluctance than travellers from emerging markets to visit the affected destinations.

- The tsunami did draw a lot of attention to the region and bred sympathy and solidarity all over the world, as is reflected for instance in the record amount of donations collected from both public and private sources. As a side effect of the tsunami, the awareness of the destinations has increased. The media exposure has made the destinations more known now than before in source markets. In the affected destinations themselves authorities and the general public are more aware of the significance of tourism.
- The message that a crucial way to support the affected countries is continuing to visit them has been received very well and gained important supporters throughout the world. Various personalities travelled to the area, such as former presidents of the United States George H. Bush and Bill Clinton. Sweden's king and queen visited Thailand to thank Thais and Swedes in Thailand for their help to Swedish holidaymakers affected by the tsunami. Britain's Prince Charles visited Sri Lanka. In the Netherlands the Dutch crown prince Willem-Alexander asked the Dutch population to visit the affected areas in Asia as tourists. In a TV news program interview he pointed out that it is very important that tourists regain trust in the affected areas, as tourism is a primary source of income for the region. WTO has also been actively working in this area through the organization of press trips and the development of the "Holiday with your heart - travel to Sri Lanka, Maldives, Thailand and Indonesia" campaign.
- Although demand was seriously affected just after the tsunami, the affected destinations have not disappeared totally from the supply in the travel trade and stayed on the market. This generally will facilitate a quick recovery.
- Charter air traffic to the affected destinations is coming back. Tour operations from a number of long-haul source markets to the affected areas, which are based mainly on charter traffic, were mostly cancelled or were at reduced capacity throughout January. Gradually by the end of January and during February operations have been resumed but at lower than usual capacities for this part of the year. In the UK for example the Maldives has been in the market again since 15 January and in Germany operations to the island were never fully cancelled. Operations to other destinations such as Phuket in Thailand and Sri Lanka resumed in February in the UK.

- Bookings to the destinations hit by the tsunami are still under pressure, but are slowly picking up again. Though a temporary shift of traffic can be noted, this is mostly redirected from the most affected areas to nearby areas within the same countries or within the same region. Patterns differ from market to market. Long haul markets seem to be reacting more promptly than nearby markets and markets such as Japan where security issues are highly considered. In the UK recovery has been stronger in bookings to the Maldives and to Phuket while bookings to Sri Lanka show slower development. In Germany bookings to Thailand are on the whole 20% down as compared to last year, with Maldives down 30% and Sri Lanka down 60%. The booking statistics kept by the General Dutch Federation of Tourism companies (ANVR) show a clear pickup in bookings for Indonesia and Thailand made between 16 January and 6 of February 2005. For the coming summer season (April-November) for both destinations already more bookings have been made than in the same period last year. Reservations for Sri Lanka and the Maldives, however, are still very slow and figures still lag considerably behind last years' figures. In Asia, the Australian outbound market is reported to have already recovered fully and no lasting negative impact for the tsunami-affected destinations is present. On the other hand, traffic from China has not yet shown signs of restoration and in Japan, though operations have been restarted in the end of February, bookings are down by 90% when compared to the same period of 2004.
- For the affected countries, as with any calamity, it is of utmost importance that travel advisories issued by the authorities in the source markets adequately reflect the situation, i.e. that they be balanced, based on ground observation, and geographically confined. They play a vital role in travel decisions if only for the fact that insurers use them as guidance for whether or not to cover trips. Many generating countries acted with prudence in this respect. As situations are quickly changing and improve every day it is necessary to update travel advisories with sufficient frequency. For the restoration of normal tourism traffic to affected destinations this can be one of the essential factors.
- Overall confidence is rather high in the affected destinations. The tourism sector in general and in this region in particular has shown a remarkable ability to recovery as is proven by previous emergencies such as SARS. Also reconstruction and revival plans are being implemented at a quick pace. Some travel trade representatives expressed the expectation that demand will be back to normal or even be better than it was before the tsunami, in the 2005/06 winter season.

## WTO World Tourism Barometer

(June 2005)

### Tsunami Recovery Update

Six months after the tsunami disaster of 26 December 2004, the main affected destinations have shown a remarkable resilience and resurgence. The humanitarian efforts of reconstruction, particularly in the most affected areas of Indonesia and Sri Lanka where human losses and material damage were highest, continued with vigour. Meanwhile, the lion's share of tourist facilities were intact, which has enabled destinations to embark on ambitious promotional campaigns.

The most significant effect in terms of tourism occurred in the Maldives, where arrivals declined by a significant 53% during the first four months of 2005 as compared to the same period last year.

In Indonesia arrivals are down by only 1.4% as April results compensated for most of the losses of the three previous months. And although the country was struck by another natural disaster, the earthquake on Nias Island at the end of March, the continued good performance of major destination Bali helped to improve the overall results.

In the case of Thailand, the peripheral damage to the tourist facilities of Phuket has not significantly affected travel to the rest of the country. Although data in terms of arrivals to all entry points of Thailand is only available for January (-29%), the country reports stable results in terms of tourist arrivals to the Bangkok Airport (0% up to May), which represents around 70% of all tourist arrivals. According to Thai authorities, coastal attractions such as Samui, Hua Hin, Cha-am, Pattaya and Rayong have been gaining prominence as substitution sites to meet the demand of the market once focused on the Andaman coast, which has even created some problems of over-demand in these areas.

In Sri Lanka recovery came faster. The destination reports an increase of 8% in arrivals in the first five months of 2005, as arrivals grew by more than 30% a month between March and May, after the negative double-digit rates of the first two months. This may be due to increased traffic to the capital Colombo, in particular from Japan where an aggressive marketing campaign is under way.

#### Prospects

Affected countries are expected to recover until the end of the year as solid measures are being taken by the tourism industry and authorities to enable a quick rebound.

Tour operators and travel agents indicate that bookings for the winter season (from October 2005 to March 2006) which forms the bulk of European traffic to all the tsunami-affected destinations (except for Bali, which depends strongly on Australian traffic) is encouraging. In the UK, according to the Association of British Travel Agents (ABTA), although sales to the Indian Ocean are still subdued, Thailand is recovering ahead of the Maldives and Sri Lanka.

On the supply side, in Thailand authorities are looking in the short term to the Middle East source markets with fast-growing economies as an alternative to replace intraregional tourists, whose flows are expected to be stagnant during the coming Green Season (rainy season). For that purpose, more flexible immigration measures regarding this group of countries have already been prepared. In Indonesia, easier border procedures have also been designed to stimulate tourism. Government approval has been given for eleven more countries to receive the visa-on-arrival privileges (Saudi Arabia, Kuwait, Belgium, Spain, Portugal, Russia, Egypt, Austria, Ireland, Qatar and Luxembourg) adding to the group of other 20 countries whose nationals have enjoyed this facility since February 2004.

Sri Lanka, on the other side is developing efforts to further attract the Chinese market following the beginning of the first-ever flights from Colombo to Beijing in mid-June.

*For updated information regarding the progress of each destination, as well as regarding the WTO Tsunami Tourism Recovery Program please refer to the WTO website at [www.world-tourism.org/tsunamileng.html](http://www.world-tourism.org/tsunamileng.html).*



# K. Economic Impact Analysis Mission to Maldives

(April 2005)

## 1 Introduction

### Objectives of the Mission

The overall objectives of the mission as set out in the terms of reference are as follows:

- carry out a broad assessment of the direct damage caused to the tourism infrastructure and superstructure and related businesses; and, indirect impact from the loss of revenue, both to the Government and the private sector due to low tourist arrivals;
- based upon the broad assessment above, prepare preliminary estimates for rebuilding the infrastructure and superstructure, resort by resort (as the needs of resorts may vary depending upon the extent of damage caused). The estimates would also take into account the costs which may be covered by insurance policies. Furthermore, the assessment and estimation shall take into account the cash flow losses which may accrue to damaged resorts because of either lack of tourists or low number of tourists.
- based upon the preliminary estimates above, prepare resort-wise requirements of financial assistance.
- carry out an assessment of the negative economic impacts caused to the manpower directly or indirectly employed by the tourism industry. This would also take into account staff redundancies, lower salaries, loss of additional income (from service charge, tips, etc.) and loss of seasonal/temporary employment, particularly in view of the fact that the Tsunami hit at the peak of the tourist season.
- recommend, on the basis of the above four points, a detailed financial recovery plan focusing on the following major elements:
  - (a) resort-wise financial assistance to be provided for rebuilding the infrastructure and superstructure. The mechanism of financial assistance may be determined (e.g. subsidies, soft loans, making up cash shortfalls, deferring loan and/or lease payments, reduced taxation or no taxation for a fixed period of time, duty-free import of capital goods for reconstruction/renovation etc.) in close consultation with the Ministry of Tourism, Ministry of Finance, MATI, the Maldives National Chamber of Commerce and Industry, and local financial institutions.
  - (b) a mechanism for the recovery of these assistance costs in the mid to long term e.g. room cess, tsunami recovery tax etc. based upon the preparation of a rough estimate of this cost to government.
  - (c) livelihood support plans for the tourism manpower which suffered because of shut-down resorts, including the creation of temporary employment in related sectors, restoring incomes and, if need be, provision of basic sustenance allowance till incomes are restored to pre-tsunami levels as well as a mechanism for channelling this aid.

The proposed outputs of the mission were:

- a mission report based upon the consultant's activities, findings and recommendations as guided by the terms of reference.
- a series of photographs illustrating examples of the physical damage inflicted by the tsunami and recording a selection of the meetings held by the consultant during the course of the mission.

Mr James Fletcher, Principal, Fletcher Associates, undertook the mission during the period 14-23 March, 2005.

## Conduct of the Mission

It was unfortunate that the timing of the mission coincided with the conduct of the appraisal process associated with the bids for 11 new resort island leases. This is a critical and sensitive exercise whose outcome will characterise the next phase of Maldives' development as a tourist destination and considerable Ministry of Tourism resources, including personnel, were necessarily dedicated to this task but as a consequence there was some impairment to the efficiency of the mission.

The timing of the mission was also coincident in part with the timing of ITB in Berlin and an important Tsunami Relief Conference for governments and donor organisations held by the Asian Development Bank in Manila which precluded meetings with senior Maldives Government officials, the Maldives Association of Tourism Industry (MATI) and certain resort management / investment company representatives.

Notwithstanding these difficulties, the Ministry of Tourism made every effort to assist the mission with the arrangement of meetings both at resorts and in Male and with transportation to a selection of the damaged resorts.

A briefing meeting was held with Mr. Mohamed Saeed, Deputy Minister of Tourism and a valuable policy related meeting was held with Dr. Mustafa Lutfi, Minister of Tourism, following a number of island visits and meetings with resort management. Discussions were also held with representatives from several government departments, private sector organisations directly connected to the tourism sector and a representative from the National Disaster Management Centre. A listing of individuals interviewed is set out in Annex 1 of this report.

It must be borne in mind, however, that it was never going to be possible to visit all 21 resorts which were closed due to the tsunami, given the access practicalities involved, the need for numerous meetings in Male and the limited time-scale of the mission. Thus the collection of data from every damaged island has not been possible (even a questionnaire survey by MATI, focusing on quantification of the tsunami damage was returned by only 22 out of a possible 87 resorts and only three of the returned questionnaires were from resorts which were forced to close). Estimates have therefore had to be made based upon data collected from the interview programme and an analysis of the MATI data.

The consultant extends his sincere appreciation to the Minister and Deputy Minister and to all that assisted him during his mission. Particular appreciation is extended to Mr. Hussain Nasheed from the Planning and Development section for acting as principal counterpart during the mission and to Ms. Ikleela Ismail, Senior Research Officer, for her provision of essential statistical material.

## Situation Analysis

### The National Context

On 26 December 2004 the Maldives experienced the worst natural disaster in the nation's history when at around 9:15 am, the tsunami washed over the entire country with waves ranging from 4 to 14 feet in height. The tragedy claimed 105 lives while a further 1300 were injured and some 29,000 were immediately made homeless and displaced (the number is now less than half that figure) across the 199 inhabited islands of the archipelago. In comparison with the other countries affected by the tsunami, the Maldives experience was a disaster of national rather than of regional proportions.

Fourteen islands suffered complete destruction and had to be evacuated while a further thirty nine were significantly damaged and a third of the population of 300,000 was severely affected. The strength of the waves caused widespread destruction to housing, schools, clinics and other social infrastructure across the atolls while the inundation wiped out electricity supplies, cut telecommunication links, disrupted water supplies and damaged essential infrastructure such as jetties and harbours. The international airport at Male, however, was only lightly damaged (principally navigational aid equipment), resulting in closure for little more than a day and thus was almost immediately available to facilitate the relief effort.

The tsunami resulted in saltwater intrusion into freshwater lenses on almost every one of the 1,200 islands, leading to vegetation browning and dieback and the destruction of banana plantations and other non-indigenous agricultural cropping activity. A range of environmental problems with potential to harm human health and damage the natural environment were also created by the widespread deposition of coral sand, vegetation, municipal waste from dump sites, healthcare waste, human waste from damaged septic tanks, hazardous substances and demolition waste. However, the feared level of damage thought likely to have been sustained by the coral reefs and their associated fish stocks, around the islands, has been discovered to have been largely unfounded following rapid assessments of this situation by an international team of marine environmentalists / biologists.

Some 120 fishing vessels were lost or totally damaged while a further 50 were partially damaged or lost equipment however damage to transport and communication infrastructure (harbours, jetties, causeways, maritime and air navigational aids, telecoms) was less than originally feared. This is attributed to the fact that many ports and maritime facilities are mostly located at the inner side of the atolls, away from the direction and consequent direct impact of the tsunami and because the airport islands of Male and Gan sustained limited damage.

Male, the inhabited island which is the nation's capital and home to around a quarter of the county's population, was also largely undamaged by the tsunami, barring some localised flooding to both commercial and domestic property and limited physical damage to sea walls and related structures. The city is protected by a series of breakwaters and sea walls that have been built progressively over the years as a necessary part of major reclamation works which have now more than doubled the original size of the island.

Early estimates prepared by the Joint Assessment Team from the Asian Development Bank, the United Nations and the World Bank and presented in their report 'Tsunami: Impact and Recovery', February, 2005, indicate that the direct and indirect losses associated with the tsunami amount to some \$470million. This figure is a sum of the losses associated with each sector of the economy ie. education, health, housing, tourism, fishing, agriculture etc. and it finds that almost half this figure is accounted for by the tourism sector alone (\$230m). The remaining 11 sectors are therefore responsible for the balancing \$240m with the housing sector representing the second highest figure at \$64.8m followed by administration at \$50m, livelihoods at \$30m and fisheries at \$25.1m.

## The Tourism Context

A comparison of the physical impact left by the tsunami upon the inhabited islands with the impact upon the resort islands highlights a number of parallels and similarities despite the fact that in almost every respect they represent completely different worlds with little in common. The resort islands are located in the same atolls as inhabited islands although their distribution, for historic and strategically planned development purposes, is concentrated upon North and South Male and Ari atolls (80% of all resorts are in these three atolls) and not throughout the entire archipelago like the inhabited islands, because of the ease of access these particular atolls have from Male international airport.

There are 199 inhabited islands, compared with some 87 resort islands, and all are equally exposed to the same patterns of weather, ocean currents and other natural phenomena, including tsunami. Both island types suffered similar kinds of resultant physical damage from the tsunami, however, the human catastrophe is far greater on the inhabited islands, including around 100 reported deaths, while, despite their being some 17,000 tourists in the resort islands on 26 December, supported by a further 17,000 staff, only three fatalities were recorded.

The tsunami impact was experienced differentially across both the inhabited and the resort island groups with several islands very badly hit (evacuated and closed respectively), and a larger number of islands suffering varying degrees of damage (some displacement of inhabitants and short term closure/partly operational respectively) while all inhabited islands not suffering serious physical damage will be experiencing some indirect impacts related to livelihood issues (within their atoll and with their links to the wider tourism sector), so too will resort islands, similarly physically intact, but now suffering from the indirect effects of destination-wide lower levels of visitor arrivals, lower resort occupancy and reduced business performance.

The most heavily damaged islands were located on the eastern side of their respective atolls and therefore closest to the epi-centre of the underwater earthquake off Indonesia, while resorts 30-40km away on the western side of the atolls were largely unscathed yet some resorts on the eastern side suffered limited damage and were, depending on their proximity to the damaged resorts, probably protected by those latter islands. It also appears that the closer an island was to its protecting reef and to deep water channels, the more vulnerable it was to the force of the tsunami.

Many of the most badly hit resorts were completely inundated leading to a complete loss of power generation and support infrastructure, destruction of food and water supplies and wholesale water damage to accommodation furnishings and structures. Other of these seriously damaged resorts suffered less severe damage to reception, restaurant and related facilities but suffered significant structural damage to their over-water and/or beach based accommodation and their power, water and related infrastructure.

The tsunami hit the Maldives around 9.15am which meant that the vast majority of guests were in the restaurant having breakfast or possibly already engaged in diving, sailing, fishing or other activities and thus very few were in their accommodation. If the tsunami had struck during the night or earlier in the morning many guests may have been trapped in their rooms. The tsunami also struck during a period of low tide and it is believed that this was a further fortuitous factor which may have moderated what might have been an even greater disaster.

16 resort islands were forced to close immediately, a further five were closed by the end of December and another five continued to operate at between 60 to 80 percent of their bed capacity (their reception, restaurants, bars, leisure and sports facilities being unaffected). These resort closures/partial closures led to the withdrawal of some 4,100 beds in January, equivalent to 25 percent of the previously available bed supply (including non-resort hotels in Male but excluding cabin accommodation aboard motor and sailing yachts).

Five resorts were re-opened or partly re-opened by the beginning of February, bringing a further 500 rooms into operation and progressively, additional resort re-openings will take place throughout 2005. However, it will not be until the start of the 2005/6 high season, in November/December, that five

major resorts are expected to re-open (Four Seasons, Taj Exotica and the Club Med resorts for example) and this will still leave a further five badly damaged resorts which will be unable to re-open until well into 2006. Thus half of the resorts forced to close due to the severity of the damage they sustained will be shut for a minimum of almost a year.

Physical damage sustained by businesses related to the tourism sector principally includes the loss of local fishermen's boats and related equipment mentioned above together with other local island based handicraft stocks and related materials. Little damage was sustained by water transport operators who ferry visitors between the airport and Male and between the airport and the island resorts and although the two seaplane operators based at the international airport suffered the loss of some ground level maintenance/operational equipment, terminal building furnishings and mooring pontoon decking, their aircraft fleets suffered limited damage. Trans Maldivian Airlines for example, had three aircraft out of their fleet of thirteen out of service for between two and three weeks, however both seaplane operators were almost immediately running a continual series of relief flights to the inhabited and resort islands on behalf of the Government.

Damage was also sustained by the infrastructure belonging to the national telecommunications company across the atolls (not on Male) and this was principally associated with transmission towers and related equipment. Communications were initially blacked out but were recovered progressively in a few days.

## Overview of the Tourism Sector Post-Tsunami

This overview presents a picture, in market and economic terms, of the Maldives tourism sector as it recovers, some four months beyond the immediate aftermath of the Asian tsunami. By tourism sector we principally mean the resorts and hotels sector as reflected in the Ministry of Tourism / Government of Maldives official statistics but reference is also made to related sectors such as internal water and air transportation and retailing (souvenirs), whose activities are closely linked to visitor arrival figures and resort occupancy. A small number of guest houses and around 100 safari vessels contributing some 2,000 registered bed spaces between them also have a role within the tourism sector but operational data upon them is not included in the figures generally made available by the Ministry of Tourism.

Over the last ten years the tourism sector has consistently represented between 31 and 35 % of national GDP, comfortably more than double the contribution of the next most significant sector, transport and communications. It currently employs between 15 – 20,000 persons, depending on the definition of the sector used, of whom some 55 % (8 – 11,000) are Maldivian, representing roughly 10 – 12% of the indigenous working population. Tourism, is therefore, a major component of the Maldivian economy, has been for many years and its strategically planned expansion is the key to wider government objectives for national social and economic development. The development planning framework for tourism is determined and regulated by government but the investment in and realisation of, the resort product, is driven by a self-reliant private sector whose creative and imaginative ambition has not only been taking the destination up-market over the last decade (in line with the existing tourism development strategy) but is poised, with recently opened and planned resort projects, to reinvent and establish the Maldives as a world-leading destination.

## Market Aspects

### Resort Closure and Re-opening

Reference has already been made in the Situation Analysis above to the enforced closure of some 21 resorts either immediately upon or shortly after the tsunami and the anticipated pattern of re-opening of these resorts during 2005. By August, traditionally the month attracting the highest numbers of visitors during the low season, it is expected that 50% of the closed resorts, representing about half the

closed bed spaces, will have re-opened, a further 25% will be open in November / December with only 5 resorts, representing some 900 beds, remaining closed until the first quarter of 2006.

The length of time a resort is closed is principally related to the nature and extent of the damage suffered but in several cases it also reflects the additional time taken by certain operators to utilise the re-build opportunity to re-design major elements of the resort and to go beyond simple replacement of structures to create much improved facilities and features e.g. at Club Med, Four Seasons and Taj Exotica.

### Visitor Arrivals

2004 was a record year for visitor arrivals and resort / hotel occupancy and market sentiment was optimistic that the momentum of this performance would carry over into 2005. Following the impact of the tsunami and world wide media coverage of the scale of the regional humanitarian relief effort required, previous market expectations for 2005 were quickly abandoned. Relief delivery, damage assessment and recovery activities became the immediate focus while attention to visitor arrival figures would provide a critical measure of the progress being made to reassure and encourage the major visitor markets to return.

Table 3.1 below presents the Ministry of Tourism official Tourism Growth table for the first four months of 2005, incorporating tourist arrivals, bed nights spent, available bed capacity and consequent bed occupancy data. This useful table of complementary data also provides comparative figures for the same months in 2004 allowing ready appreciation of the evolving situation. The figures cover both the resorts and the hotels separately and as a combined total but bearing in mind the small number of hotels and their respective bed spaces, it is simpler to consider the total figures.

The most important figures to examine are the 'frontier arrivals' numbers and their comparison with the corresponding month in 2004. Thus in January 2005, arrivals were 18,747, a 70% drop in comparison with 2004. Arrivals bounced back by 57% in February to 29,391, a 51% drop from the corresponding figure in 2004 and continued to improve in March by a further 22% to 35,742, 44% down on March 2004, but then failed to maintain the emerging pattern of sustained growth in April when arrivals dropped back to 29,714, almost the same figure as that recorded in February.

Bed occupancy over the same period in 2005 was 33% in January, 65% in February, 74% in March but fell back to 62% in April and this compares with 100% occupancy in the first three months of 2004 and 91% in March of that year. The 2005 occupancies are enhanced however by the fact that they are calculated upon an available beds figure that is 25% lower than that prevailing in 2004. Average length of stay per arrival was the same for the first four months in each year at 8.3 days.

The precipitous decline in January 2005 arrivals is not surprising given the proximity in time to the tsunami when accurate information upon the status of the individual resorts and the destination in general was limited and the emerging picture from the wider region was one of considerable devastation. Tour operators cancelled bookings and airlines cancelled flights and the immediate future looked bleak but co-ordinated efforts between the Ministry of Tourism, MATI, the resorts, airlines, and tour operators brought travel and related media out to see for themselves, to understand the true nature of the damage suffered, to appreciate that most resorts were operating normally and that the situation was not as disastrous as elsewhere in the region. This targeted programme to improve market awareness and allay market fears proved to be well judged and almost immediately successful, given the arrivals figures for February and March. The decline in April 2005 arrivals reflects a familiar pattern observed annually since it marks the beginning of the low season, but it is stronger than may have been expected from the emerging trend suggested by the February and March arrivals and can at best be considered as a sideways movement of the market for the time being.

Table 3.1 TOURISM GROWTH, 2004 - 2005 (At end April 2005)

	Year	January	February	March	April	Jan - Apr
<b>TOURIST ARRIVALS</b>						<b>Total</b>
FRONTIER ARRIVALS	2004	61,861	59,692	63,855	55,396	240,804
	2005	18,747	29,391	35,742	29,714	113,594
	Growth %	-69.7	-50.8	-44.0	-46.4	-52.8
SURFACE ARRIVALS	2004	542	79	2,857	152	3,630
	2005	793	724	843	281	2,641
	Growth %	46.3	816.5	-70.5	84.9	-27.2
<b>BED NIGHTS</b>						<b>Total</b>
RESORTS	2004	508,856	481,891	501,334	454,443	1,946,524
	2005	125,919 / <sub>1</sub>	228,722	297,864	250,832	903,337
	Growth %	-75.3	-52.5	-40.6	-44.8	-53.6
HOTELS	2004	13,311	11,547	11,305	9,312	45,475
	2005	9,664	8,843	8,992	8,512	36,011
	Growth %	-27.4	-23.4	-20.5	-8.6	-20.8
TOTAL	2004	522,167	493,438	512,639	463,755	1,991,999
	2005	135,583	237,565	306,856	259,344	939,348
	Growth %	-74.0	-51.9	-40.1	-44.1	-52.8
<b>BED CAPACITY (Beds in Operation)</b>						<b>Average</b>
RESORTS	2004	16,088	16,212	16,252	16,422	16,244
	2005	12,788 / <sub>2</sub>	12,440	12,802	13,342	12,843
	Growth %	-20.5	-23.3	-21.2	-18.8	-20.9
HOTELS	2004	670	670	636	636	653
	2005	636	636	636	636	636
	Growth %	-5.1	-5.1	0.0	0.0	-2.6
TOTAL	2004	16,758	16,882	16,888	17,058	16,897
	2005	13,424	13,076	13,438	13,978	13,479
	Growth %	-19.9	-22.5	-20.4	-18.1	-20.2
<b>OCCUPANCY RATE (%)</b>						<b>Average</b>
RESORTS	2004	102.0	106.2	99.5	92.2	100.0
	2005	31.8	63.4	75.1	62.7	58.2
	Change	-70.3	-42.8	-24.5	-29.6	-41.8
HOTELS	2004	64.1	61.6	57.3	48.8	57.9
	2005	49.0	47.9	45.6	44.6	46.8
	Change	-15.1	-13.6	-11.7	-4.2	-11.2
TOTAL	2004	100.5	100.8	97.9	90.6	97.5
	2005	32.6	64.9	73.7	61.8	58.2
	Change	-67.9	-35.9	-24.3	-28.8	-39.2
AVG. DURATION OF STAY (Days)	2004	8.4	8.3	8.0	8.4	8.3
	2005	7.2	8.1	8.6	8.7	8.3
	Change	-1.2	-0.2	0.6	0.4	0.0

Source: Statistics Section Ministry of Tourism

Note: Surface Arrivals figures are not included in the national average count of Tourist Arrivals

/\_1 Revised Date: 13/02/05

/\_2 Revised Date: 07/02/05

Date 04/05/05:

European countries dominate the source markets for Maldives tourism with about 80% of the total while visitors from Italy, the UK, Germany and France (in descending order of importance) represent about 75% of Europe's arrivals. Of the principal European markets, it is the UK and Germany that have begun recovering first and Italy, the largest market for Maldives, which is lagging behind. It may well be that the failure of the Italian market to respond as quickly as other markets to the pr/marketing initiatives undertaken by the Ministry of Tourism and the travel trade that is in part responsible for the faltering observed in visitor arrival numbers in April.

### Marketing and P.R. Initiatives

The successful, co-ordinated effort involving the Ministry of Tourism, MATI, resort operators, airlines and tour operators to bring travel related and other journalists to the Maldives for a first hand impression of the status of the tourism product and the destination has already been mentioned above but this has been supported by numerous presentations and public relations opportunities handled by the Minister and Deputy Minister of Tourism at various international travel trade exhibitions (e.g. ITB in Berlin) Donor Community and Asian Tsunami related conferences.

The Ministry of Tourism website is another important source of information and awareness creation with the capacity for being regularly updated and thus helping potential visitors to understand the reality of circumstances in the Maldives and assisting their travel planning. This facility has been further supported by the various Maldives embassies and their diplomatic staff in Europe, Asia and at the United Nations in New York who have been working with other diplomatic missions and foreign affairs ministries to ensure that travel advisories were lifted/accurately informed

A sum of between \$1.5 - \$2.0 million from Government has been agreed and will be made available for marketing purposes in both established and emerging visitor markets, supporting targeted advertising and public relations activities, travel trade and journalist visits, attendance at suitable tourism fairs and representation at appropriate conferences and exhibitions.

Related activities which may have a Ministry of Tourism or Embassy connection but are entirely controlled by the private sector, yet have a considerable wider public relations value for the Maldives since they demonstrates the 'business as usual' message while reinforcing the imaginative and world-leading nature of the destination and its resorts, include the recent high profile launch of Sol Kerzner's second resort island, One&Only Reethi Rah, the opening of the unique new underwater restaurant at the Rangali Hilton resort and the forthcoming launch of the new beach villas and spa village complex at the same resort.

Resort marketing, aside from the full-blown activities associated with major new resort and innovative facility launches, particularly as the high season now gives way to a six month low season, is focussing upon value-added features rather than utilising a more direct price competitive approach. The latter could damage the quality image of the destination and possibly undermine the messages of reassurance and rapid recovery being transmitted to the market through the media. Resort operators have generally taken the view that the proposed price increases for 2005 will not, under the circumstances, be introduced until Christmas 2005. Resorts are generally adopting 2004 prices as the norm which thus represents a notional discount upon the proposed 2005 prices. Beyond this particular point they are now offering free upgrades from room only packages to room and breakfast, or from bed and breakfast to half board, or perhaps offering the inclusion of several free massage/spa/health treatments or free fishing/diving/other activities.

### Recovery to Pre-Tsunami Market Conditions

Opinions differ widely on the time it is expected to take before market demand returns to pre-tsunami levels some say July/August, others suggest September/October or December. Several forecasts have been prepared by parties such as the World Bank/ADB/UN team, the Ministry of Finance, the Ministry of Planning and the Ministry of Tourism which suggest a higher and a lower outcome and what this may mean in broad economic terms but they have mostly been prepared at an early stage following the



tsunami and range from a possible low point of 50% annual bed occupancy to a possible high of 67%. These forecasts compare with the average bed occupancy figure achieved in 2004 of 85%.

These forecasts for the most part assume that the market will under perform the 2004 arrivals and occupancy figures throughout 2005, until September/October, when parity essentially returns from then until the year end. This of course is an average picture and it is likely that on a resort by resort basis, performance will differ according to the marketing strength and product profile of the resort. A resort's dependence on particular markets may well have a bearing on its performance and as noted earlier, the slower return of the Italian market, will contribute to lower occupancies at resorts more dependent on this market whereas those with greater UK or German representation will be performing better.

Arrivals figures in February and March were generally higher than anticipated although March was assisted by the Easter holiday falling earlier this year than in 2004 so that comparisons with 2004 should bear in mind that if Easter had been held in April 2005, as in 2004, then the strong March figure would probably have been lower and April consequentially higher since the date of Easter is a major determinant to travel. Despite the Easter effect though, the sense at the end of April is that the market is possibly marking time rather than maintaining the progress of the previous months and marking time as the low season commences does suggest that it will be some months before arrivals will demonstrate stronger momentum. This should be evident in August, a typically strong month, even in low season, because of the major holiday period this month represents, particularly in Europe, the Maldives dominant source of visitors.

A note of further caution must be raised and this relates to the resilience of the European markets, particularly the UK and German markets, whose growth in 2005 over 2004, thus far, has supported the arrivals momentum witnessed to date. Germany, in common with most Euro zone economies, has demonstrated low levels of economic growth recently while the UK, which has outperformed the Euro zone nations, is now experiencing a slowdown in consumer expenditure following a series of interest rate rises and increased levels of government taxation over recent months. The outlook for consumer discretionary expenditure in the UK is for at least a temporary contraction and this may affect long haul holiday taking in the short term.

The Japanese market, while only a third to two thirds the size of the principal European markets is by far the most significant national market outside of Europe and it would appear to be recovering steadily month on month. The slower recovery of this market is being attributed to a reduction in available flights between Singapore and Male because of the withdrawal of Singapore Airlines services. This position is expected to be reversed in the next few months, leading to improved access to the Maldives and providing encouragement to prospective visitors from Japan and elsewhere in East Asia.

Consideration of the above suggests that recovery of the arrivals and occupancy position to a level similar to that in 2004 will not generally be evident until September/October and may possibly be delayed until December, 2005. Overall annual average bed occupancy as a result, is likely to be around 65% although individual resorts will achieve stronger or weaker performance around this level.

## **Economic Aspects**

### **Tourism Sector Losses**

The resort and hotel sector, being the largest component part of the tourism sector in the Maldives, has also suffered the most severely, physically and financially, from the impact of the tsunami. 21 resorts have been forced to close and although five re-opened by the first of February and a further six will be open by August, this still leaves ten resorts closed until between December and the first quarter of 2006. All the resorts face the costs of rebuilding their physical presence but also the loss of profits from the temporary closure of their businesses and losses associated with lower destination-wide arrivals and resort occupancy until market recovery is achieved.

Details of the estimated \$100million cost of rebuilding the physical resort infrastructure and superstructure, together with the estimated direct and indirect loss of resort profits and the consequential loss of taxation and related revenues to Government, are presented in Section Four below.

Losses in the wider tourism sector are smaller in magnitude by comparison with the resorts/hotels sector, but no less significant for the owners of the businesses concerned. Thus the most obvious of such businesses as identified in Section One above, the internal seaplane operators and the souvenir retailers, face smaller costs associated with replacing physical structures and equipment but more significant losses of profits from lower visitor arrivals and lower resort occupancy figures which result in lower levels of demand for their respective services and goods. This situation also applies to numerous other suppliers of foodstuffs or equipment, and those providing diving/water sports or maintenance services.

### Insurance Cover

Discussions with one of the principal insurance companies in Male have established that the issue of insurance cover has a significantly raised profile in the aftermath of the tsunami. In general terms, it would appear that most resorts were covered for physical structural, furnishings, fittings and equipment damage but the picture was very much more variable when it came to being covered for business interruption losses. However, the variability in the adequacy or completeness of insurance cover appears to follow a pattern whereby the large international resort operators, even where associated with local investor groups, together with strong local operating companies, are well covered for both physical damage and business interruption, whereas it is the smaller local companies operating one or two resorts, who have belatedly discovered inadequacies in their cover.

Business interruption insurance has generally been considered as expensive and unnecessary by some local groups particularly as it is principally only available for a period of six months. Longer periods of cover are less usual and much more expensive. Many companies in the resort and other business sectors who formerly ignored this kind of insurance are now actively examining this opportunity, assisted by seminars held by the International Finance Corporation for example, which has been creating awareness, informing and assisting companies with their options.

The possession of damage cover does not mean that all the losses suffered will automatically be replaced by insurance since all claims are subject to appraisal by the insurance company. It would appear, however, that the insurance companies have been reasonably flexible with their assessments, given the unusual circumstances of the tsunami. Determining the financial value of claims where the claimant intends to replace what was damaged by enhanced provision can be contentious and lead to delays in settlement, however, evidence from discussions with resort operators and the insurance sector suggests that claims are being dealt with expeditiously with advances of part settlements being made to assist the re-building process and company cash flow.

It is fortunate that half of the 21 resorts forced to close by the tsunami were owned / operated by major international or local groups such as Club Med, Four Seasons, Hakuraa Club, Soneva, Villa Hotels and Taj Hotels. The financial and operational strength of these companies ensures their resorts will be rebuilt from a mix of adequate insurance cover and their own resources. In addition, it is also fortunate that of the five resorts which re-opened earliest (by 1st February) and by implication, suffered least, were all smaller local companies who might have been considered more financially vulnerable.

Of those resorts whose closure is longest i.e. those due to open in November and December and beyond, most are international names like Club Med, Four Seasons and Taj Hotels while half of those five resorts which will not re-open until next year, are also wholly or partly internationally owned, for example, Hakuraa Club, Kandooma and Veligandu Huraa/Bodu Huraa/Dhigufinolhu. This indicates that most of the severely damaged resorts will have the ready capacity to re-build and re-open. However, this is not to say that there are no resorts experiencing difficulties, discussion with the insurance company suggests that business interruption insurance has not been commonplace and as such, the loss of business through closure and current lower levels of visitor arrivals / resort occupancy will be uncomfortable for some.

## Employment Situation

The resort and hotel sector in the Maldives employs approximately 17,000 staff of which roughly 55% are Maldivian and 45% are from overseas, principally the immediate South Asian region. The enforced closure of some 21 resorts due to the tsunami thus theoretically threatened the jobs of around 4,000 staff; however, the reality of the current situation does not bear out this initial fear.

Little information is available from Government Ministries on the status of resort employment following the tsunami since resort management and operations are the full responsibility of the private sector. The overview presented here is therefore informed by numerous interviews with resort management and supported by data collected by MATI from their Tourism Recovery Strategy questionnaire. The Government of Maldives is currently preparing legislation for the introduction of a national social security system but the resort sector has been improving its social responsibility for more than a decade, partly assisted by Government encouragement through the competitive bidding process for new resort island leases and partly through the increasing representation in Maldives of major international resort /hotel operators who bring with them international human resources norms and practises. Thus resort management are responding to higher standards of staff treatment and welfare introduced from international practise while also operating in a competitive local market for trained personnel constrained by limited supply and Government requirements to reduce the level of ex-pat labour employed.

Thus, in the post-tsunami employment environment, although clearly there is some temporary unemployment due to the closure of resorts, the overriding influence of the constrained and limited supply of skilled staff, is directing the response of resort management to make the most generous provision possible to secure retention of their existing staff through to re-opening of the resort, even if this is possibly up to twelve months away. Payments have been made immediately to staff that have lost possessions as staff quarters were flooded and damaged, resorts have made immediate ex-gratia payments to assist staff and their families with livelihood issues and paid for staff to return to their islands to assist their families and the relief programme. Resorts in many cases have also paid for staff family members injured in the tsunami to be transferred abroad for specialist medical treatment.

As in the situation with insurance cover, the position with employment is also to some extent a differential one, whereby the major local and internationally operated resorts have appeared to adopt (and can afford to adopt) a more generous approach than at least some of the smaller local groups and operators. However, there is no evidence from the interview programme or the MATI questionnaires, of redundancies being made from any of the resorts, international or local, large or small. This situation is also true of the seaplane transportation and souvenir sectors where no redundancies have been reported and all staff are being retained on full salaries. There is concern, however, particularly in the souvenir/retail sector that this policy is simply not sustainable at current levels of visitor arrivals and resort occupancy and may need to be revised.

All the international groups and bigger local groups that have been interviewed have stated that they wish to keep all their staff even if this means paying full salaries for several months while the resort is refurbished or rebuilt. The argument being put forward for this approach is simple; it serves the best interests of both resort and staff. Once disbanded, a trained and experienced resort team, the kitchen brigade, restaurant or front of house staff for example, will take time to replace and further time and money to train in the corporate culture. Finding good, trained staff, is currently a problem and this would become more difficult as all the re-opened resorts progressively come on stream looking for similar numbers of trained personnel. The alternative, to otherwise hold onto all the staff even when the resort is closed for six months or more, is challenging, but ultimately considered to be an investment in good personnel relations (and enlightened self-interest). Some smaller operators may not be able to follow this example but it appears that few of these operators are represented in that group of resorts requiring extended closure.

The large local groups and international operators have been moving staff temporarily to other operational units in their organisations, often overseas, to take up temporary positions or to participate

in various training courses. Other local groups and smaller Maldivian operators have less opportunity to retain and redeploy such staff, although, many are being utilised in the re-building activities in their particular resorts. These local groups are also keenly aware of the difficulties with staff recruitment and are more likely to make redundant an ex-pat worker before a Maldivian, if this becomes necessary, and indeed where this is possible, since an ex-pat staff member is likely to be on an annual or longer contract and breaking this could be expensive.

The larger Maldivian resort groups and the international operators have been paying staff their normal salary, including in the case of many of these organisations, a significant percentage of the service charge which they might normally have expected to receive (although not all resorts levy a service charge in the first place). Tips, however, are not being provided for since this element of additional income is not earned by all staff members and is actively discouraged in some resorts.

Employment in the construction sector is buoyant across the atolls wherever damage has been sustained and although there has been no programme of redundancies in the resort sector, clearly there are other employment opportunities available in construction should some unemployment be created. In fact, the construction sector will receive a further boost later this year as the newly announced awards of leases for the development of another eleven new resort islands moves towards the first phase of work on each site. These resorts must be built and operating within 18 months of the letting of the construction contract and hence before long, not only will further construction jobs be created, well over a 1,000 new resort job opportunities will become available – another reason perhaps why very few resorts wish to lose or make redundant any staff at this time.

### New Resort Investment

The tsunami disaster and progress towards recovery has quite rightly dominated the recent picture of Maldives tourism but this has partly obscured significant factors in the recovery associated with investor confidence in the destination. Evidence for this confidence is found in the project investment underway before the tsunami, is found in the nature of the response to re-building damaged resorts and fundamentally, in the forthcoming programme for eleven new island resorts.

Two completely re-developed resorts were under construction prior to the tsunami including the \$150million One&Only Reethi Raa, two major developments were underway on resorts which remained partly open, including the Rangali Hilton and a further two resorts closed on January 1st for previously planned re-development.

Tsunami damage sustained by at least ten of the twenty one resorts forced to close, has led to re-development plans and re-investment of an order beyond simply replacing what had been destroyed. Most of these resorts are operated by major international names such as Club Med, Four Seasons, Taj Hotels and others, thus demonstrating in the most emphatic manner, the commitment to and confidence in the destination by leading hospitality sector companies.

During the first half of 2004 the Government of Maldives released 11 uninhabited and previously undeveloped islands for high quality resort development. Interested developers and investors were required to take part in a demanding and competitive bidding process for an island lease which included the submission of an architectural concept, business planning, marketing and human resource strategies. Interest in this investment opportunity was impressive, attracting in excess of 200 bids for the various islands and although the appraisal process and the decision upon the successful bids was to have taken place in September/October, 2004, this was delayed until early 2005. The tsunami delayed matters further and although the World Bank/ADB/UN team recommended further delaying the process, Government has confidently pressed ahead with the bid appraisals and decisions on the successful bids were made in early April. Once contracts have been signed with contractors, the developers have 18 months to complete and open the new resorts and a major new phase, generating perhaps \$500million of investment, in Maldives tourism development will have begun.

## Financial Recovery

Financial recovery begins once the visitor arrivals figures return to healthier levels and they then translate into improved resort occupancy and profitability. As noted in Section 3.1 above, market recovery is anticipated by around the autumn of this year when arrivals and occupancies reach levels comparable with 2004, assuming the maintenance of 2004 prices.

Estimates for direct and indirect loss of resort profits shown in tables 4.1 and 4.2 in Section 4, represent a total of nearly \$150million, which will have been lost in the course of 2005. It is likely therefore that assuming comparable levels of profitability are achievable in the future as were achieved with the recovery level of occupancy (2004 occupancy) in the past then the losses may be recovered in 12-18 months. This period would also take account of some additional costs associated with damage related re-investment in the resorts which are assumed to be financed through operating cash flow/profits.

## Broad Financial Assessment of the Direct/Indirect Impacts

This broad financial assessment is based upon the results of a limited number of interviews held with resort management, government departmental personnel and representatives from various other public and private organisations, together with a review of the limited number of completed questionnaires returned to MATI for inclusion in their own recent 'Tourism Recovery Strategy' report.

The commercially sensitive nature of certain of the information collected demands the treatment of it in a confidential manner and thus to present the material on a resort by resort basis would be inappropriate and the figures are thus provided in gross terms.

**Direct financial** impacts are considered, firstly, to be those associated with the physical damage sustained by the various resorts and the consequential loss of profits from closure of these individual businesses and secondly, from a government perspective, they are assumed to be the direct loss of island lease revenue, bed tax, departure tax and customs duties following the closure of the various resorts.

**Indirect financial** impacts are considered to be the destination – wide impacts on both the resort sector and government from the subsequent estimated drop in overall visitor arrivals to the Maldives throughout 2005. The impacts here are once again expressed in terms of estimated losses of resort profits, and government revenues from bed tax, departure tax and customs duties.

## Direct Financial Impacts

Table 3.1 below presents the consultant's estimates of the direct financial costs to the resorts and to Government from the impact of the tsunami.

### Resort Damage Costs

As was noted in Section 2 above, some 21 resorts suffered severe levels of damage which has required their closure from anywhere between one month and more than a year. However, the MATI questionnaires have suggested that many of the resorts which were essentially unaffected and remained open also suffered some limited damage although in a wide range of under \$100,000 rather than in larger sums.

The seriously damaged resorts are reporting rebuilding costs in an indicative range from around a million dollars up to between ten and twenty million dollars, depending on resort size and quality. It should be noted however that badly damaged resorts and resorts with serious damage to only their accommodation facilities are planning to use the rebuilding opportunity to improve and enhance their resort product beyond simply replacing what had been available pre-tsunami and it is not always clear where the line is drawn between these two cost components.

The resort damage costs can only be seen as indicative since several of the resorts have yet to complete the planning of their re-building, are still in discussions with their insurers over their losses or were not contactable during the field visit. Extrapolations from existing data have therefore been adopted to complete the picture.

### **Resort Loss of Profits**

2004 was the most successful year to date for Maldives tourism both in terms of overall visitor arrival figures and bed occupancy performance but also across both high and low seasons where a narrowing of the seasonality gap became apparent. The strength of 2004 coupled with the imminent arrival of one or two major new resorts supported market optimism that 2005 would maintain the momentum created in 2004. Thus loss of profits from tsunami closed resorts has been based upon lost occupancy at levels recorded in 2004 and utilising closure periods as advised or extrapolated from field work interviews.

Market pricing has been held at 2004 levels since this appears to be the policy of most resort management for 2005, beyond the immediate post – tsunami period and this approach has allowed adoption of destination-wide resort operational data( gross receipts, costs of sales, import content of sales etc) available from the Ministry of Tourism, to establish a destination average gross operational profit percentage and an average per bed sold, per day profit figure which is then grossed up according to the number of bed sales lost in 2005, from month by month resort closure/re-opening expectations provided/estimated by the resorts and the consultant, compared with 2004 monthly bed occupancy data. Profit losses are highest in the months immediately after the tsunami and then they decline as closed resorts begin to re-open.

### **Government Loss of Island Lease Revenue**

These figures have been prepared from Ministry of Tourism statistical data on resort lease payments together with information collected upon the resort by resort expectations of closure.

### **Government Loss of Bed Tax**

These figures have been prepared utilising the bed nights lost per month from closure and part closure of resorts x the daily tax rate of \$8 a day.

### **Government Loss of Departure Tax**

These figures have been prepared utilising the lost bed night figures, dividing them by the average stay of 8.3 days per guest in 2004 to identify the number of guests this represents and then multiplied this figure by the \$12 departure tax rate.

### **Government Loss of Import Duties**

These figures have been prepared utilising Ministry of Tourism statistics for the import content of resort sales, adjusted to remove a figure considered to be attributable to general ex-pat staff costs which is then divided by the total beds sold figure for 2004 to achieve an indicative per bed/day import cost figure. This figure is then grossed up by the number of tsunami related lost bed/days to give a total import costs lost which is assumed to include an average 25% tax rate for customs duties. An estimated figure of \$15million to cover the loss of tax on imported reconstruction materials and equipment is then added.

*Table 4.1 Estimated Direct Financial Impacts – (\$millions)*

<i>Resort Damage Costs</i>	<i>100.0</i>
<i>Resort Loss of Profits</i>	<i>52.7</i>
<i>Government Loss of Island Lease Revenue</i>	<i>6.5</i>
<i>Government Loss of Bed Tax</i>	<i>7.2</i>
<i>Government Loss of Departure Tax</i>	<i>1.3</i>
<i>Government Loss of Import Taxes</i>	<i>19.7</i>
<b>Total Direct Financial Impacts</b>	<b>187.4</b>

Source: Consultant's estimates  
Indirect Financial Impacts

Table 3.2 below presents the consultant's estimates of the indirect financial costs to the resorts and Government from the impact of the tsunami.

The impacts considered here concern the destination as a whole rather than simply the resorts closed or partially closed by the tsunami, that is, the knock-on effect upon the business performance of the undamaged resorts as a result of lower overall visitor arrivals in the Maldives as well as poorer business results from re-opened resorts re-joining a less buoyant market.

The general approach identified above for the preparation of the figures in Table 3.1 have also been adopted for the Table 3.2 figures, assuming the 2004 monthly bed nights sold position as the benchmark against which to judge a projected arrivals pattern for 2005. Actual arrivals figures for the January to April period were adopted and then used to inform an indicative arrivals pattern, forecast by month, which takes a more cautious position than many of the resort operators but does anticipate the destination reaching full recovery by December 2005. The resulting differences in monthly arrivals, between 2004 and 2005 is then converted into bed nights and used to generate the financial losses as before.

The tourism sector is the dominant industry in the Maldives and is defined in the official economic statistics as the resorts, hotels and restaurants sector which is a narrower if traditional home for the sector. Tourism covers a wide range of activities which in more diverse economies have more independent identities but in the Maldives, their connection with the dominant resorts sector identifies them almost exclusively with tourism. The seaplane operators, for example, have a transportation business but without holidaymakers wishing to travel to their resorts they have little operational rationale. Tourism directly contributes approximately 31% to GDP but it has been estimated that if indirect impacts are considered this would reach 60 – 70%, however to establish this would be a major undertaking.

There is no doubt that the indirect impact of the tsunami, through the resort / tourism sector will be responsible for a number of knock-on effects elsewhere in the economy but fully establishing this reach is a separate study in its own right. One or two business areas can be readily identified e.g. the seaplane transport companies, souvenir companies, various suppliers to the resort operators including individual crafts persons and fishermen located on inhabited islands throughout the atolls. However, the picture is complicated by factors such as resort management companies owning their own supply companies or being part of much larger local conglomerates and souvenir companies who operate shops in Male but also in several resorts and while operating an importing company for souvenir material, also import a wider range of goods/commodities. This mission is unsuited to unravelling these issues.

Table 4.2 Estimated Indirect Financial Impacts – (\$millions)

<i>Resort Loss of Profits</i>	99.6
<i>Government Loss of Bed Tax</i>	13.6
<i>Government Loss of Departure Tax</i>	2.5
<i>Government Loss of Import Taxes</i>	8.7
<b>Total Indirect Financial Impacts</b>	<b>124.4</b>

Source: Consultant's estimates

### Indicative Financial Shortfall

The strong representation of major local and international operators amongst the most severely damaged resorts suggests that the financial capacity to re-build and re-open these resorts utilising insurance settlement funds and their own resources is high. Several locally based operators re-opened their resorts after only one month's closure suggesting that their financial capacity was equally robust. This leaves at most, a quarter of the resorts and principally resorts with medium levels of damage, to be accounted for and since most resorts appear to have possessed damage insurance, the financial shortfall under physical damage is likely to be low – perhaps \$10-20million.

The underinsured nature of business interruption cover has been described and this is likely to be found principally in smaller locally based investor / operator groups rather than in the major local and international groups. Thus resort exposure to business interruption losses through closure, is likely to be represented in possibly 50% of those resorts but responsible for closer to 30% of the losses, or around \$15million.

The estimated loss of profit figures from the indirect impact of the tsunami, that is from the reduction in overall visitor arrival figures in the Maldives and hence in resort occupancy, affects the destination in its entirety and is drawn from the impact upon all operational resorts and hotels. Business interruption insurance does not generally cover such cash flow related losses in a situation where the hotel is operational and the market happens to be in a state of flux. Indirect losses of this nature are estimated at some \$99.6million.

### Recommended Recovery Mechanisms

The tourism sector is the principal focus of consideration in this Section in recognition of the physical and financial losses it has suffered. However, Government has also suffered financially through the loss of direct and indirect tax revenues, some of which it has foregone to assist the more rapid recovery of the tourism sector e.g. lease payments from closed resorts and removal of import taxes on reconstruction materials and equipment.

It must be remembered too that Government needs the tax revenues to finance national development objectives and to make its own contribution to the tsunami relief effort. Provision of tax concessions is also a contentious issue within Government itself and with the donor community and decisions of this nature are not taken lightly. Such measures are often tightly focussed and will have a time limit. Government may also seek to recover the cost of these concessions at a suitable point in the future.

The following measures, below, are thus supported for their targeted approach to particular identified requirements:



## Private Sector Requirements

### (1) Financial Shortfall for the Repair of Physical Damage:

This shortfall could result from possibly a failure to have either any or sufficient insurance cover for this category of loss or from discovering that the rebuild costs have turned out higher than the insurance settlement.

The estimated shortfall to the sector here is only \$10-20million since most resort operators have adequate physical damage insurance cover. However Government's introduction of tax concessions on importation of equipment and materials for reconstruction work could significantly help to reduce this estimated shortfall while this concession and the waiving of lease rental payments for closed resorts will also assist company cash flow and indirectly release some funding to cover this shortfall. If these measures are not sufficient then the company can consider making a request for a soft loan from the facility set up by the Ministry of Tourism and its Maldivian banking partner to assist eligible tourist resorts.

### (2) Financial Shortfall to Cover Direct Losses of Profit:

This shortfall could result from a failure on the part of the resort to have either any or insufficient business interruption insurance and/or from being generally less financially robust to cover short term cash flow difficulties which result. This situation can also be extended to cover the air transportation and retail (souvenirs) sectors on the same basis.

The estimated shortfall to the resort sector is estimated at around \$15million since it is believed that the larger resort operators do have business interruption insurance and it will be smaller operators with smaller losses which may not. Once again, this situation can be supported through the cash flow assistance which the Government's tax concessions will enable and/or with the help of a soft loan from the specially arranged facility managed by a Maldivian bank on behalf of the Ministry of Tourism.

This loan facility set up by the Ministry of Tourism should also be accessible by businesses closely related to the resort sector such as internal air transport and the retail (souvenirs) sectors both of whom, it is understood, have been experiencing cash flow problems as a result of much lower demand from much lower visitor arrival numbers. These companies are of course unable to benefit from the Government's tax concessions since these are directly targeted at resort operators only.

### (3) Assistance with Employment and Related Issues:

The resort sector, as has been pointed out in Section 3 above, has been particularly pro-active and supportive of the welfare of its staff both financially and materially post-tsunami, and although the nature and variety of the measures taken to assist differ according to the size and international or local nature of the organisation, it is believed that the highly competitive market for skilled staff is ensuring that strong pay and benefits packages are provided.

However, it may be that some of the smaller and less financially strong resorts are unable to match the pay and conditions of the larger resort companies and have resultant staff recruitment and retention problems. Government cannot step in and provide financial assistance or direct salaries and benefits policy, but the tax concessions and soft loan facility might ease cash flow problems which generate these difficulties. These personnel problems will certainly also be found to exist in the retail(souvenir) sector at present yet there is no existing forum where companies can air their post-tsunami grievances or problems and seek solutions.

The Ministry of Tourism and MATI need to set up a working group which can assist resort and related tourism sector companies to tackle post-tsunami recovery issues be they financial, human resources or technical etc. They should be able help identify problems, offer advice and possible solutions. The Group would draw its panel of experts from within the membership of MATI/Ministry of Tourism and possibly employ a part time individual to assist with the administration and research matters. An office might be found in the Ministry of Tourism or in the

offices of one of the large resort companies and operating costs could be financed from a small annual charge per MATI member. Maldives Chamber of Commerce has managed to raise between \$0.5-1.0million from its membership to set up a fund for assisting SME businesses to borrow smallish sums for post-tsunami investment and reconstruction. Bank of Maldives is handling the distribution and management of these small loans. A similar approach if considered desirable and suitable could be considered for the tourism sector.

## Government Requirements

### Recovery of Lost Tax Revenues

Although Government has made it clear that it is not currently considering the introduction of a special tsunami relief tax or planning to alter any existing tourism related tax rates as part of a plan to recover tax revenues lost through the introduction of the tax concessions described briefly below, such a proposal could be considered once the timeframe for the concessions expires and any possible negative impact from such a change in policy is adjudged to be low.

If such a course of action was agreed then the simplest and easiest approach to implementation and collection would be to raise an existing tax threshold where the revenue collection system is well established and efficient. The existing bed tax would appear to offer the best opportunity particularly since it is only \$8 a day and therefore about \$65 per person per stay, not a significant figure in terms of the average daily room rates being charged in Maldives. Thus, if the rate were raised by \$2 a day say from January 2006, then the \$35million of lost direct taxation in 2005 could be recovered within three years assuming a little over 5 million bed nights are sold each year( a little under 5 million bed nights were sold in 2004).

### Government Initiatives Being Implemented

The following measures are considered to be entirely suitable and adequate initiatives within the context of a generally financially robust resort sector since they offer realistic and targeted assistance with cash flow issues and access to soft loans in pursuit of a more rapid recovery and re-building of the sector.

#### First Measure – Waiving of Island Lease Rental

The Government of Maldives has agreed to waive payment of the quarterly, island lease rental figure due, if the island has been forced to close down completely as a result of the action of the tsunami. This concession will be available until such time as the resort is in a position to re-open and is estimated to cost around \$6.5million.

#### Second Measure – Waiving of Import Duties

The Government of Maldives has agreed to waive all duties on the importation of equipment and materials directly associated with the rebuilding of a damaged island. This will put re-building of these damaged resorts on an equal footing with the new – build, island resorts which also receive this as an incentive. The estimated cost to government of this measure is in the order of \$15million.

### Ministry of Tourism Policy Initiative

Quite separately, the Ministry of Tourism has also proposed a major policy initiative as part of the National Recovery and Reconstruction Plan, entitled, 'Provision of Soft Loans to Private Tourism Sector'. This initiative will channel some \$98million of concessional finance from an international financing institution via a Maldivian partner Bank to eligible tourism resorts and related tourism businesses to assist re-building efforts and assisting temporary cash flow needs caused by loss of business following the tsunami.

Report by Jim Fletcher, WTO Consultant

# L. Channelling of Funds for SMEs in Tourism in Sri Lanka

(February 2005)

## 1 Introduction

Following the outcome of Phuket (Thailand) meetings organized on 31 January and 01 February 2005, to formulate and adopt a plan of action to stimulate the recovery of tourism in the Tsunami affected countries – namely Thailand, Indonesia, Sri Lanka and Maldives and the subsequent endorsement of the 'Phuket Action Plan' by the Executive Council, the World Tourism Organization (WTO) commissioned the services of H.M.S.Samaranayake, a Sri Lankan Consultant, to prepare a 'Proposal' for mobilization and channeling of donor funds pledged at the Phuket meetings and elsewhere, for the economic and operational recovery of the Tsunami affected small and medium-size tourism enterprises in Sri Lanka.

This report is the outcome of that WTO mission conducted in Sri Lanka during the period from 17 to 28 February 2005.

### 1.1 Terms of Reference

The terms of reference for this mission spelt out by WTO are reproduced below.

1. Review and analyze the impact of the Tsunami on tourism SMEs in Sri Lanka. This includes identification of the types of SMEs most affected. (for example, small restaurants, beach-side caf  s, souvenir shops, parasol renters, water sports equipment rental shops, etc); estimation of the number of people they employ, and identification of the main types of financial assistance they require (for example funds to purchase new equipments, working capital to overcome temporary loss of funds etc)
2. Identify and determine what types of funds are available at banking and other institutions (government agencies, local authorities, NGOs etc) for the recovery efforts.
3. If procedures for accessing these funds are available, set out a detailed method of how tourism SMEs can apply for these funds through the existing procedure, providing advise on how the SMEs proposals should be formulated and directed, and, providing advise on how tourism SMEs can follow-up on their applications.
4. If there are no existing procedures, then design a procedure by which tourism SMEs can access these funds. Various suggestions that have come to the fore include, but are not limited to, the setting up of a local committee or identification of a Ministry, which could channel or evaluate proposals. However, the Consultant is encouraged to propose the procedure that he deems most appropriate. The procedure would have to establish criteria for the selection of the types of SMEs to assist, and formulate a method for review and monitoring the correct usage of the financial assistance by the SMEs.

It is pertinent to mention that WTO has determined, at a first instance, the Mission is primarily aimed at assisting tourism SMEs in restarting their operations and not, to launch new business.

## 1.2 Sources of Information.

In view of the short time made available for this Mission, the Consultant was compelled to make use of the information already collected by the Tourism Authorities of Sri Lanka on the damage caused to the tourism plant as result of Tsunami. Quite fortunately, a few days after the rescue operations conducted immediately following Tsunami, Tourism Authorities in Sri Lanka, namely the Ministry of tourism (MOT) and the Sri Lanka Tourist Board (SLTB) have initiated action to collect detailed information on the damage caused to the tourism plant as a result of Tsunami, with a view to determining the types of action to be initiated to rehabilitate the tourism industry, which was doing well above expectations at the time Tsunami occurred.

MOT has the most comprehensive data base on the subject, collected by means of a press advertisement requesting the affected tourism enterprises to provide detailed information on the extent of damage caused by the tidal waves, estimated cost of the damage, number of people who lost employment as a result and the type of assistance needed from the Government to restart the business. The response to this advertisement has been exceptionally high. Thus, a little over 400 enterprises - large, medium and small - irrespective of whether they are registered with the SLTB or not, have responded to the advertisement. It can be safely assumed that those who responded constituted mostly SMEs needing assistance from the government to restart their businesses. These responses have been tabulated by the Ministry and prepared a document titled 'Report of the Damage Caused to the Tourism Properties by Tsunami on 26 December 2004'

SLTB, on the other hand, has collected the same type of information from the SLTB registered tourist hotels only, through a personal interview survey, by visiting these hotels located in the affected areas. Their findings are published in a report titled 'Status Report of Tourist Hotels Damaged by Tsunami'. However, practically all the tourist hotels covered by this survey can be regarded as 'Large Enterprises', having more than 30 guest rooms and are owned/operated mostly by large chain hotel companies.

Both MOT and SLTB have made their reports available to this Mission and assured full cooperation by providing all the information necessary to make the Mission a success.

In addition, the Consultant himself has been able to travel to the affected areas in the South and East coast regions just two weeks after the disaster and obtain a first hand impression of the extent of the damage caused to tourism properties. Thus, this report has been prepared on the basis of information already collected by MOT and SLTB and also on the basis of Consultants own impressions gained during his visits to Tsunami affected areas.

## 2 Impact of Tsunami on Tourism

Most unfortunately, this natural disaster occurred during the height of the tourist season following two consecutive years of sustained growth experienced after two decades of oscillation and stagnation, due to the prolonged ethnic conflicts and civil wars. The signing of the 'Peace Accord' between the government and the Northern terrorist group (known as Liberation Tigers of Tamil Elam – LTTE) in February 2002 propelled the tourism growth momentum in Sri Lanka in the two subsequent years.

Thus, the peak figure of 436,440 arrivals recorded in 1999 was affected by the terrorist attacks on the army camps in the North in 2000 and the bombing of the International Airport at Katunayake in 2001. These resulted in tourist arrivals sliding down to 400,414 in 2000 and to 336,794 in 2001. The signing of the Peace Accord in February 2002 and the resultant return to normalcy gave the necessary impetus to tourism growth. Thus tourist arrivals passed the half a million mark in 2003 (500,642) and reached a new milestone in 2004 with arrivals reaching a figure of 566,202. If not for Tsunami, which instantly stopped arrivals during the last six days of December, the year would have ended with a total count of around 570,000 arrivals.

In view of the resilience shown by the tourist industry after the Peace Accord, SLTB was working towards a target of one million Tourist arrivals by the year 2010. However, Tsunami had created a major setback to the growth momentum displayed during the last two years, particularly in two areas, namely (1) the destruction of the accommodation capacity by around 2000 guest rooms and (2) the impression created in the minds of the consumers in the generating market that there is a general destruction of beaches and beach properties. MOT and SLTB have already mounted a 'Bounce Back Tourism Programme' with a view to regaining the growth momentum experienced during the last two years. According to SLTB estimates, Sri Lanka is expected to lose only one year of growth as a result of Tsunami.

In terms of government policy on tourism development, all successive governments have recognized tourism as essential and necessary for economic and social development of Sri Lanka. Accordingly, tourism was accorded high priority in the overall programme of national development. The incumbent Government of President Kumaratunga had declared tourism as a 'Thrust Industry' while the previous government of the present Opposition Leader in Parliament has declared it as the 'Engine', which provides the growth momentum to the entire economy.

Travel and Tourism in Sri Lanka undoubtedly has emerged as a major contributor to Foreign Exchange Earnings, Income and Employment Creation, Government Revenue Generation and Spatial Distribution of Development Activities. Therefore, the government is exploring all the avenues to find the necessary resources to rebuild and rehabilitate the tourist industry to pre-Tsunami levels as quickly as possible and create a climate conducive for sustained tourism growth.

### **3 Damage to Tourism Plant (TOR 1)**

On 26 December 2004, in the morning hours from around 6.00 am to 11.00 am the Tsunami tidal waves that originated off the coast of Sumatra dashed the coastline of Sri Lanka, first in the northern and eastern parts of the country and then gradually started spreading to the southern and western parts causing havoc and destruction to life and property. The coastal districts affected by the killer tidal waves from north to east and to south and west are -

- Jaffna and Mullative districts in the Northern Province
- Trincomalee, Batticaloa and Ampara districts in Eastern Province
- Hambantota, Matara and Galle districts in the Southern Province
- Kalutara, Colomba and Gampaha districts in the Western Province.

The Map in Annex A shows the coastal areas affected by this disaster.

However, it can be observed that the intensity and the force of Tsunami waves were not the same all along the affected coastal belt. In some areas they were very severe, with waves going up to about 15 feet height, and penetrated into the countryside for a distance of more than one kilometer, causing heavy destructions to life and property. In other areas, they were somewhat mild and the destructions caused were minimal. Yet in other areas, seawater receded to a distance of about two to three hundred meters into the sea. Colombo city and the outskirt is the classic example, with all buildings along the sea front, including the major hotels remaining almost unaffected.

Accordingly, the damage caused to the tourism plant (namely – hotels; supplementary accommodation units; independent restaurants, bars and cafes; water-based and land-based sports facilities, transport and tour services; souvenir and other tourist shops; cycle and car rental shops etc) located along the affected coastal areas varied considerably, depending on the location, namely

- In the two northern districts of Jaffna and Killinochchi there is hardly any tourism development and the damage is caused to other properties and human life.

- In the case of the eastern province, tourism development is confined mainly to Nilaweli beach stretch in Trincomalee district, Passikudha and Kalkudha beach areas in Batticaloa district and Aruamby area in Ampara district. In all areas, damage to tourism is very heavy.
- In southern and western provinces there are pockets of tourism development all along the coast and these have been affected to varying degrees, depending on the intensity of the tidal waves.

However, overall damage caused to Sri Lanka as a result of Tsunami is unparalleled in recent history and can only be described as a national disaster of unimaginable magnitude. According to official information available with the Tsunami Secretariat (this is part of the government machinery set up by HE the President to handle relief and rehabilitation work) the destructions caused to human life and livelihood and the property can be enumerated as follows.

- The recorded number of deaths of Sri Lankan citizens is estimated to be around 31,150. The number missing is estimated to be over 6,000.
- The recorded number of deaths of foreign nationals is estimated at around 210 (SLTB estimate).
- The number of families displaced as a result of Tsunami and were forced to live in temporary refugee camps, is estimated at around 143,620.
- Accordingly, the total number of people displaced is estimated at around 718,100 (out of a total population of around 19.3 million)
- The total number of new dwelling units (houses) needed to resettle the displaced people is estimated to be over 100,000.
- The two sectors of the national economy affected mostly by Tsunami are Tourism and Fisheries.
- A very large number of small and medium scale commercial and business enterprises (the number is yet to be estimated) have been destroyed.
- The damage to general infrastructure like railways, road transport, electricity, telecommunication, water supply and drainage etc is quite substantial.
- Similarly, there were destructions caused to tourism specific infrastructure such as access roads, water supply and drainage, electricity and telecommunication connections, waste and sewage disposal etc and these were also estimated to be very substantial

In the case of the tourism industry, the damage caused to small and medium size enterprises is assessed to be very severe. These SMEs include mostly the following:

- Operators of small accommodation units, such as guesthouses, inns, motels etc.
- Operators of small restaurants and cafes
- Bicycle and vehicle hirers.
- Motor boat and water-sports equipment hirers
- Site-seeing tour operators
- Small souvenir and handicraft shop operators
- Mobile vendors of handicraft and souvenir items

It should, however, be noted that practically all these tourism SMEs operate outside the 'Registration and Licensing Scheme' of the SLTB and therefore are regarded by the unauthorized operations by the SLTB. Notwithstanding this, they are able to carry out their businesses because of the recognition that they have received from the Local Government Authorities, namely Municipal and Urban Councils and Pradeshiya Sabhas (Area Councils) with their granting of 'Operating Permits'

There is a strong case in favour of assisting such businesses as they constitute the local community at grass root level and are eking out a livelihood because of tourism development in the area. Such assistance can compel them to comply with the stipulated standards, not only by the SLTB but also by the Coast Conservation Authorities. This will help to minimize the undesirable aspects of tourism development and bring them into the mainstream registration and licensing scheme of the SLTB.

The damage caused to large tourism enterprises, namely the large hotels and resorts, vary from place to place depending on the location, distance from the shoreline, stability of the beach itself etc. Practically all these hotels are registered with the SLTB and they account for the large bulk of the tourist accommodation capacity in the country.

According to a survey conducted by the SLTB, the total number of hotels located along the affected coastal belt was 110. Out of this total as many as 79 hotels have been affected by Tsunami waves to some degree. Of this number, only around ten are completely destroyed and are therefore beyond economical repairs. In all other cases, the damage is mostly to the ground floors and the basements, which house some guest-rooms, restaurants and bars, kitchens, cold rooms, air conditioning plants, generator rooms, administration blocks, reception areas, lobbies etc. Therefore the losses caused to valuable items are for greater than the losses caused to the guest-rooms.

### 3.1 Estimation of the Affected SMEs

The survey conducted by MOT, referred to in section 1.2 above, collected information on the number of tourism enterprises damaged, the total number of employees in each enterprise at the time of the disaster and the estimated cost of rehabilitation. The responses to the advertisements have come from all categories of tourism enterprises who have suffered some damage.

They include large, medium and small enterprises, registered and unregistered enterprises etc. Thus, it can be assumed that all tourism SMEs would have responded to the survey, excepting perhaps those who have not seen the advertisements, particularly the mobile vendors. The large hotels with minimal damage and therefore do not require government assistance also have not responded to the MOT advertisements.

Table below gives a summary of the number of tourism enterprises affected by Tsunami.

*Table 3.1: Total Number of Affected Tourism Enterprises, Classified by Category and Province*

<i>Category of Tourism Enterprise</i>	<i>All Island Total</i>	<i>Western Province</i>	<i>Southern Province</i>	<i>Eastern Province</i>
<i>Hotels –Large (1)</i>	66	24	34	8
<i>Hotels –SME (2)</i>	53	15	28	10
<i>Supplementary Accommodation (3)</i>	165	28	125	12
<i>Restaurants &amp; Cafes</i>	64	15	45	4
<i>Travel &amp; Transport Agencies</i>	7	4	2	1
<i>Water Sports Outlets</i>	11	6	5	0
<i>Other (4)</i>	52	25	20	7
<b>TOTAL</b>	<b>418</b>	<b>117</b>	<b>259</b>	<b>42</b>

Source: Ministry of Tourism and Consultant

Note (1) Hotels with 30 or more rooms

(2) SME means hotels having less than 30 rooms.

(3) Includes guesthouses, inns, motels etc

(4) Includes tourist shops and other tourist based enterprises.

It should be noted that large hotels with over 30 rooms do not strictly fall into the category of SMEs. Quite a majority of them have more than 50 rooms and practically all of them are registered with SLTB. Further, most of them are either owned or managed by large chain hotel companies and therefore they do not depend very much on government for assistance. At the request of the Tourist Hotels Association, the government has already allowed duty free concessions for import of materials, which are not locally available, for rehabilitation and re development of these hotels.

Thus, of the 418 damaged tourism enterprise who responded to the MOT questionnaire, 352 or 84 percent belong to the category of SMEs. Out this total, as many as 225 or 64 percent are located in the southern province.

Another important point to note is that of the total of 352 SMEs affected, as many as 218 or 62 percent are accommodation establishments and another 64 or 18 percent are restaurants and cafes. Thus, as many as 80 percent of the affected SMEs are those supplying basic needs of food and lodging to the tourists.

In addition, there can be other small tourism enterprises, which are doing mobile business, such as mobile vendors, site-seeing operators, café operators, pavement vendors etc, who may not have seen or not responded to the advertisement and who need assistance to re-start their businesses.

A large majority of the above mentioned tourism SMEs would not be able to re-start operations to make a living, unless some assistance is forthcoming either by way of outright grants or soft-loans.

### 3.2 Employment in Affected SMEs

MOT survey also has collected information on the numbers of persons employed in the affected tourism enterprises at the time the Tsunami disaster occurred.

Table 3.2 below gives a summary of the information collected, classified by category of enterprise and the province.

*Table 3.2: Employment in Affected Tourism Enterprises (Numbers) Classified by Category and Province*

<i>Category of Tourism Enterprise</i>	<i>All Island Total</i>	<i>Western Province</i>	<i>Southern Province</i>	<i>Eastern Province</i>
<i>Hotels – Large (1)</i>	5749	4086	1466	197
<i>Hotels – SMEs (2)</i>	1733	1003	624	106
<i>Supplementary Accommodation (3)</i>	960	247	694	19
<i>Restaurants &amp; Cafes</i>	501	139	345	17
<i>Travel &amp; Transport Agents</i>	65	33	12	20
<i>Water Sports Outlets</i>	70	48	22	0
<i>Other (4)</i>	250	110	100	40
<b>TOTAL</b>	<b>9328</b>	<b>5666</b>	<b>3263</b>	<b>399</b>

Source: Ministry of Tourism and Consultant

Note: (1) Hotels with 30 or more rooms  
 (2) SME means, hotels having less than 30 rooms  
 (3) Includes tourist shops and other tourist based enterprises  
 (4) Includes tourist shops and other tourist based enterprises



It is seen from the table that the total employment in the affected tourism enterprises amounted to 9328 and out of this number as many as 5749 or 62 percent were employed in large hotels and the balance 3579 or 38 percent were in SMEs. Out of the total employment in all SMEs, small hotels and supplementary accommodation establishments accounted for 75 percent while restaurants and cafes accounted for another 14 percent. These two sectors together accounted for 89 percent of the total direct employment in all affected tourism SMEs.

It should be noted that what is shown in the table is direct employment in tourism enterprises. If we take into account the indirect employment generated in the 'supplying sectors' the total loss of employment as a result of Tsunami can be very much more – approximately one and half times more than the total direct employment.

### 3.3 Estimated cost of Damage

MOT survey also has collected information on the estimated cost of damages to tourism enterprises as a result of Tsunami. The data collected are analysed and presented in the table below in the same format as in the previous two tables.

**Table 3.3 Estimated cost of Rehabilitation of Affected Tourism Enterprises (in Rs.'000) Classified by Category and Province**

<i>Category of Tourism Enterprise</i>	<i>All Island Total</i>	<i>Western Province</i>	<i>Southern Province</i>	<i>Eastern Province</i>
<i>Hotels -Large (1)</i>	<i>2,845,780</i>	<i>828,248</i>	<i>1,706,186</i>	<i>311,346</i>
<i>Hotels -SMEs (2)</i>	<i>881,225</i>	<i>416,542</i>	<i>410,707</i>	<i>53,976</i>
<i>Supplementary Accommodation (3)</i>	<i>725,939</i>	<i>229,593</i>	<i>457,394</i>	<i>38,952</i>
<i>Restaurant &amp; Cafes</i>	<i>198,868</i>	<i>65,471</i>	<i>130,536</i>	<i>2,861</i>
<i>Travel &amp; Transport Agencies</i>	<i>32,988</i>	<i>11,117</i>	<i>13,251</i>	<i>8,620</i>
<i>Water Sports Outlets</i>	<i>46,948</i>	<i>29,250</i>	<i>17,698</i>	<i>0</i>
<i>Other(4)</i>	<i>45,514</i>	<i>21,848</i>	<i>17,296</i>	<i>6,370</i>
<b>TOTAL</b>	<b>4,777,262</b>	<b>1,602,069</b>	<b>2,753,068</b>	<b>422,125</b>

Source: Ministry of Tourism and Consultant

Note (1) Hotels with 30 or more rooms

(2) SME means hotels having less than 30 rooms

(3) Includes guesthouses, inns, motels etc

(4) Includes tourist shops and other tourist based enterprises.

It should be noted that the figures shown in the table are estimates given by the respondents to the MOT Questionnaire and therefore it is natural for them to work out estimates on the high side with a view to getting maximum assistance from the government. Further, it is possible that these estimates have been worked out to cover not only rehabilitation costs, but also additions and improvements as well. Therefore, a certain amount of discounting would be necessary to arrive at the real cost of rehabilitation to pre-Tsunami level – to restore the status quo.

According to the figures given in the table, the total cost of rehabilitation of all damaged tourism enterprises is estimated at Rs.4,777.3 million (US\$ 47.8 million) out of which Rs.2,845.8 million (US\$ 28.5 million) is for large hotels and the balance Rs.1,931.5 (US\$ 19.3) is for small hotels and other tourism SMEs.

Thus the estimated cost of damage to tourism SMEs is around US\$ 20 million (or Euro 15 million). These SMEs include small hotels and supplementary accommodation establishments and other ancillary service providers. They need assistance to re-build, re-equip, re-furnish and replenish stocks. Such assistance is needed in the form of grant aid, since they do not have the capacity to borrow money (even on soft loan basis) for purposes of rehabilitation.

In the case of large hotels, there are several relief schemes already announced by the government and financial institutions, such as loans on softer terms, re-scheduling of existing loans, duty-free import schemes etc.

### 3.4 Damage to Tourism Image

The analysis presented in the preceding sections gives an account of the damage caused to the existing tourism plant, which is visible, tangible and quantifiable. In addition, there is also damage caused to the tourism image of Sri Lanka as a result of Tsunami, which is invisible, intangible and therefore not quantifiable. This damage is caused as a result of the perception created in the minds of the travel trade and the consumer that Tsunami has washed off the entire coastal belt of Sri Lanka, which has not only created misery and hardships but also impoverished the people. Random inquiries revealed that this perception is particularly strong among the European consumers.

Sri Lanka was known for long, particularly among the European holiday-makers, as a tropical beach holiday destination with palm-fringed, warm sunny beaches. For that reason it was also known as a 'Paradise'. A large bulk of the European holiday-makers still visit Sri Lanka for beach-based holidays with culture and nature as additional attractions. Mega Tour Operators in Europe print and make available in the market place millions and millions of 'Tour Catalogues', season after season, featuring Sri Lanka tour packages and highlighting beach stays as the principal attraction. Thus beaches are the principal ingredient in the overall tourism offer of Sri Lanka.

Tsunami has caused untold damage to this tourism image by creating the impression that golden beaches of Sri Lanka are no more. However, the ground situation is completely different. There is no destruction caused to the beaches or shorelines as such. On the other hand, a certain amount of replenishment of the beach can be seen in some areas. Thus it is equally important to initiate action to correct these erroneous impressions that exist in the minds of the consumers. An assistance given to rehabilitate the industry will become meaningless without corresponding assistance to inform and educate the industry and the consumers on the actual ground situation prevailing in Sri Lanka.

Such assistance can be provided in the following areas.

- Organisation of Media Familiarization Trips to Sri Lanka. Such Media Trips should include major Media Houses, both print and electronic, from all the major generating countries, particularly in Europe.
- Free stall space in all the major Travel Fairs, particularly in Europe, to facilitate Sri Lanka participation, for a period of two years.
- Presentations to the trade and consumer (Road Shows), in major cities, particularly in Europe, about Sri Lanka's ground situation after Tsunami.
- Gradual lifting of "Travel Advisories" issued in the generating markets advising the travelers not to visit Tsunami affected beach areas.
- Free advertising space in selected media, both print and electronic, to carry out advertising campaigns about beach attractions in Sri Lanka.

It is suggested that all assistance for the promotional campaigns mentioned above should be channeled through WTO to MOT for implementation by SLTB.

## 4 Available Assistance & Distribution Mechanism (TOR 2&3)

A few days after Tsunami, the government set up the necessary administrative machinery to undertake the urgent relief and rehabilitation work. The relief work started flowing immediately after Tsunami was a spontaneous development by various religious organizations, media houses, NGOs, private sector companies, foreign governments and other organizations etc., in addition to the initiatives of the government.

The Government machinery is spearheaded by three Tsunami Task Force Committees, set up by the President, namely

- Task Force for Logistics, Law and Order (TAFLOL)

This Task Force is entrusted with the provision of logistics and security on all matters relating to relief, reconstruction and rehabilitation in Tsunami affected areas. This also involves receiving goods and services from local and foreign sources at the Airport and Sea Ports, storage, transport and distribution of such goods and services in coordination with the relevant governmental agencies. Their tasks also include facilitating visiting VIPs, custom clearances, immigration formalities and provision of transport.

- Task Force for Rescue and Relief (TAFRER)

This Task Force is entrusted with the responsibility of provision of relief to affected families and their rehabilitation.

- Task Force for Rebuilding the Nation (TAFREN)

This Task Force deals with the problems of small and medium enterprises affected by Tsunami, to collate all the grievances and difficulties with a view to providing assistance.

These Task Forces use the existing government machinery to undertake relief and reconstruction work, which consists of the following.

- The country is divided into 25 Administrative Districts, and each district has a District Secretary (formerly known as Government Agent), with a District Secretariat (formerly known as Kachcheri) to assist him.
- Each district is again divided into several 'Divisions' depending on the land area and the size of the population. Thus there are altogether 256 Divisional Secretariats in the country as a whole – an average of approximately 10 divisions per district. In each division there is a Divisional Secretary in Charge, with a secretariat to assist him.
- Each division has several Grama Niladhari (Village Officer) Divisions (GNDs), each having jurisdiction over several villages. There are around 14,000 GNDs in the country as a whole. Thus on the average there are nearly 55 GNDs under each Divisional Secretariat.

Under each Grama Niladhari (GN), there are several villages and the GN is expected to know all the families living within his area of authority. Thus the administrative machinery in place in Sri Lanka penetrates down to the grass root level. In addition, there is also the local police, working in close cooperation with DSs and GNs.

All relief and rehabilitation activities of the government in Tsunami affected areas are carried out by using the administrative machinery outlined above.

The government's priorities in relief, rehabilitation and rebuilding work are in the following order.

- Immediate relief measures to the affected families by way of food, clothing, shelter and medical services.

- Reconstruction and re-establishment of urgent public utility and infrastructure services such as roads, railways, electricity, water, waste disposal etc.
- Construction of houses for the displaced families and granting of living allowances until they are resettled in their previous occupations.
- Re-location and re-construction of schools and hospitals destroyed by Tsunami
- Rehabilitation of small and medium size business enterprises (SMEs)

For rehabilitation of SMEs, the government has set up a Fund, through the Central Bank Of Ceylon, called 'Sahana Scheme' (Relief Scheme) with an initial capital of Rs.5000 million (US\$ 50 million) for rehabilitation of SMEs in all sectors of the economy affected by Tsunami. It is a soft loan refinancing scheme channeled through all financial institutions registered with the Central Bank, namely Commercial Banks, Finance Companies, Leasing Companies etc. If the damage does not exceed Rs.100,000 (US\$!000), it is called micro-financing scheme.

An affected party can apply for a soft loan, direct to any of the designated financial institution in the locality by giving details in the prescribed form. The duly completed application form should be channeled through the Divisional Secretary of the area for certification and this certification should confirm the existence of the business prior to Tsunami. The interest rate charged is 6 percent. This facility is available to tourism SMEs as well. The 'Sahana Scheme' is widely publicized in the local media

In addition, Japan Bank for International cooperation (JBIC) has expressed its interest to extend its existing soft loan scheme to SMEs to the tourism sector as well. However, this has still not been materialized.

The other pledges of assistance connected to the tourism sector include the following.

- The Mayor of Champillion Village in France has promised financial assistance to SLTB, to construct 50 houses in the Unawatuna beach area. Incidentally, Unawatuna beach is identified as one of the ten best beaches in the world by the Discovery Channel Television service. The estimated cost of this assistance is around Euro150,000.
- The government of Spain has pledged to the government of Sri Lanka a micro-credit scheme of Rs.60 million (US\$ 600,000) to be channeled through the Hatton National Bank (HNB), out of which Rs.20 million is set apart for the tourism sector rehabilitation.
- A major Tour Operator in Germany, TUI has pledged Euro one million to build housing villages in Tsunami affected areas, to be called 'TUI Village'. These will help Tsunami affected employees in the tourism sector

Apart from the above, there are no other assistance schemes available for the Tsunami affected SMEs in the tourism sector.

## 5 Assistance Required and Procedure for Channeling (TOR 4)

The procedures and mechanisms described in the preceding section have been put in place largely to meet the immediate humanitarian needs of the people directly affected by Tsunami. Foreign donor assistance available from all sources, whether it is from governments or from bilateral and multilateral agencies or from NGOs, is being directed through these channels. However, these procedures and mechanisms are not foolproof and are therefore still evolving. Delays and malpractices have occurred in many instances, due largely to the sheer magnitude of the tasks involved. The government is still trying to device ways and means to streamline the procedures with a view to minimizing delays and malpractices and to ensure equitable distribution of aid among all sections affected.

As indicated in earlier sections, there are no special assistance schemes put in place to rehabilitate the commercial and business enterprises affected by Tsunami, except the Central Bank's Sahana Scheme, which is made available to SMEs of all sectors of the economy, including the tourism sector. However, it is a soft loan scheme, which will be of little help to SMEs in the tourism sector who have lost all their belongings. Further, the assistance already pledged by Spanish and French Authorities and TUI of Germany, indicated in the previous section is for housing development and not for rehabilitation of tourism SMEs.

Therefore, there is a strong case for making assistance available in the form of outright grants to the affected SMEs in the tourism sector for immediate rehabilitation of the damaged properties in order to ensure speedy recovery of tourism in Sri Lanka. Such grant assistance, both in money and in kind is required for rehabilitation in the following areas.

1. For reconstruction and rehabilitation of damaged buildings – examples are small hotels, supplementary accommodation establishments, restaurant buildings, shop buildings etc.
2. Re-equipping and re-furnishing of business establishments – these include equipment for restaurants, kitchens, cold rooms, water purification plants, office rooms, guest-rooms etc. Some of them can be made available in kind.
3. Transport equipment such as bicycles, motor bicycles, cars and coaches, garbage clearing vehicles, ambulances etc.
4. Water sports equipment such as dive equipment, skiing equipment, sailing boats, surf boards etc
5. Working capital grants for replenishment of stocks and recommencement of business.
6. Any other areas of tourism business affected by Tsunami.

In addition to the SMEs, there is a strong case for soft loan assistance to large hotels either completely or partially destroyed by Tsunami, in order to maintain the room capacity that existed prior to Tsunami. According to SLTB estimates, around 2000 guest rooms in larger hotels have become non-operational. Any delay in the reconstruction of these rooms due, to problems of raising the necessary finances, can reduce the capacity of the industry to host the tourist numbers received prior to Tsunami

Therefore, it is recommended that assistance for rehabilitation of the affected tourism enterprises be made available as follows.

- Soft loan facilities should be made available through international lending institutions for reconstruction of all damaged hotel buildings (including equipment and furnishings) and these should be channeled through the designated local banks, on the recommendations of the designated government agency. This implies a grace period prior to commencement of repayment, longer repayment period and concessionary rate of interest.
- For all other categories of affected tourism enterprises listed from 1 to 6 above, which can be classified as SMEs, assistance should be given for their rehabilitation by way of outright grants.
- In some instances, assistance can be made available in kind. This applies to categories listed under items 2 to 5 above.

It should however be emphasized that any kind of assistance for rehabilitation should comply with the government rules and regulations with regard to setting up and operation of tourism enterprises. They include the following,

1. The government has decided to enforce the existing coast conservation regulations strictly, by fixing a set-back line of 100 meters from the coastline for all construction work. This should be strictly complied with.

2. Any development and subsequent operation of a tourism enterprise should fall in line with SLTB's registration and licensing scheme. That is, they should satisfy the minimum criterion stipulated by SLTB.

## Procedure for Channeling Assistance to Sri Lanka

A special procedure needs to be devised for channeling assistance pledged through WTO, for rehabilitation of Tsunami affected tourism enterprises in Sri Lanka. This becomes necessary in order to avoid possible misdirection and mismanagement and also proper and speedy disbursement

The Ministry of Tourism (MOT) is the Government Authority in charge of formulation of policies and programmes relating to the development and promotion of tourism in Sri Lanka and the Sri Lanka Tourist Board is the government agency through which these policies and programmes are translated into action.

The Department of External Resources of the Ministry of Finance is the government agency through which all foreign assistance and funds are channeled into various sectors of the government.

Therefore, all foreign assistance available or pledged for rehabilitation of the Tsunami affected tourism enterprises should be channeled through the Department of External Resources to the MOT for ultimate disbursement. MOT will open a special bank account to receive such assistance and disburse according to the procedures set out below.

With regard to channeling of funds, the following procedures are recommended for loan funds, which are recoverable and for outright grants, which are not recoverable.

## Procedure for Soft Loan Assistance

All soft loan funds will be government guaranteed and they should be channeled through a designated commercial bank having branches in outstation areas. They include the following.

- Bank of Ceylon
- People's Bank
- Sampath Bank
- Hatton National Bank
- Commercial Bank

Applications for soft loan facilities should be submitted to the Ministry of Tourism (MOT) in a prescribed Form (designed for the purpose), which will be evaluated by a Committee set up by MOT for the purpose, and submitted to the respective bank with recommendation for disbursement, according to its own rules and procedures.

## Procedure for Grant Assistance

Applications for grant assistance, either in the form of cash or kind, should also be submitted to the MOT in the prescribed Form, which will be evaluated by the Committee, and the required funds will be disbursed direct to the applicant by the MOT, according to a set of rules formulated for the purpose.

## Special Committee and Processing of Application

The Ministry will set up a Special Committee (to be called Special Committee for Assistance to Tsunami Affected tourism Enterprises – SCATATE) to process all applications for assistance as well as for subsequent monitoring and evaluation, consisting of the following.

- Additional Secretary of MOT, who will function as Chairman
- Director General of SLTB, Member
- Secretary, National Chamber of Commerce, Member
- Secretary, relevant District Chamber of Commerce (when considering applications from the district).

The Committee will design two separate forms – one for soft loan assistance and the other for grant assistance – and make these forms available in all Divisional Secretariats covering the Tsunami affected areas, which fact will be given wide publicity through the national media and also through the Travel Trade Associations.

The applications for assistance need to be processed by using three different criterion, namely

- In the case of large properties requesting soft loan assistance, a qualified architect should prepare the drawings and cost estimates. In addition, an inspection of the damaged property should be carried out to check the damages against the cost estimates, by a Team of officials selected from the SLTB, prior to recommendation to the bank for disbursement of funds.
- In the case of partially destroyed tourism enterprises and therefore are visible, the same procedure as described above should be followed, prior to disbursement of funds by the MOT.
- In the case of completely destroyed tourism enterprises and therefore are not visible, the application should be referred to the Divisional Secretary of the area, who will in turn obtain reports from Grama Niladhari (GN) and the local Police regarding its existence prior to Tsunami, for certification of the application.

The Committee (SCATATE) should have a separate secretariat operating within the MOT and employ short-term Consultants (namely architects and Engineers) for processing of applications and subsequent monitoring and evaluation, to work along with SLTB officials.

## Monitoring and Evaluation

The Committee should evolve a mechanism to continuously monitor the speedy and proper implementation of the projects funded under this special assistance scheme initiated under the auspices of the international community to rehabilitate the tourism sector ravaged by Tsunami waves. The monitoring should include the following actions, in addition to any other mechanisms evolved by the Committee.

- Quarterly progress reports to be obtained from the recipients
- Regular inspection visits by the inspection teams appointed by the Committee.
- Disbursement of funds in installments subject to submission of quarterly progress reports

In addition, the Committee should prepare Progress Evaluation Reports on a half yearly or annual basis outlining the progress made in the rehabilitation work and the contribution of these rehabilitation works for the advancement of tourism in Sri Lanka. Copies of these reports should be submitted to the government and WTO.

## **6 Acknowledgements**

The Consultant wishes to place on record his grateful thanks to the Secretary, Ministry of Tourism, Dr. P. Ramunujam and the Director of Planning in the Ministry, Mr.Y.A.Silva for allowing him to use the Ministry Survey data and also providing other useful information, without which it would not have been possible for him to prepare this report within such a short time. Thanks are also due to Mr. S. Kalaiselvam, Director General of the Sri Lanka Tourist Board, for providing him with very valuable information.

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Report by H.M.S. Samaranayake, WTO Consultant



# M. Microfinance and Assistance to SMEs in the Tourism Sector in Sri Lanka

(Colombo, 13 July 2005)

## Conclusions and Recommendations of the Workshop on Microfinance and Assistance to SMEs in the Tourism Sector in Sri Lanka

The workshop was attended by 75 representatives of the tourism sector and the financial services sector, including the Ministry of Tourism and the Central Bank of Sri Lanka, hotels, tour guides, commercial banks, NGOs, bilateral aid organizations and international organizations, including the World Tourism Organization and the International Finance Corporation.

It was the first formal opportunity since the tsunami that these two sectors have had the opportunity to meet together to share their problems and expertise.

The workshop analyzed **the impact of the tsunami on SMEs** in the tourism sector:

- A study conducted by the World Tourism Organization found that 352 small tourism businesses in 14 resort areas were damaged by the tsunami, with a total cost for reconstruction of approximately 1.9 billion rupees.
- These small businesses employ approximately 5,000 people
- Most of these small businesses were not insured for earthquakes or tsunami and have not been able to collect for damages.
- The livelihoods and earning level of many other tourism industry workers were also impacted by the tsunami and resulting drop in tourism, especially tourist guides, drivers and excursion operators.

The workshop looked at **assistance available for SMEs** in the form of soft loans and microcredits:

- The Central Bank's Susahana scheme has disbursed 1 billion rupees in soft loans to tourism related businesses through commercial banks and lending institutions. They offer 6% interest and a one year grace period for loans ranging from 250,000 to 20 million rupees.
- The Ceylon Chamber of Commerce has disbursed 1.8 million rupees in microcredits to 650 businesses, many of them in the tourism sector. They offer 6% interest and loans up to 20,000 rupees through help desks at the offices of Ernst and Young in Galle, Matara and Hambatota.
- The Seeds NGO offers microcredits to restart small tourism businesses in tsunami affected districts.

But there are **obstacles for small tourism businesses** that still need help to restart their enterprises:

- The 100 metre buffer zone has prevented many tourism related businesses from getting permission to rebuild and from getting loan approval.
- Small hotels are already heavily indebted and are reluctant to take on new loans.
- Since they are already heavily in debt they do not have sufficient collateral to qualify for loans.
- They find the application process for Susahana loans excessively complicated.

## Recommendations:

1. Participants in the workshop recommend that **commercial banks** and other lending institutions facilitate access to Susahana loans for small businesses, especially taking into consideration the new 50% loan guarantees offered by the Central Bank.
2. The workshop recommends that the **Central Bank** work with the Tourist Board to speed up the approval process for loans to businesses within the 100 metre buffer zone. That they also communicate with member banks about the correct interpretation of the coastal zone rule and that they discuss at Cabinet level the possibility of providing debt relief and loan write offs for tsunami affected tourism businesses.
3. The workshop requests that the **Ministry of Tourism and the Sri Lanka Tourist Board** work with the Central Bank and the Coastal Development Agency to speed up approvals for rebuilding tsunami affected tourism businesses located within the 100 metre buffer zone. That they look into the possibility of providing grants to those affected by the tsunami in the tourism industry. That they work with the insurance industry to provide payments for tsunami related losses. And that they publicize to the tourism industry the three methods of assistance currently available.
4. The workshop urges that the **International Finance Corporation** speed up the installation of their office in the tsunami affected area in order to provide technical assistance to tourism businesses in making applications for the various available loans.
5. The workshop requests the World Tourism Organization to publicize the needs of tourism SMEs in Sri Lanka and the mechanisms in place to help them. It further requests that the WTO communicate the urgent needs of the Sri Lanka tourism sector and the conclusions of the workshop to international donor agencies and the World Bank.

# N. Channelling of Funds for SMEs in Tourism in Thailand

(April 2005)

## A Executive Summary

This Report seeks to address the special needs of the tourism-related small and medium enterprises (SMEs) in Thailand following the Asian Tsunami, which hit the Andaman Sea Coast of peninsular Thailand on 26 December 2004.

The report represents one element of the work being undertaken by the World Tourism Organisation (WTO) in follow-up to the Phuket Plan of Action, adopted by Ministers of Tourism on 1 February 2005. This Plan identified SMEs in Thailand as in need of priority support in their efforts to recover from the Tsunami.

The Report documents the impact of the Tsunami on the affected coast, including both the direct physical impact of the wave and the indirect effect of the ensuing drastic reduction in tourist arrivals. It offers the view that, while the Tsunami affected about 15% of the tourism industry in the region, the subsequent lack of tourists is also causing significant hardships and that the next 6-8 months, prior to the next high season in December 2005, will be difficult for many in the tourist business.

The report then reviews the various programmes adopted by the Government in coping with the aftermath of the Tsunami, most of which have had a direct effect on tourism-related businesses. It compliments the government and Thai civil society for the determination, creativity and resilience with which they have coped with the crisis. It highlights the special difficulties being faced by the lower end of the SME Sector, including the Micro and Small Enterprise Sector (MSE), the very nature of which often causes them to miss out from existing government programmes.

The report makes a number of recommendations as to how support to the SME sector could be strengthened. These include:

- more data collection and analysis;
- the establishment of provincial-level SME business associations;
- the adjustment of the terms of the existing soft loan programme to increase the grace period, even if there is a balancing increase in the interest rate;
- making loan appraisal and approval less document-driven and more responsive to business performance and potential;
- designing in-house incentives to encourage banking staff to accord greater priority to SME/MSE clients; and
- the strengthening of existing advisory programmes for business planning.

Finally, the Report reviews Government policy regarding external assistance and discusses potential mechanisms for external support to various national programmes. It concludes that the mechanisms already exist for channelling international funds and proven technical expertise, both in the UN System and within several interested bilateral agencies. Any such assistance should be located within a Thai partner institution and should not be freestanding.

## B Background to the Study

The Tsunami which hit the Andaman Coast of peninsular Thailand (as well as many other coastlines in South and South-East Asia) on the morning of 26 December 2004 caused enormous loss of life, physical destruction and economic disruption. The physical force of the successive tidal waves, caused by an exceptionally strong earthquake (9.0 on the Richter scale) on the seabed to the north-west of the Indonesian Island of Sumatra was unprecedented in modern times.

The Tsunami also brought forth a remarkably forceful national and international response, the momentum of which gathered pace in the days following the Tsunami and still continues. Funds were rapidly mobilised, first for immediate humanitarian relief and then for longer-term rehabilitation and reconstruction. The challenge of the immediate response soon gave way to the issue of how best to manage and deliver the various programmes so as to accelerate the recovery.

The tourism industry was not merely one of the economic sectors to be affected by the Tsunami; in Thailand it was the principal victim. The very nature of Thailand's Andaman Coast means that most people and enterprises are dependent – directly or indirectly – upon the tourism sector.

It was with this in mind that the World Tourism Organisation (WTO) accepted the suggestion of the Royal Thai Government to convene the Special Session of its Executive Council in Phuket on 1 February 2005. This meeting adopted the Phuket Action Plan for Tsunami Relief of the Tourism Sector, the text of which is attached as Annex III to this report.

Apart from seeking to promote the general revival of tourist arrivals, which had collapsed after the Tsunami and thus created a second-generation of problems, the Phuket Action Plan highlighted assistance to small tourism-related industries as a top priority for Thailand. (A similar priority was identified for Sri Lanka.) At the meeting, and subsequently, a number of bilateral and multilateral agencies have indicated a willingness to contribute to this process.

The purpose of this present study is to build on this commitment; to identify what is already being done to assist small and medium tourism-related enterprises; to identify ways in which this could be strengthened; and to suggest mechanisms for channelling available external resources to this end. The full terms of reference of the study are attached as Annex I.

This report has been prepared in the relatively short period of ten days. Inevitably it has therefore relied on secondary sources for most of the information and analysis, to which has been added the author's own interpretation as well as conclusions and recommendations. The author would like to acknowledge his dependency in this respect and to thank all those who contributed. In Annex II, he has provided a list of those people in and beyond Thailand who have assisted him directly. He could easily have added an extensive list of people and institutions to whom he would like to have talked, but time did not permit. With these caveats in mind, the author accepts full responsibility for his conclusions and recommendations. He would welcome comments ( [Robert.England@pinewoodsuk.com](mailto:Robert.England@pinewoodsuk.com) ).

Given this short time-frame for the report, the author decided to focus most of his time and attention on the affected area itself. Except for one day in Bangkok visiting the Ministry of Sports and Tourism, he visited people and sites in Phuket, Phang Nga and Krabi Provinces, the three most affected province of the six Andaman Coast Provinces (the others being Ranong, Trang and Sathun). Most of the other sources in Bangkok were interviewed by telephone, whereas most of those in the affected area were interviewed in person.

By choosing this end of the telescope through which to view the issues at hand, the report may have an inherent bias, and even misunderstand some aspects of central government's intended policies. However, by taking this perspective, it is hoped that the views – and perceptions - of the SMEs themselves are appropriately reflected.

## **C The Impact of the Tsunami on the Thai Tourist Industry**

### **1. The Immediate Direct Effect**

The immediate direct effect of the Tsunami has been extensively documented elsewhere, in terms of deaths and physical destruction. Altogether 5,395 people are reported to have lost their lives and another 2,965 are officially classified as still missing or unidentified. The total casualties are therefore presumed to be about 8,360. A similar number, 8,457, are reported to have been injured.

According to current estimates, a total of 58,550 people from 12,480 households, were directly affected by the event. One month after the Tsunami the Government estimated the total direct damage of the event as totalling Baht. 10.3 billion (US\$263.5 Million, at 39 Baht/USD, the exchange rate which will be used throughout this report). Of this, Baht 7.4 billion (US\$190.5 million) was suffered by businesses of various types, i.e. 72%. The bulk of the economic impact was therefore born by individual businesses, of all sizes.

It was, however, clear from the outset that the extent of the damage caused by the Tsunami varied considerably along the coastline. Apparently attributable to the different topography along the coast, as well as along the coastal seabed, some areas were far worse hit than others. Principal among those which experienced what might be termed “catastrophic” damage, were Khao Lak in Phang Nga Province, Phi Phi Island in Krabi Province, Kamala Beach and Patong Beach, both in Phuket. This imbalance is reflected, for example, in the fact that 70% of the household damage was experienced in Phang Nga Province. Similarly, businesses in Phang Nga comprise 45% of the Ministry of Industry’s caseload of businesses in need of support.

This distinction is not intended to diminish the extent of death, damage and dislocation in other areas (for example, Kata/Karon in Phuket or Ko Lanta in Krabi). However, the distinction is important because it materially affects any recovery programme, especially for SMEs, which depend for their sustenance on major tourist resorts and significant tourist flows. The report will return to this later.

The distinction is also relevant to the subsequent dramatic fall-off in tourist arrivals. It is calculated, for instance, that only 15% of the region’s tourist facilities were directly affected by the Tsunami – a somewhat different impression from that given by the international media in the immediate aftermath of the event. In other words, the dramatic reduction in tourist arrivals, while understandable, was unnecessary and there is certainly scope for effective marketing to bring tourists back to the region.

### **2 The Indirect Effect of the Subsequent Drop in Tourist Arrivals**

Aside from the catastrophically affected areas, the impact of the indirect effect – sometimes call the Second Wave – was also very serious. This took the form of an abrupt reduction in tourist arrivals to the point at which many otherwise unaffected resorts were experiencing occupancy rates as low as 10% during January, when they might have expected 95% plus.

Thus, in Phuket Province, while the Tsunami itself was estimated to have affected about 10% of tourist facilities on the island as a whole, the Indirect Effect has been felt by all. No matter that this followed an unusually brisk last quarter of 2004, when occupancy rates were above the trend during October and November, months normally preceding the high season. The low level of tourist arrivals in the first quarter of 2005, which even in March looked likely to reach only 20-30% of normal levels, has served to jeopardise the financial viability of many businesses, struggling with servicing their debt and facing the prolonged low season through to the last quarter of 2005. It can be predicted that this will probably get worse during the next six months, as companies draw down on their reserves.

Thus, the direct effect of the Tsunami, with its physical destruction, has been compounded by the economically debilitating effect of weak business turnover. This greatly complicates the process of

recovery since the lubrication of tourist-related income into the region is currently at a very low ebb and the prospects for a speedy recovery are ineluctably linked to the speed at which tourists can – or wish – to return to the various Thai resorts.

### 3 The Collateral Effects elsewhere in Thailand and Myanmar

Of course, the impact was felt well beyond the six Andaman Coast provinces of Thailand. Many of the workers in the area are migrant workers, especially from the north east of the country and from neighbouring Myanmar. Statistics were unavailable in relation to the extent of domestic migration, but a UN report in late January 2005 estimated that at least 7,000 international migrant workers were affected directly by the Tsunami.

Assuming a 4:1 dependency ration, this implies that a considerable diaspora was affected by the direct and, no doubt, by the indirect impact of the Tsunami. Indeed, many employees were sent home on half-pay, or sometimes less, pending the reconstruction process.

### 4 The Impact on Small and Medium Enterprises

Small and Medium Enterprises were at least as badly hit by both the direct and indirect effects of the tsunami – and they are characteristically less able to cope with the challenges that both phases present.

There is surprisingly little systematic information on the tourism-related SMEs. For the purpose of this report, the assumption has been made that most enterprises along the Andaman Coast are tourism-related in that they provide services and/or products for consumption by visiting tourists. Applying this principle, the only obvious exception to this is the commercial fisheries, which market their products nationally or internationally for the most part. Thus, using this filter, with the exception of the fishing industry, virtually all the direct damage of the Tsunami was experienced by tourism-related enterprises – large, medium, small or micro.

As regards a definition of SMEs, the intended focus of this study, the Ministry of Industry defines them as being enterprises with an asset value of no more than Baht 200 Million (\$5.1 million), which is actually quite large by comparison to many small business that accumulate around tourist resorts. There is, of course, a continuum of business from the individual hawker to large resort businesses and there can be no precise dividing line between small, medium and large businesses. In fact the Government's own Small and Medium Enterprise (SME) Bank offers post-Tsunami soft loans from Bt. 50,000 to Bt. 1 million (US\$ 1,282 – 25,641) and will extend significantly larger commercial loans.

Bearing this in mind, this report will not focus on the high end of the official SME range, since they appear to be relatively well catered to. Instead, emphasis has been placed on the lower end, what is sometimes called the Micro and Small Enterprise sector (MSE). This certainly captures the wide range of small business – beach masseuse, umbrella and deckchair operators, hawkers, souvenir shops, tailors, small restaurants and bars.

In practice, given the starting premise for this study, namely that many SMEs and MSEs are finding it difficult to access the formal credit opportunities (which has been borne out in many conversations), a definition which places a business on the margin of being able to access banking resources would appear to be appropriate. In this respect, the definition may have as much to do with the nature of the business than the size as such.

In the absence of a clear delineation, official statistics on the damage and losses suffered by SMEs and MSEs tend to be aggregated with other larger businesses. They also tend to be based on requests for assistance received by the local government offices (TAO) and the banking sector. However, these numbers are neither reconciled with each other, nor systematically probed for credibility. It is likely that a good deal of information gets lost in the process. The data is therefore very weak and unreliable.

Indeed, one of the recommendations of this study is that this data base needs to be developed, in order to underpin public policy making for this vulnerable group of micro- and small businesses.

## **D. Review of Existing Support Programmes for Recovery**

The Royal Thai Government was remarkably dynamic, creative and flexible in terms of its immediate response to the Tsunami, with extensive personal attention paid by Prime Minister Thaksin Shinawatra, as well as several of his Deputy Prime Ministers. This was complemented by an equally responsive non-governmental sector, as well as local community initiatives, supplemented by a generous outpouring of financial support from around the Kingdom. The immediate humanitarian response was rapidly expanded to include elements of longer-term reconstruction and rehabilitation.

The following is a broad overview of programmes that have been developed, within which tourism-related SMEs should be located. It is necessarily broad-brushed, prior to focusing on the tourism sector. Nonetheless, all elements of the Government programme impinge on the tourism sector to some extent, normally assisting the recovery process, albeit sometimes complicating it (as in the case of master planning and zoning).

### **1. Immediate relief**

The Government's early response in terms of immediate relief took many forms, from provision of immediate cash handouts, temporary shelter, food rations, clean water supplies and clothing. This was augmented by national and international NGOs, most of which worked at community level. There was an outpouring of voluntary donations to the NGO and community sector, as well as to the Prime Minister's central fund.

### **2. Tsunami Early Warning System**

The Government has been one of the most proactive in the region in promoting the establishment of a regional Tsunami Early Warning System (EWS), hosting the first regional discussion on the subject at the Ministerial level, in Phuket 28-29 January 2005. Offering itself to host this centre and establishing a \$10 million Trust Fund, Thailand has nonetheless pressed ahead with its own national arrangement, pending a final decision from the international community. It recently announced the establishment of the first detection outpost in the Similan Islands. Needless to say, this was all intended to reassure prospective tourists that there would be no recurrence.

### **3. Infrastructure**

Relatively little public infrastructure (economic and social) was damaged by the Tsunami. Official figures estimate the damage at Baht 1 billion (\$25.6 million), or 10% of the total damage incurred. By general agreement, this is well within the capacity of the Government to cope, by re-prioritising its recurrent budget.

Indeed, building on its traditional role and strength in this area, the Government has pledged extensive re-building and even the further development of infrastructure in the affected areas. Actual financial commitments appear to have been somewhat reduced more recently, although master planning continues to be a major focus. Nonetheless, casual observations suggest that much reconstruction is already underway from re-current budgets of local authorities and/or sectoral ministries, such as the Ministry of Education.

One perhaps unintended side effect of this planning process, of which more below, is that master plans and re-zoning (or, rather, stricter application of existing policies) lend a measure of uncertainty to the business environment. This appears to be particularly the case on Phi Phi, where a high level of uncertainty prevails at the present time. However, the principal applies elsewhere also: well-intended efforts to improve the overall Thai tourism product by enforcing environmental regulations or master-planning the reconstruction process, leave many businesses wondering how they will be able to fit in.

#### 4. Community rehabilitation

Community-level assistance has been active throughout the area, particularly from community and non-governmental organisation. Home rebuilding, livelihood restoration and trauma counselling have all featured in these local-level initiatives. Small grants have also been provided for micro-enterprises, but channelled through community organisations.

A leading agency in this process has been the Community Organisation Development Institute (CODI), a quasi autonomous non-governmental organisation. But other NGOs have also been actively engaged, including several international ones. These organisations have seized the opportunity to further develop the social capital of communities in the area. It is unclear, however, whether these programmes do, or even can, address the specific needs of the SME/MSE sector, unless individual businesses are prepared to subject themselves to community disciplines.

In this connection, it appears that some of the smaller businesses may find it easier to fit into this community-based framework, especially those that support the tourism industry by several removes. Moreover, as for example in the case of deckchair concessionaires, it is simply impossible to develop a fair and equitable reconstruction programme without a measure of consultation with the affected businesses.

This community-based approach therefore deserves further encouragement wherever possible.

#### 5. Fisheries

The fisheries sector has received extensive attention, focussed especially on repair of fishing vessels, of all sizes. Over Baht 200 million (\$ 5.1 Million) has been provided to restore over 3,300 vessels and assist close to 28,000 fishermen and their families. Statistical information on how far implementation has proceeded in this area was unavailable, but casual observation suggests that boats are being repaired and resuming fishing operations throughout the area.

#### 6. Coastal Conservation and Environment

The impact of the tsunami on coastal ecology, including coral reef rehabilitation (the damage to coral has been variously quoted as being between 10% and 25%), has been a major preoccupation of the Government and impinges directly upon sustainable tourism. Significant money appears to have been allocated for this purpose, with the active involvement of volunteers and international agencies. It is, however, a long-term process which will affect the overall environment within which tourism will be conducted and on which important aspects of it depend (e.g. Scuba diving).

This therefore represents a very important facet of the tourism recovery programme, for which external technical cooperation is relatively freely available.



## **7. The Tourism Sector**

As indicated earlier, the tourism sector was the overwhelming victim of the Tsunami and, in addition to the programmes summarily described above, the Government responded in a variety of ways to cope with the immediate trauma of the event as well as to minimise the long-term damage to the tourism sector – and all the Thai livelihoods which depended upon it.

### **(a) Repatriation and Victim Identification**

The top priority at the outset of the crisis was tending to the tourists who survived the Tsunami, including the many in need of medical assistance. A process of rapid and flexible repatriation for those who wanted to leave was also organised. It should be noted that Thailand distinguished itself in both respects.

The Government has also done its best to manage the highly complex process of disaster victim identification (DVI), a process which is ongoing and expected to take many more months.

### **(b) Promotion**

The Tourism Authority of Thailand, historically skilled in reframing Thailand's image on a regular basis (e.g. "Amazing Thailand" after the 1997 East Asian Crisis) swung into action in order to try to stem the adverse publicity caused by the event itself. By proactively moving international events to Phuket and offering to host others from within the region, the message that much of Thailand's Andaman Coast was still in relatively good shape, began to percolate the international consciousness. However, there was probably little more that could be done to arrest the tourist exodus in January and February.

It can only be hoped that these efforts will produce results in the course of the next few months, when the normal low season will stretch many already hurting companies close to breaking point.

### **(c) Planning**

Local Government authorities have indicated their intention to take advantage of the Tsunami's destruction to guide the reconstruction process in such a way as to improve the tourism facilities by better zoning, environmental controls and master plans. The national government has indicated its willingness to fund some of these master plans, although the scale of available funding appears to be uncertain. It should be noted that this is potentially an area for international technical cooperation.

An illustration of such strategies is Patong beach, where the number of umbrellas on the beach has apparently been reduced from 8,000 to 2,500, with the consequent need to share out these reduced quotas among 55 private concessionaires. This will clearly impact these small businesses. Another example is Phi Phi island, where attempts to introduce some more rigorous controls and zoning, combined with divergent commercial interests, has led to a great deal of uncertainty for many businesses.

Whatever the details, however, government authorities should be commended for their desire to move Thai tourist facilities upmarket and to place them on a more environmentally sustainable basis. One weakness of Thailand's tourism development has long been the tendency to over-exploit resources and thereby degrading the product in the long-term. The Tsunami does indeed offer an opportunity to avoid this pitfall although this may not be consistent with the speediest recovery in all cases.

### **(d) Grants and Training**

The Government was quick to inject immediate funds into the affected communities in a variety of ways.

It provided an immediate donation of Baht 2,000 (\$51) to each of the victims. This was followed by a Baht 20,000 (\$510) grant to all small businesses to help tide them over. The Government also offered unemployment benefits to affected employees, equal to the minimum wage of Baht 175 (\$4.50) per day, a payment which will continue for another couple of months. It should be noted that this latter benefit has only been made available to those directly affected by the Tsunami.

All these initiatives should have been of direct benefit to SME/MSEs affected by the Tsunami. In addition, in a programme which probably benefited the larger of the SMEs, the Government provided tourism skill training to unemployed workers, paying them a daily subsistence allowance as a way of helping them to survive.

#### **(e) Venture Capital for Reconstruction**

The Government harnessed a relatively new institution, the Venture Capital Fund (VCF, created in July 2003) to provide venture capital, i.e. equity participation and support, to medium-sized businesses affected by the Tsunami. Specifically, it created a Tsunami Recovery Fund under the VCF and it immediately set up offices in Patong (Phuket), Khao Lak (Phang Nga), Ao Nang (Krabi) and Ranong (Ranong). It offered venture capital and leverage on the banking sector to contribute soft loan funding also.

This has proved an effective instrument for assisting medium-sized businesses and, according to the latest Ministry of Industry statistics, it has provided fully 61% (Baht 2.8 billion, or \$ 72.7 million) of the financial support so far provided to small and medium businesses. It has joined 114 ventures (50% of them in Phuket province) with an average size of Baht 24.9 million (\$638,000). In fact, such medium-sized hotel projects have consumed 78% of all funding ( Baht 3.6 billion or \$93 million) made available so far.

This venture capital initiative is therefore of enormous importance to the overall recovery, providing a dynamic environment within which smaller businesses can frame their recovery. However, its modus operandi does not directly address the needs of these smaller businesses.

#### **(f) Soft Loans for Affected Businesses**

In January 2005, the Government announced a soft loan programme which would be available to business of all sizes affected by the Tsunami. Initially this was targeted only at those companies which were directly affected by the Tsunami. However, as the severity of the indirect impact caused by the fall-off in tourists in January became apparent, the programme was extended to cover enterprises indirectly affected also. These funds are available for re-construction, re-stocking, re-financing existing loans, working capital, or whatever the precise requirements of a given business are.

The programme consisted of the Bank of Thailand extending a line of credit to banks, both state and private, at an interest rate of 0.01% with the requirement that these funds be on-lent to businesses at a rate of 2%. This compared to commercial loans at around 8%, based on a minimum lending rate of 6%. The programme was for a duration of three years only, with loans intended to be turned over every year. It is implemented by a significant number of state and private commercial banks and has been much publicised within the region. Over 1,000 businesses have applied for banking assistance. There are no statistics on those that have not applied.

A review of the soft loans approval statistics suggest that these soft loans have worked well for medium to large businesses. They have worked less well for the smaller businesses, which find it difficult to comply with the traditional security requirements of the banks. For example, in Phang Nag Provinces, 142 soft loans comprising two thirds of the total funds requested, have been approved by the banking system, at an average loan of Baht 3.4 million (\$87,179). However, there are still 898 requests outstanding, of an average size of only Baht 267,426 (\$6,857), less than 8% of the average size of those already approved. A similar situation appears to exist in Krabi Province also.

This in itself is not surprising, because of the greater transaction costs of smaller loans and the characteristically greater difficulty in securing appropriate paperwork and security. However, it does suggest that there is a gap between the government's intentions in this respect and the ground reality, a gap which needs to be addressed. In the next section of this report, several suggestions are made for this.

Before doing so, however, the report will now focus attention on another complexity in the situation.

#### **(g) SME Recovery – Interdependence and Sequencing**

A key characteristic of SMEs (and MSEs), an understanding of which needs to inform public policy making during the post-Tsunami recovery period, is their symbiotic relationship with larger tourism enterprises. They tend to cluster around these larger resorts, diversifying and enriching the tourism product but they are unable to stand independently of the larger enterprises. Thus, for example, in Khao Lak, the first few resorts created a context within which a multitude of SMEs could set themselves up in the vicinity.

The corollary of this is that revival of the SME/MSEs will, in turn, depend upon, and needs to be sequenced with the revival/reconstruction of the resorts. It is not practically possible for them to run ahead of the overall environment of which they are a part. Thus, again in Khao Lak, a likely minimum reconstruction cycle of 18-30 months implies that many smaller enterprises cannot themselves expect to be back on their feet in a shorter period – whatever assistance they receive.

This reality has a bearing on the manner in which financial and technical support can and should be provided to the SMEs, which will also be dealt with below.

### **E. Proposals for Strengthening SME Support**

There are no easy answers to the conundrum of how best to support SMEs to recover from the direct and indirect effects of the Tsunami. However, it should be a high priority for the Government, both because of the importance of SMEs in the total Tourism profile of Thailand, and because of the direct and indirect employment which is derived from the SME sector. Following are a series of proposals which are not new in themselves but which, taken together, could make a significant difference.

#### **1. Analytical Information**

There currently appears to be a striking lack of analytical information on SMEs in the tourist sector. Each local administration has a list of "reported losses", submitted shortly after the Tsunami. Each bank has a list of businesses requesting soft loan support. They admit, however, that the validity of such information is uncertain, that the lists are not reconciled and that there appears to be no systematic analysis of this information.

There is therefore an overriding need to gather nuanced information on the SME sector, to assist public policy-making. There is no "one size fits all" solution to their recovery, since their situation, challenges and needs vary greatly. Hence the need for greater understanding in the post-Tsunami recovery process, as well as in the longer term.

**Undertake an exercise of data collection and analysis in each of the affected provinces.**

## 2. Giving SMEs a Collective Voice

One of the characteristics of SMEs is that they are seldom organised as a group, and therefore they are unable to articulate their problems collectively. One of the benefits of the community-based approaches described earlier in this report is that they address issues from this community perspective. However, as pointed out earlier, while this is excellent in and of itself, this approach will not meet all the requirements of the SME sector, which operate more independently.

The Phuket Tourist Association, comprising private tourism businesses, is in process of establishing a data base of SMEs in Phuket Province and organising them into “The Association of Small Businesses Affected by the Tsunami”. 300 business have so far been documented and organised in this way and the Phuket Tourist Association believes that the new association will comprise about 500 small enterprises. This should greatly improve understanding of the SME issues, as well as their ability to articulate needs collectively.

The software for this data base has been contributed free of charge by a member of the Phuket Tourist Association. It could readily be applied in the other affected provinces.

**Prepare a provincial level data base of SMEs affected by the Tsunami and assist them to organise themselves into an association.**

## 3. Adjusting the Terms of Available Soft Loans

Although there is discussion of the need for a grant-making facility for the Tsunami-affected SMEs, the writer does not believe that grants are an appropriate way forward. There is ample evidence from around the world that small businesses can pay a market rate of interest and, indeed, that the discipline of having to secure, service and ultimately re-pay a loan is beneficial. Moreover, there is also plenty of evidence that, to the extent that funds are made available with a strong grant element, there is increased pressure to misapply the resources and that the costs to the public exchequer lead to a reduction in overall resources made available.

Given the nature of the Tsunami-related business challenges – including, very importantly, the uncertainty of the timing of recovery in the overall business environment (e.g. Khao Lak or Phi Phi) – the author believes that some thought should instead be given to trading off interest rates with grace periods. The current government programme places its emphasis on a reduced rate of interest – 2% as compared to a more normal 8%. However, for a small business seeking to get back on its feet, a more serious issue may be its ability to service a soft loan in the next few months or even years.

Several banks indicated that some grace period was allowed on a case by case period, but it appears not to be a widespread practice.

**Review the terms and conditions of the soft loan programme so as to provide for longer grace periods, even at the expense of increasing concessional interest rates to, say, 5%.**

## 4. Loan Documentation and Guarantees

There is a broad consensus among stakeholders that one of the basic problems facing SMEs seeking to access soft loan funding is their inability to meet the normal banking requirements in terms of

collateral. Characteristically, they do not own land; they have short-term leases on whatever property they occupy; and their physical assets are, by definition limited or have even been eliminated by the Tsunami. The SME Bank accepts personal guarantees based on proven salary, but this is also not easy to arrange for many small businesses.

Yet, at heart, bank are banks. Irrespective of the softness of the loan, officials are expected to ensure repayment and seek at all costs to avoid creating non-performing loans. The easiest way to ensure this is by obtaining cast-iron guarantees of one sort or another, especially in terms of land titles. This in turn disqualifies a large proportion of small businesses, who simply cannot comply.

There is therefore a need for the banks to be more flexible in their approach to appraising such loans. They should take more account of business track record, prior to the Tsunami; they should review assets, liabilities, turnover and profitability and accept these as “collateral” for the granting of loans. Admittedly this would increase the degree of risk attached to extending the loan (another reason why a more commercial rate of interest makes sense).

However, there are other ways of reducing the risk, other than physical collateral. For example, small businesses do not operate in a vacuum. They are normally well-known in their locality and to the local officials of the Tambon Administrative Organisation TAO). The banks could therefore benefit a lot from working more closely with local government, community based organisations, or small business associations where these are being set up (e.g. in Phuket). Such local institutions can provide an appraisal of probity, business acumen and suchlike. Of course, this introduces a more judgemental aspect to loan appraisal but this is surely the direction in which banks should move, if they wish to support the SME sector.

It has also been suggest that use of the National Identity Card Number (which all Thais possess) could provide a supplementary tool for guaranteeing loan repayment. This system has long been used to ensure repayment of individual education loans and apparently works well.

**Broaden the approach used by banks to secure their loans to small businesses to include local reputation and business plans to offset the lack of formal collateral. Use the national ID card as the security of last resort.**

## **5. Incentivise Bank Staff to Address SME/MSE Needs**

Just as the banks’ procedures need to be made more flexible in order to enable them to address the special needs of SME/MSEs, so the bank staff need to be encouraged to work on the smaller enterprise sector. The transaction and overhead costs are inevitably higher, as are the intrinsic risks. The natural tendency of bank staff is therefore to focus their time and effort on larger clients. The figures of soft loans already approved bear this out, despite the fact that the immediate needs of smaller enterprises may be every bit as pressing.

This bias needs to be corrected by the provision of specific performance incentives at all levels of the banks. This may particularly apply at the middle management level, where cost control per loan may be a significant consideration. It also requires an acknowledgement in senior management (and beyond?) that such small soft loans are an essential part of the recovery process, even if the management costs of their provision may be high and even uneconomic from the institutional perspective.

**Introduce staff incentives to focus their time and effort on SME and MSE clients.**

## 6. Re-Start Business Planning and Vocational Training

There is no doubt that SMEs and MSEs can benefit from receiving more than just financial support. There is a lot of experience, as well as beyond Thailand, in assisting small businesses to plan their investment or re-investment better. The post-Tsunami recovery process serves to underline the value of this – and the soft loan programme discussed above would certainly benefit from being complemented by such technical assistance. Several banks say that they provide such support, but the author believes that this needs to be more widely available and that more resources therefore need to be allocated for this purpose.

**Strengthen existing programmes for providing business planning, as well as vocational training to SMEs.**

## F. Procedures for Possible External Funding

One of the premises underlying the present study is that there may be sources of external support which could be mobilised to assist the speedy recovery of tourism-related SMEs. While the financial magnitude will never supplant national efforts, and indeed should be seen as complementary to these national efforts, there may indeed be some scope for international assistance in this area.

### 1. Government Policy

From the earliest stages of the post-Tsunami recovery process, the Royal Thai Government made it clear that it was capable of responding to the challenge from within its own resources. It declined to launch an international appeal for assistance, arguing that the international community should focus its efforts on other countries which were less able to cope by themselves. Thailand deserves a great deal of credit for taking this policy position – and for demonstrating that, in practice, it does indeed have very remarkable coping capacity and resilience, at all levels of society.

There is a Cabinet Decision, dated 4 January 2005, which clarifies the Government position to this effect, but highlights however the openness of the Government to the possibility of technical assistance. In practice, there has proved to be a valuable role for international technical cooperation in a number of areas to reinforce and supplement Thailand's own efforts.

### 2. Potential Funding

Existing external funding and technical assistance have all too easily tended to overlook the tourism sector. They have instead focused on:

- The human security side of the tragedy, including health, education, housing and personal trauma counselling.
- Community-based recovery, focused on social capital and a collective response.
- Issues of environmental rehabilitation and coastal management.
- Rehabilitation of the commercial fishing industry.

Several donors have indicated that tourism was not their highest priority, but others are open to working in the area, especially for smaller enterprises.

There is, therefore, an urgent need to position tourism within the framework of sustainable human development; to reaffirm the importance of tourism to the economy of Thailand; and its importance to the sustainable livelihoods of hundreds of thousands of people, including a substantial migrant population. Indeed, the Tsunami has in itself underlined the importance of this sector to the country as a whole.

### 3. Existing Modalities and Capacities

New modalities for managing international funds made available in support of SME recovery do not need to be invented. They already exist and could be harnessed for the benefit of tourism SMEs:

- (a) The **UNDP**, in its capacity of manager of the UN Resident Coordinator System, has existing capacity to manage international funding, including full accountability, through a standard cost-sharing project document. Funds contributed to such a project document can readily be disbursed by UNDP itself, or through a variety of national or international partners, including the WTO and all those listed below.
- (b) **UNDP** have existing programmes and established expertise in making small grants and/or micro-credit available to national institutions and/or communities. Standard grant agreement formats already exist and are available to be used.
- (c) The **UN Office of Project Services (UNOPS)**, which often works in close partnership with UNDP, also has extensive expertise in this area, including with the International Fund for Agricultural Development (IFAD) as well as with the Asian Development Bank. It is currently working on SME development in North Korea.
- (d) The **International Labour Organization (ILO)** has proven expertise in SMEs and entrepreneurship development, expertise which could be readily harnessed in an integrated programme. ILO has extensive experience in Thailand, with a library of Thai language publications in this area. ILO has just received some UN funding for livelihood restoration, within which tourism-related SMEs could fit.
- (e) The **GTZ (German Technical Cooperation)** has an ongoing project in SME development, although focused on sectors other than tourism. It was briefly involved with the Ministry of Industry in post-Tsunami Re-start Support, but funding ran out. It could be readily re-mobilised if requested.
- (f) The **Kenan Institute Asia**, a foundation which works with the private sector and receives some of its funding from the US Government, has an existing programme in support of small business recovery. It provides training and consultancy services.

### 4. Partnership Approach

Any such international support should be firmly placed in the context of a Thai partner – perhaps the Small and Medium Enterprise (SME) Bank and/or the Ministry of Industry. Whatever the scale of likely international assistance, the bulk of the resources – human as well as financial – will come from Thailand.

There should be a steering committee to oversee the programme. This should include the Ministry of Sports and Tourism, the Ministry of Industry, provincial and local administration officials, local business associations, community organisations and, most importantly, the SMEs themselves hopefully through their own associations.

Report by J.K. Robert England, WTO Consultant

# O. Indicators of Sustainable Redevelopment in Thailand

(May 2005)

WTO Sustainable Development of Tourism Department

## Executive Summary

Sustainable re-development is one of the five main areas identified in the Phuket Action Plan. Within the framework of this Plan, WTO, jointly with the Ministry of Tourism and Sports of Thailand prepared a case study and organized a Workshop on Sustainable Tourism Indicators in the island of Phuket, on 12-15 May 2005. The workshop aimed at training officials from the affected countries on a methodology to measure and monitor aspects of environmental and socio-economic sustainability, as well as advances with the re-development process. The use of indicators in reporting, communication and image-building processes was also dealt with.

This report presents the results of the case study and associated workshop held in Phuket. The project was designed to demonstrate and test the WTO Indicators approach in the context of disaster recovery for Tsunami affected destinations, using Phuket as a case. Part of the work used a participatory workshop primarily aimed at demonstrating the identification, evaluation and use of indicators of sustainable tourism development, using the Phuket case as a focus for discussion and training. The specific focus was on the application of the indicators process both to overall sustainability and to the recovery of Phuket from the Tsunami of December 26, 2004.

This workshop was in line with a series of WTO activities directed to the sustainable development of island and coastal destinations, as well as with a series of regional workshops in the framework of WTO's sustainability indicators programme. The added dimension was the specific needs of a disaster affected destination to show the impact and pace of recovery and to assure future tourists of the response capacity and safety of the destination. Many suggested that the so-called "second wave" (loss of tourists and continuing perception of the destination as a disaster zone and safety hazard) was bringing prolonged economic and social distress, adding to the damage and distress wrought by the Tsunami itself.

This study is based on several sources of information: background data and prior feasibility studies relating to the tourism industry of Thailand and of the study area; interviews with selected officials on site, discussions of the workshops; and analysis of information acquired during the field study period. These data have been used to build the specific framework for indicators which can respond to the risks to sustainable tourism for Phuket, both in the short term (the recovery from the effects of the Tsunami) and for longer term sustainability.

The Phuket study revealed that most of the WTO baseline indicators were applicable to the study area, with those relating to social values, employment, planning processes and development control being the most pertinent. These have been and will continue to be important to the sustainability of the destination. As well, these indicators encompass key shorter term issues associated with the tsunami – many of the same issues were made worse by the impacts, and the planning and infrastructure concerns and those related to image become paramount in the short term – both to show levels of disruption and to help in generating a recovery and reconstruction which will be sustainable.

The workshop was a success in creating dialogue among relevant stakeholders about the tourism issues facing the archipelago and in bringing together selected officials, residents and experts who could contribute to the redevelopment of sustainable tourism after the Tsunami.



## Introduction

On December 26, 2004, an earthquake in the Indian Ocean off Aceh Indonesia devastated northern Sumatra and created a wave (a tsunami) which, within a few hours, took the lives of thousands on the Indian Ocean coasts. While the greatest loss of life and property occurred in Sumatra, the tidal wave caused loss of life and property as far away as the coast of Africa. Many well-established tourism destinations in the Indian Ocean were directly affected.

The tourism destinations most affected were Phuket, Phang Na and Krabi provinces of Thailand, the Maldives, Sri Lanka's coastal resorts such as Beruwala, Hikkadua and Galle, the west coast of Seychelles, and the beaches of east Africa. In Thailand, it is estimated that about 60% of the 5395 persons presumed killed in Thailand were tourists; most were on the beaches and seafront when the tsunami hit, particularly in the devastated beach community of Khao Lak about 100 Km north of Phuket. Much of the tourism infrastructure in these countries was built directly on the coast, and that which was immediately on the littoral was most affected. Much of the physical damage was confined to a few hundred metres from shore, even in the most affected areas. For destinations such as Khao Lak in Thailand and some of the easternmost islands of the Maldives, all building was within the directly affected shore zone. In all of the affected nations, a significant part of the damage was to small businesses directly on the seashore, many of which were built of flimsy materials and many which were directly on the beach.

The specific challenge of this study is to assess how the indicators approach, developed to address a broad range of risks and to support sustainability of destinations, can be used to deal with a large scale disaster of this kind, and specifically how it can help in the reconstruction and rehabilitation process, with a specific focus on Phuket as a test case.

In 1991, the World Tourism Organization (WTO) began an initiative to develop indicators of sustainable tourism for global use. An international task force (WTO, 1992-95) met to develop first a long list of potential indicators, which was tested through pilot projects in local destinations in four countries (Canada, Mexico, Netherlands, and U.S.A.). Based on the empirical experience in these destinations, the task force then produced a report on indicators use and development, entitled: "What Tourism Managers need to Know: A Practical Guide to the Development and Use of Indicators of Sustainable Tourism" (WTO, 1996). A set of core indicators was identified which would be of potential use in all destinations. As well, supplemental indicators were devised for specific types of destinations (e.g., coastal resorts, small islands, urban-, cultural-, and ecotourism sites) which could be used to augment the core indicators. Over several years, the approach was tested in a range of destinations as a planning and management tool. Subsequently, the indicators development approach has been refined, and expanded into learning workshops which expose managers from many nations to the logistics of indicator development through hands-on case studies. Based on the above guide WTO has been organizing a series of regional workshops that were developed on case studies at the Lake Balaton, Hungary (1999), the island of Cozumel, Mexico (1999), Beruwala, Sri Lanka (2000) and Villa Gesell, Argentina (2000), Kukljica Croatia (2001), and Chaguaramas Trinidad (2004). In 2004, a major *Guidebook Indicators of Sustainable Development for Tourism Destinations* was prepared, building on what was learned from practical application and summarizing best practice worldwide in the use of indicators for sustainable tourism destinations.

The Phuket study and related workshop are building blocks in the international effort to develop and use indicators to promote better planning and management of the global tourism industry- at a local scale. The WTO indicators programme designed to enable tourism planners and managers worldwide to better control the interface between tourism and the environment and reduce the risks both to the industry and to the destinations it uses. In this instance, it is also a test of the approach to determine how it can provide better, timely and convincing information which will be of use in the rehabilitation process and to demonstrate to the world that the tsunami impacted destinations are indeed recovered and again a good place and safe place to visit.

The prime objective of the Phuket study and workshops was to determine, in collaboration with representatives from the major stakeholders in the destination, the key current and potential risks to the sustainability of the tourism industry, both in the short term relative to tsunami recovery and in the longer term to support sustainable development for the destination. The following sections contain information regarding the Phuket destination, the key issues it faces, and the indicators which may help in addressing rehabilitation and longer term sustainability.

### Use of the WTO Indicators Approach in Phuket

Phuket was selected as a site for a WTO indicators workshop as part of the Tsunami recovery plan. As one of the tourist destinations most affected by the Tsunami, and a destination shown worldwide as the disaster hit, Phuket was chosen as an ideal laboratory to demonstrate the utility of indicators to the recovery process, as well as to show how short term recovery is related to overall sustainability. Phuket had been chosen as a site for an indicators workshop prior to the Tsunami – as the island was considered to be an ideal case study for indicators development and a potential showcase for the region. The Tsunami caused the workshop to be postponed until the immediate response was well under way, and changed the focus of the workshop from a demonstration of indicators of sustainable development to one which also incorporated the specific focus of indicators as a tool in recovery.

Phuket is the largest island in Thailand. On the Andaman coast, Phuket is the nexus of tourism in a region known as the Andaman triangle, encompassing sites of outstanding natural and cultural interest in several adjacent states. Visitors to the island also commonly visit sites in adjacent states such as Phang Na Bay for its karst islands, Ko Phi Phi, Krabi and Khao Lak. Many of these were also damaged by the Tsunami, with the most extensive damage occurring in Khao Lak.

Within Phuket, tourism activity is mostly concentrated in the bays of the west coast of the island, with Patong being the most developed centre of activity. The key tourism assets of Phuket and the region can be summarized as follows:

- White sand beaches
- High quality coral reefs
- Forest areas with very diverse vegetation and fauna
- Outstanding natural features in the Karst island formations
- Accessible temples and cultural sites
- Extensive tourist services and variety, particularly in Patong and Karon, including night life, shopping, restaurants

The physical impact of the Tsunami was limited to the beach area and low-lying areas near the shore. The physical damage to shops and resorts was generally confined to the first row of stores and the structures on the beach. Nearly all of those killed or injured were within 100 metres from shore.

### Methodology for Indicators Identification

The methodology for indicators development can be defined as a phased approach which will result in operational indicators for a destination. The methodology features a participatory workshop process which, in itself, produces benefits for the



destination and for the participants, and is used as a training tool. Readers seeking additional information on the process and logistics are referred to Part Two of the Guidebook which details the process and workshop methodology in some detail. The forms and templates used in this process can be found in Annexes B and C of this report.

The WTO indicators development and implementation process has twelve phases, each logically leading to the next. (From the WTO Guidebook) :

### **Research and Organization**

1. Definition/delineation of the destination.
2. Use of participatory processes.
3. Identification of tourism assets and risks.
4. Long-term vision for a destination.

### **Indicators Development**

5. Selection of priority issues
6. Identification of desired indicators.
7. Inventory of data sources.
8. Selection procedures.

### **Implementation**

9. Evaluation of feasibility/implementation.
10. Data collection and analysis.
11. Accountability, communication and reporting.
12. Monitoring and evaluation of indicators application.

In workshops like that held in Phuket, in the workshop itself the discussion focuses on the elements of this process which identify key issues and select and evaluate indicators which will be most important to the destination – that is on steps 3-6. In the Phuket case, the stress was placed on indicators which could help in measuring and stimulating recovery. In addition to the work to define key indicators, participants are encouraged to consider the steps necessary to carry out the remaining phases based on their work – to actually implement an indicators program and to take key indicators through to the point where they are systematically monitored and used to support decisions and to showcase performance. The study prior to the workshop addresses some of the earlier elements. In the process, and the final part of the workshop sessions is designed to stimulate follow through on the later elements – the actual establishment of an indicators program and its use in the planning and management process.

## **Conclusions: Use of Indicators to deal with risk management and recovery**

The Phuket case has proven valuable to show how indicators can serve two related purposes: help in understanding and reporting on Tsunami recovery, and begin building towards a more sustainable tourism in future.

The table contained in the executive summary is a distillation of the issues and indicators considered to be of greatest utility both for tsunami recovery and in the longer term progress towards sustainability for Phuket as a destination.

Key in the short term is to take a few visible indicators of recovery such as:

- the fact that more than ninety percent of the hotel rooms are back in service and that this is rising daily
- the fact that more than 90% of the reefs were unharmed by the tsunami and that most of the rest are recovering quickly
- the fact that the main impact of the tsunami was on the beachfront , and that a very significant percentage is now back to its original or improved condition
- the fact that the beach areas used by most tourists are now served by a warning system – and quick escape routes to safe points (useful for any wave or storm event) have been marked.
- The fact that most (need to measure percentage) current tourists to Phuket are having a clean, safe and enjoyable stay (which may be nearly as high as before the tsunami when benchmarking is done)
- The need to measure the image Thailand and Phuket is now receiving in the media abroad (% good news, % still related to disaster).

For the longer term, these indicators are building blocks, but, as before the tsunami, other indicators are needed to address key issues. These are summarized in Part 5, and parallel to those found most useful in other beach destinations and island. (See the sections in the Guidebook for comparison).

The most important challenge for Phuket is to organize the systematic collection and use of those indicators, which are most critical to its planning and management – and to use these as part of a program to rebuild a sustainable destination. This will involve increased emphasis on cooperation among all agencies, and buttressing of participatory processes which involve all stakeholders.